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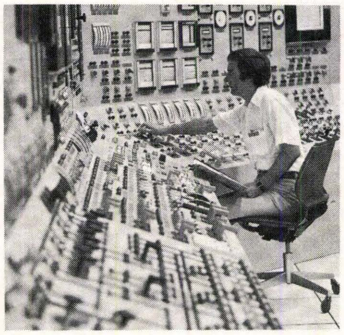

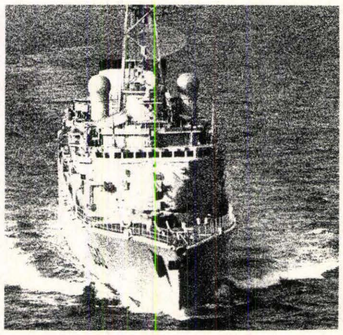

COVER: The French Navy warship *Georges Leygues* cruises through the Persian Gulf. © Reuters/Bettmann Newsphotos.

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PUBLISHER'S LETTER

It was, you might say, a difficult Monday. The Dow dropped 508 points, and tensions in the Persian Gulf rose a degree or two when U.S. warships retaliated against an Iranian missile launching site. A crisis of confidence had suddenly rocked an otherwise peaceful world; in the midst of steady economic growth, a wave of financial panic spread around the globe, and its aftershocks are still being felt.

It was a bad day, but good lessons are coming out of it. For it dramatically underscored how closely tied the world's economies have become, and how critically important international cooperation and coordination really is. An unfortunate difference of views between the United States and Germany over interest rates seemed to pull the rug out from under the Louvre accord, and the resulting threat of unstable exchange rates fed the panic on Wall Street. Since then, they have reaffirmed their commitment to the all-important Louvre accord.

Moreover, the Administration has moved to address the problem of the budget deficit—considered by most economists to be a key cause of the trade deficit and a threat to future economic growth—and may also have found new reason to veto any protectionist legislation that comes out of Congress this fall.

In the Gulf, meanwhile, the last two months have seen a steady growth in European support for the United States. European minesweepers have joined American forces in keeping the tanker routes open and, as John Peterson writes in this issue, a new European willingness to exert its military influence seems to be in evidence. Whatever the future holds for the Gulf conflict, the United States is clearly not standing alone in the protection of Western interests, and this is a good thing.

Black Monday brought home the fact that the threats we face, whether military or economic, we face together. The global economy has become a reality; neither the United States nor Europe can really go it alone. Policy made in European capitals depends on policy made in Washington—and vice versa. And key to our continued economic growth and stability is the lifeline of free trade.

If the shadow of Smoot-Hawley (the protectionist legislation enacted after the 1929 crash that brought on a world depression) was felt in Washington before, it has become especially dark now. Free trade matters; it matters decisively. As the trade bill goes through Congress, let us hope that the new reality of global economic interdependence—so recently and dramatically proven—will not be ignored. Instability on Wall Street is unsettling. The closing down of world trade would be disastrous. The lessons of Smoot-Hawley should not be forgotten.

AROUND THE CAPITALS


COURTESY NETHERLANDS BOARD OF TOURISM

Constant dredging of silt and sludge is required to keep Rotterdam, the world's largest port, from accumulating the silt deposits that flow down the Rhine River.

AMSTERDAM

Saving the Environment

Growing environmental consciousness in the Netherlands has sparked action from various quarters. Dutch Minister for Housing and Environment, Ed Nijpels, recently announced that the government plans to spend 7.2 billion guilders ($3.6 billion) on environment investment, and a further $296 million in 1988 on cleaning contaminated soil. Virtually simultaneously, the Federation of Dutch Trade Unions (FNV) issued a report calling for an investment program for environment infrastructure totalling $5.75 billion over the next five years. "It will improve the living climate and offer employment to 32,000 unemployed," the FNV said, pointing out at the same time that private Dutch firms also had a vital role to play in the environmental effort. The report estimated that private enterprise should spend $9.31 billion on environmental measures. "This will amount to a total investment program of some $15 billion," an amount with which "damage done can be repaired and future damage prevented. Government and private firms must share the costs."

The Netherlands, because of its geographical situation, is more prone to industrial pollution than many other countries and has to contend with much of the pollution of the Rhine River. In addition to this, the rivers that flow through the country serve not only as transport routes for ships and cargo, but also carry along large quantities of silt. The current slows down at the Rhine estuary and with each incoming movement of the tide, the North Sea leaves deposits on the bed of harbors and rivers, on which silt deposits heap up. Left to nature, the Netherlands's harbors would silt up in no time and especially Rotterdam, strategically located on the North Sea, would no longer be the world's largest port if the Dutch did not keep one step ahead of nature, by constantly dredging the sludge, an activity that falls under the responsibilities of the Ministry of Transport and Public Works. In the case of Rotterdam, the quantities of dredged silt are so vast that, according to the port authority, 70 giant tankers could be filled with sludge every year.

Formerly, disposed silt was used to raise the level of polders. But the increasing pollutants in the water and silt deposits, which are discharged into the Rhine by the cities and industries along its basin, are now known to pose a threat to the densely populated Rotterdam area. Recently, therefore, a huge storage site for dredged sludge—an area of about 260 hectares—was inaugurated by Dutch Minister for Transport and Public Works, Neelie Smit Kroes.

A definitive solution can only be found if the discharge of pollutants is controlled at the source, Jan Goeijenbier of the Rotterdam municipal council said, noting that there are 14 chemical and other industries—Dutch, German, French and Swiss—that discharge hazardous pollutants into the Rhine, including heavy metals such as cadmium, chrome, zinc and mercury, to name a few.

Rotterdam is therefore seeking a close dialogue with the other countries along the Rhine to see whether and how these polluting discharges into Europe's main artery can be reduced or avoided. Four of these industries, Goeijenbier said, had already shown their willingnes to discuss the issue.

A first step toward positive action was a meeting in October in Strasbourg, France, at which ministers of the Governments of France, the Federal Republic of Germany, the

Netherlands and Switzerland, as well as observers of the European Community and Belgium, met to discuss further measures to reduce pollution and to avoid incidents like the November 1986 fire at the Sandoz chemical warehouse near Basel, Switzerland, which caused the most serious and devastating serious pollution of the Rhine in many years. At the meeting, the Dutch Government presented to the International Rhine Commission an "action plan for the Rhine" based on findings by the McKinsey bureau in the Netherlands.

The main elements of the plan include the following:

- That, between 1987 and 1995, pollution of the Rhine by harmful substances must be tackled by applying the best technical resources. To obtain a 50-percent reduction over this period, heavy metal substances would have to be identified and included in the Rhine action plan.
- That safety measures in firms and factories along the Rhine and other rivers would have to be stepped up and determined before the end of 1988.
- That plans for tackling various sources of pollution should be discussed and put into action, while it is vital that the Rhine hydrological and morphological situation should also be assessed. Over the next five-year period there would have to be regular checks to see that the set objectives are achieved.

The Dutch Government further urged that the small secretariat of the Commission be enlarged to cope with the growing number of activities, and that activities be supervised by national top experts.—NEL SLIS

BONN

The Wild West In Germany

A love affair the Germans have had with the American West, based on the novels of Karl May, who never visited it, continues as passionate as ever, and is embodied in May's two main characters—Old Shatterhand, the white hunter and scout, and Winnetou, the Apache chief—who shared many adventures in trying to keep peace between the two groups.

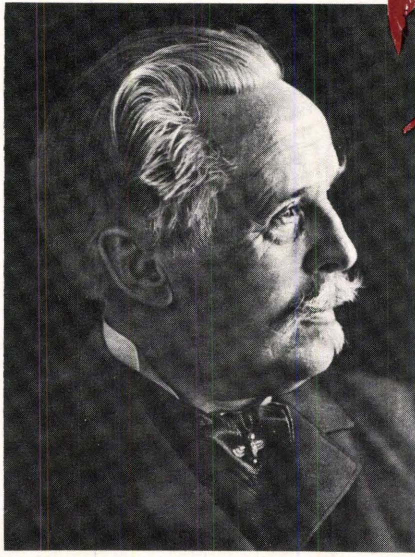
Today, "Western" clubs exist all over Germany—both in the West and in the East—and this year, both states commemorated the author and his work, which in his day headed the best-seller list for years and whose books still are reprinted regularly. In the German Democratic Republic, it was remembered that most of May's books originally were published in Dresden, where he also lived, while in the Federal Republic, the post office did its part by issuing a special edition of 30 million stamps showing Apache Winnetou on the hunt.

Western clubs in the German Democratic Republic have gone through an identity crisis for years, because the Communist-ruled East had a difficult time trying to decide just how to handle them—as a group of American journalists found out about 20 or so years ago when they visited the annual Baltic Week in the East German port of Rostock and discovered a "Wild West Show" being offered twice daily at an outdoor theater on the edge of town.

The show had been organized by a couple of Western clubs, whose members were living in teepees behind the stage. Official permission for the show had been granted only after the Western club members came up with the idea of demonstrating just how oppressed American Indians were. An announcer explained, for instance, that Indian men stood their women against a round shield and threw knives and tomahawks at them because they had no other way of earning money to buy food. After the intermission, the first half was pretty much repeated, except that this time everyone dressed as cowboys. The announcer said cowboys learned knife and other tricks from the Indians because it was the only way they could earn eating money during the long winter months when there was no other employment.

There are no such restrictions in the Federal Republic, where Karl May associations have been free to give outdoor performances of his stories for decades. While many towns have their own festivals, there are two, Bad Segeberg in the northern region of Holstein, where the performances have been held since 1952, and Elspe in the Sauerland, that are the most well known for their annual Karl May events.

Bad Segeberg boasts the ideal natural surroundings for the event, which is held in a spot where glaciers created a natural amphitheater overlooking a gully twisting around a series of high-rising crags. Residents of the town play all of the roles and the show includes wild horseback chases and explosions. Elspe's attraction, meanwhile, is Pierre Brice, the French actor who first portrayed Winnetou in a



COURTESY GERMAN INFORMATION CENTER

Karl May inspired generations of German readers with his stories about the Wild West, which he himself had never visited.

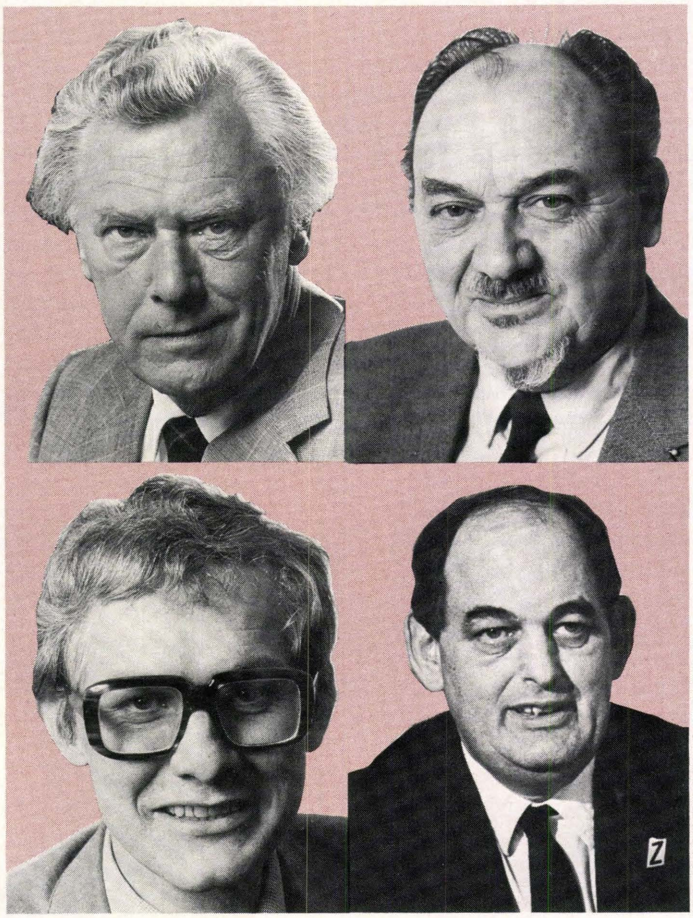
movie version (in which Stewart Granger played Old Shatterhand) and who continues to slip into his Indian role every year.

Now it seems as though there may be a new twist to the old stories of Winnetou and Old Shatterhand. This came a few years ago, when Günther Beckmann, a management consultant who emigrated to Nebraska from northern Germany in 1956, returned with wife and son to see the Bad Segeberg performance. He says he was bothered by the fact that no real Indians were involved in the event: "All of the Indians were white guys with painted faces, and I decided that what Bad Segeberg needed was some *real* Indians. Not real Indians who would be slaughtered in the play by white guys. Instead, I wanted to introduce real Indian culture."

He realized his dream for the first time in 1986, when he brought several leading Indian dancers to Bad Segeberg. They performed for about 20 minutes before the main program, and at other times in Bad Segeberg's Indian Village. This was repeated in 1987 with a different group of Indian dancers.

To kick things off last year, Beckmann arranged a visit to the Bad Segeberg festival by Reuben Snake, chief of the Winnebago tribe, and Hilda Neihardt Petri, daughter of Nebraska's late poet laureate, John G. Neihardt. Beckmann then arranged for the construction in the town's Indian Village of a two-story Nebraska-style house, a frame building in the frontier style. Opened this spring, it already contains a library of Neihardt's books, a display about black elk, the Oglala Sioux Holy Man, who was one of Neihardt's favorite subjects, and exhibitions of American Indian art. Of his efforts, Beckmann says: "Our aim is that Germans who come to Bad Segeberg won't just make a touristic trip, but will participate in a true cultural exchange." Eventually, he wants the Nebraska house library to grow until it is a proper research center for German students of Indian culture and history.—WELLINGTON LONG

COPENHAGEN
Election Results



Poul Schlüter, top left, remains Prime Minster following the Danish elections; Svend Auken, below left, has replaced Anker Joergensen, top right, as leader of the Social Democrats; Mogens Glistrup, below right, achieved a political comeback.

PHOTOS COURTESY ROYAL DANISH EMBASSY

In a way, nothing has changed. The Danish coalition Government, led by Poul Schlüter, survived the September election as expected, but with losses that surprised the opinion polls to such a degree that it was the pollsters who were declared the real election losers.

Weak governments are nothing new in a parliamentary system with proportional representation: Any party able to muster 2 percent of the vote will win at least four seats in the Danish Parliament, the *Folketing*. Nine parties, out of the 16 that tried, made that hurdle during the election this fall. As a result, many political observers now expect early elections, and politicians of all parties have been heard to say—off the record although only half in jest—that what Denmark needs now is not new elections, but a new electorate, for almost all the traditional Danish parties and especially the Conservatives, lost heavily.

There were, nevertheless, many winners both to the right and to the left of center. To the right, the anti-tax party of Mogens Glistrup staged a political comeback, advancing to nine seats and contributing a woman leader, Pia Kjaersgaard, to the inner circles of Danish politics. Glistrup, a tax expert and formerly famous tax lawyer, was returned to Parliament after being expelled while serving a sentence for tax fraud. His success was partly due to the fact that, while the strength of the Conservative-Liberal coalition of the past five years had been the exception to the rule, taxes continued to rise under its leadership, causing disgruntled non-Socialist voters to protest by voting for the anti-tax party.

The left-wing Socialist People's Party became Denmark's third largest party after the Social Democrats and the Conservatives, basing its success on very strong grass roots in the expanding public sector. The real surprise, however, was that the very colorful and vocal president of the Seamens' Union, Preben Moeller Hansen and his new party, Common Course, won four seats.

The Social Democratic leader, Anker Joergensen, has resigned and been replaced by Svend Auken. Originally opposed to Danish E.C. membership, Auken is now expected to take the party toward the center of Danish politics. In terms of Denmark's policies in the E.C. and North Atlantic Treaty Organization (NATO), the net effect of this election will be negligible. Auken's instrumental participation has changed the strongly anti-American bias of Social Democratic criticism of NATO policies into a more pragmatic stance and, if anything, Denmark will become friendlier toward the E.C. and NATO due to the fact that only the Common Course Party advocates unilateral withdrawal from both institutions. Denmark now should be able to complete its E.C. presidency this winter without any static noise from Danish politics.—LEIF BECK FALLESEN

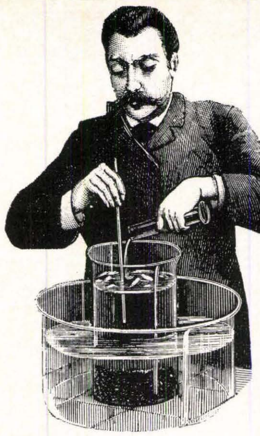
LISBON
Investing In Science

A particular effort in research and development is being made in Portugal, according to plans recently presented by the Portuguese Government. The basic aim of this move is to double both the number of researchers and the volume of public expenditure in this sector, to reach at least 1 percent of gross domestic product (GDP) by 1990.

"Portugal cannot afford to waste the contribution of some of its best intellectual values," the Prime Minister, Anibal Cavaco Silva, said recently, referring to the Portuguese "brain drain" that has gone mainly to Western Europe and to the United States. Addressing what was the most important gathering of the Portuguese scientific community in recent years, Cavaco Silva clearly related R&D investment to E.C. integration and admitted that his Administration must play a crucial role in advancing developments in this area.

What is most needed to achieve practical results and to induce and stimulate real innovation in industry and the services is public funding. One of the participants of the scientific conference put this need into a nutshell: "No money, no research."

In 1980, Portugal invested 0.34 percent of its GDP in research and development; by 1984, this figure had risen to



0.4 percent and is now estimated to stand at around 0.47 percent of GDP. The E.C. average, on the other hand, is somewhere around 2 percent—or four times higher than Portuguese investment in this field. Furthermore, Portugal has traditionally faced a lack of basic guidelines and policy targets in this area, which has strongly contributed to a lack of coordination and a waste of resources in R&D programs.

A real step forward, however, has been taken in setting priorities and goals for what has been called the "Mobilization Program for Science and Technology," the aim of which is to concentrate on four specific areas that have been selected for their strategic impact on the economy. They include information technology, biotechnology, marine science and materials technology, and each area is being coordinated by an expert who is also responsible for the activities in that particular sector. In addition to these, less wide-ranging programs are also to be established in more specialized fields, such as optics.

It is too early yet to judge the real scope of the programs and their contents. One of the major problems common to all areas is the scarcity of skilled human resources, for Portugal has no more than 8 researchers per 10,000 working people, an average four times below that of other developed economies. This is aggravated by an old-fashioned educational system that is unable to adapt quickly to the needs of this new challenge. It is for this reason that one of the basic points of the program is the encouragement of scientific training abroad—although with adequate stimuli to bring the students back home to carry out future research!

According to some researchers, the new dynamism imposed by the new official policy for this sector is already visible in the return to Portugal by some of the "intellectual emigrants," and particularly in areas such as immunology.

The really good news for the future is, however, that the future financing of programs and institutions will depend on an annual evaluation of their effectivenes, impact and performance. If this is successful, the scientific effort now underway may be much more than just stating good intentions or improving expenditure statistics—as sometimes happens when big flows of public funds are used without a definite policy behind them.—JOSÉ AMARAL

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PARIS

The "Trib" Is 100

Art Buchwald says that by the time you've said its name, you've missed your plane. But the name of the *International Herald Tribune* is less imposing than the institution. In the 100 years of its existence, it has gone from the gossipy European edition of the *New York Herald* to the paper every expatriate American picks up on the way through the airport. It has today evolved into the news-packed "global newspaper" of the 1980s, printed and sold around the world. But its home is still Paris.

Buchwald can be forgiven for jibes at the latest incarnation of the IHT, or the *Trib*, as it is affectionately known. He has been a contributor to it for the last 38 years, starting in 1949 when he conned a manager into hiring him to write food and wine reviews: He claims impeccable credentials of surviving years of mess-hall food and university cafeterias. He eventually moved on to stories about nightlife and the beautiful people he dined with, and then covered jet-set events. He developed his unpredictable, irreverant syndicated column that took him beyond the *Trib* to become a household word across the United States. But when he came back to Paris to share a nostalgic moment recalling his 14 years there, he publicly admitted that it was with a tear in his eye rather than his trademark grin.

He was among almost 2,000 guests for a gala dinner at the Trocadéro Palace across the Seine River from the Eiffel Tower. The glitter of the "Who's-Who" of the journalistic world was rivaled only by the burst of fireworks that exploded exactly 100 years after the first edition came off the presses. The celebrations nevertheless also highlighted the future of the IHT: It has a paid circulation of 180,000 in 164 countries; its pages are beamed by satellite for printing in eight cities in Europe, Asia and North America; and it has pulled away from its image as the paper Americans pick up along with the postcard of European monuments, reflected in the fact that now a majority of the readership is non-American.

As the champagne flowed at the centenary gala, so did the stories of the old days. They went back to the regime of James Gordon Bennett II, the eccentric American who founded the paper as an offshot of his *New York Herald* with the


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In Sri Lanka, End of Easy Assumptions

slogan, "names, names, names. News, news, news." On three successive days in 1904, the *Herald* came out in red, blue and green ink. The explanation? Orders from Bennett. He also is said to have been behind a "Letter to the Editor" that first appeared in 1899, signed "Old Philadelphia Lady." The letter, asking about converting Fahrenheit to Centigrade temperatures, ran every day until after Bennett's death in 1918. No one knew exactly why.

Characters populated the paper through its various owners and name changes. It was first sold in 1918. In 1924, it was bought by the owner of *The New York Tribune*—although it remained the *Herald* until 1935—and kept the same owner until 1959, when John Hay Whitney bought it. Finally, in 1967, the *Washington Post* and *The New York Times* became joint owners and rechristened the paper *The International Herald Tribune*—still the *Trib* to veterans, and the IHT to newcomers.

Other fond memories of the old days evoked stories about William "Sparrow" Robertson, renowned for his rumor-ridden sports stories stuffed with convoluted language. When the American Embassy urgently advised all remaining citizens to evacuate Paris before the arrival of the Germans in 1940, Sparrow wrote: "Owing to somewhat unsettled conditions, we may not be meeting a number of our good old sporting friends this summer."

Those "unsettled events" forced the *Trib* to close down for four years. But since 1944, it has been churning out the copy regularly. It was the first paper to deliver by car and later the first to send newspapers via air freight, and also the first to use intercontinental satellite print facilities. But, although its technology may have changed, and its headquarters have moved from the original site near the Paris Opera to a Paris suburb, the heart of the *International Herald Tribune* remains in Paris.—BRIGID JANSSEN

COURTESY NATIONAL TOURIST OFFICE OF SPAIN

The region of Catalonia is one of the most adamant in its call for more autonomy. Pictured here: the city of Lerida.

MADRID

Autonomy Efforts

The boldest experiment of Spanish democracy—the setting up of 17 self-governing regions covering the country and the Balearic and Canary Islands—has run into some difficulties.

Led by the Basques and the Catalans, regional governments were established from 1980 onward, including one for Madrid itself, although that city has been a staunch bastion of centralism ever since it became Spain's capital in the mid-16th century. Responsibilities and powers, particularly in the fields of education, health, welfare and local administration, were gradually transferred to the regions by the central government, although economic policy remained firmly laid down at the national level.

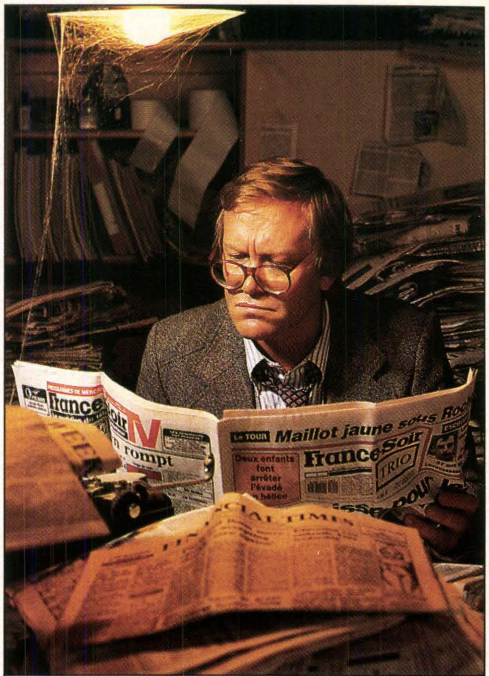
In the spirit of its 1978 democratic Constitution, Spain began to call itself "the state of the autonomous regions." In those early days of democracy everything looked plain sailing and, although not quite the federal set-up of the United States or of the Federal Republic of Germany, the regionalization was seen as a compromise answer to Spain's awkward historical problem of fierce local loyalties deriving ultimately from the country's complex geography and marked climatic differences.

But this autumn, a chorus of complaints has gone up from most of the 17 regions, and there are now over 250 cases before the Spanish Constitutional Court awaiting settlement involving disputes between the regional governments and the central government over competence. Jordi Pujol, the chief minister of Catalonia's regional government who governs six million people (the Catalans like to see themselves as Western Europe's largest nation without a state), is leading the chorus. "The statute of autonomy they sold us has proved to be like a shirt shrinking every time it goes to the laundry," was how this usually cautious politician put it, "the laundry" being the Socialist Government, which has been accused of maintaining a tight hold on the money bags and of personally never having believed in decentralizing the government of Spain.

Under this year's budget, Spain was to spend 8.1 trillion pesetas, about $67.6 billion) in total national expenditure. This compares with 1.08 trillion pesetas, or $9.15 billion, either allocated to the self-governing regions by Madrid, or collected in local taxes.

The increased discontent is not by chance. It follows a substantial political realignment in the June regional elections, in which Spain's Socialist Party fared badly. From controlling 12 of the 17 governments after the 1983 regional elections, it lost power last summer to right-wing parties in four regions and only held on to power with minority administrations in two more. As a result, the less developed of the regions, such as Castile-Leon and Aragon, with new conservative administrations, eagerly led the age-old battle against the bureaucracy in Madrid and their richer neighbors, fighting with the former over more money and accusing the latter, the more industrialized regions such as Catalonia, of lacking "solidarity."

The central government has its hands full. In the far-flung Canary Islands, the victorious Center Democrats of former Prime Minister Adolfo Suarez want not only to revise the islands' special status with the European Community but also, as a first gesture of defiance to Madrid, to set up their own



One week of European opinion...

UNTIL now, there was only one way to find out what Europe thought about the great issues of the day and that was by reading the European Press at first-hand. Unfortunately, there are more than one hundred major newspapers in Europe, published in some *thirteen* different languages. So not surprisingly, not many people, even in Europe, have much idea of what Europe as a whole is talking about.

Happily, the European viewpoint is now to be made clear in a new weekly magazine, *Europe Intelligence.* Every day, its team of experienced editors, based in every capital in Europe, will monitor the opinion columns of the most influential newspapers, from Madrid to Moscow, from London to Lisbon, from Athens to Amsterdam. Every week, the most significant of these views will be republished by the magazine, in English. No one has ever done that before, in any language. And while you would pay over $100,000 a year for copies of all the most important newspapers in Europe, an annual subscription to *Europe Intelligence* is just $560, including the cost of getting it to you fast every seven days. So if you need to know what Europe is talking about, call us now. It is certainly easier than working it out all by yourself.

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stock exchange. (This comes at a time when Spain's existing four exchanges have decided they must come closer.) On top of that, most Spaniards suspect that the 2.7 million inhabitants of the Basque region really desire complete independence even if they disapprove of the increasingly violent methods of ETA, the Basque armed separatists, to bring this about.

All this restiveness has led Catalonia's Socialist Party to advocate a move toward a fully federal state, which brought Spain's Socialist Party down like a ton of bricks on the Catalan sister party. Despite this reaction from Madrid, the Socialist chief minister of Andalusia, the Premier's home region, indicated that he, too, feels the time may have come for a federal Spain.—RICHARD WIGG

BRUSSELS

In The Navy!

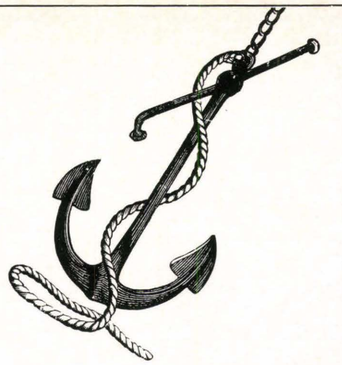
When the Belgian Navy sent three of its vessels to the Gulf, they made sure to send them off with all the proper equipment, which was duly being loaded on the quayside in Ostende—countless kegs of beer and bags of potatoes to make *frites*, or French fries. To read the Belgian newspapers, one would think that the 270 sailors on the three vessels were off for an extended picnic at sea. It does no disservice to the two minesweepers and one supply vessel of the Belgian fleet on their way to the Gulf to suggest that the enterprise has fired the public imagination as an adventure—"it's daring and glamorous!" said a naval spokesman, adding that "for the first time since the war, Belgian navy men might encounter real hostility." In Brussels, there are daily reports on the radio on the progress of the fleet in its five-week journey to the war area.

The Belgian minesweeper force is not to be regarded lightly, for the Belgians are the experts within the North Atlantic Treaty Organization (NATO) in minesweeper techniques. Within NATO, the Belgian navy may not be very large, but it accepts the awesome responsibility of clearing the English Channel and the Borth Sea of mines. And although the navy admits that conditions in the Gulf are different, a navy spokesman said, "If we cannot clear the Gulf of mines, no one can. We have the ships for it, we have the equipment, we know the techniques and we have the experience."

The Belgian minesweepers arriving in the Gulf are the most sophisticated in the field. Built jointly with the Netherlands and France, the ships employ American-built hunting sonars with accoustic, mechanical and magnetic sweeping capability. "No sweepers have better information than ours," says a spokesman, adding that "we have far more experience in the analysis and treatment of such information."

Until now, the Belgian sweepers have been employed on NATO exercises in European waters, and these are not always academic. Even this year Belgian ships have been finding and neutralizing old mines left over from World War II. "Although they are normally harmless to shipping since the detonation devices have been corroded by 30 years in the water, in many cases the explosive remains intact," was the explanation of one spokesman.

For many Belgian sailors life in recent years has meant a constant search of the sea with the occasional rusted hulk of a mine to remind them of their duties. Following the Belgian Government's decision to send



a force to the Gulf, spirits have now soared. A sailor quoted in a local newspaper said, "I have spent seven years at sea and never fired at anything except plastic targets. I look forward to going to the Gulf. The Belgian navy can show what it's worth."

This approach is much favored by the Belgian public, judging by the recent opinion polls. It seems that most Belgians approve of their country's participation in the Gulf protection exercise. They are also engrossed in the day-to-day procedures of the Belgian fleet. That has become a national obsession.—ALAN OSBORN

ATHENS

Rising Stocks

Over the past nine months, the Athens stock exchange has been transformed from a sleepy commercial backwater into a frantic center of activity, where most stockbrokers find themselves working an 18-hour day. Although there are only 28 registered brokers in the Greek market and fewer than 150 companies listed now, this new pace makes for fundamental change from last year, when not even half of those firms had their shares traded every day and younger brokers were complaining that the two-hour daily trading period should be cut because of lack of activity on the floor.

Now there are lines of people waiting every morning outside the brokers' cubby-hole offices around the ornate neoclassical stock exchange building in central Athens. Representatives of foreign investment houses, who are mainly responsible for triggering the current boom, wander the corridors of the exchange, looking for publications in English. A crowd gathers daily when the share index bulletin is pinned up at the entrace, in a scene reminiscent of a 1930s film.

Foreign investment in the Athens stock market was stirred when the Greek Government issued a decree last year bringing Greece into line with its European Community partners by permitting investment capital to be freely reexported along with untaxed profits. Bargain-hunting investors discovered that Greek companies had the lowest price-earning ratios in bank and textile shares, which have long been rated the strongest and most sophisticated sectors of the Greek economy. Finally, confidence in the Greek market was bolstered by the Greek Government's economic stabilization program, which cut inflation by 30 percent last year and reduced the current-account deficit by half. A two-year wage freeze has contributed to boosting profits, which in turn resulted in exceptional dividends for stockbrokers last year.

Nobody knows exactly how much money the foreign investment houses—mainly British, Dutch, West German and Danish—have channeled into the Athens exchange, but brokers agree that more than $20 million poured in from abroad during the first nine months of 1987. The index shot up by more than 400 percent, while share volume soared to 1 billion drachmas ($7.14 million) daily in October, up from an average 11 million drachmas ($78,600) at the same time last year.

In the wake of the foreigners, Greek investors have returned to the stock market for the first time in more than a decade. A 1974 crash wiped out small traders, discouraged institutional investors and damaged brokers' reputations. Now, however, confidence that the boom will continue is strong, and both Greek and foreign analysts agree that at least one-third of listed issues are still undervalued, while the price-earning ratios are still less than half the European average.

The Athens exchange will be fully computerized next year and there is lively debate over whether foreign brokerage houses should be allowed to start trading. But the longer-term problem lies in persuading more Greek firms to go public and in encouraging listed companies to expand their share issues. Traditionally, Greek firms have preferred to raise capital through readily available bank loans. Many are still family-owned and despite the soaring stock prices, less than 10 percent of listed shares are actually traded on the market. Significantly, more than half of Greece's biggest companies are not listed on the exchange, while new issues amount to only three or four annually and are heavily oversubscribed.

The government is studying ways of broadening the stock market to encourage small- and medium-sized businesses to expand and also to give small investors a chance to trade. A draft law prepared in cooperation with the exchange research department foresees a semi-official market that would serve as a Greek equivalent of an over-the-counter market and a plan is also being drawn up to create a second stock exchange in the northern city of Salonica.—KERIN HOPE

LUXEMBOURG

Bigger In Banking

The Japanese and the British are arriving—and it is the best news the Luxembourg banking community has had for years. For so long associated with the obscure art of Euro-lending, Luxembourg is about to break into the private-account business in a spectacular way. When I asked an American banker if Luxembourg could become another Switzerland, where individuals could salt away money without national authorities breathing over their necks, his reply was: "We do not want to get into that business where secrecy is of utmost importance," and added: "But Luxembourg recognizes the importance of discretion." Indeed, most people seemed certain of this when Luxembourg recently took the lead in the Organization for Economic Cooperation and Development in opposing a recommendation for getting rid of "unduly restrictive bank secrecy."

The way is now open for individuals to place their money in Luxembourg and get not only discretion but some favorable tax breaks and other advantages, too. There is immense banking talent in Luxembourg—some of it a carry-over from the Euro-loan years, some of it more recently arrived. I wondered how well Luxembourg was equipped with "whiz-kids" of the London variety—research analysts employed by stockbrokers to spot rising markets. The answer from a bank spokesman was simple: "We import them from London."

It will take a year or two to determine how well they have done by their clients. But many important banks are prepared to take them on trust. This year, three new Tokyo banks will open in Luxembourg, making Japan the fourth largest in terms of physical locations in the Grand Duchy. The Japanese are drawn not specifically by the new private banking opportunities but rather by the whole compass of financial operations in Europe that these betoken.

More important in terms of prestige, if not in deposits, is the decision by the Trustee Savings Bank (TSB) of Britain to set up a private banking operation in Luxembourg aimed specifically at British expatriates and other foreigners. The bank will woo private customers with upward of $500,000 to deposit and there is a surprisingly large number of them scattered throughout Europe.

The TSB is aiming at "a new breed of affluent, sophisticated investor," says its spokesman. Almost certainly many of them will be found among the ranks of British citizens in Europe: employees of multinationals, civil servants of the European Community and the North Atlantic Treaty Organization, and businessmen and property developers. They make big money on the Continent and enjoy tax breaks that could quickly evaporate once they return to Britain.

What the influx of the British and the Japanese seems to imply is that Luxembourg has managed the difficult trick of switching from one specialized form of banking to another without apparent loss of momentum. Luxembourg was acclaimed throughout the 1970s for its grasp of Euro-lending—a practice that few people understood but that most knew was a temporary phenomenon. The new vogue term in Luxembourg is "retail banking," which calls for expertise in share-buying, portfolio management, insurance writing, mutual fund operations and the like.

There was some skepticism that Luxembourg could succeed in these exotic new fields in which London has traditionally led the way. The proof of its success has yet to arrive, but the rapidly growing line of banks wanting to set up in the Grand Duchy seems good enough evidence that the international financial community trusts the Luxembourgers to repeat the small miracle they achieved with Euro-lending some 20 years ago.—ALAN OSBORN

Luxembourg promises to become a new center for private-account banking. Below: the International Bank.

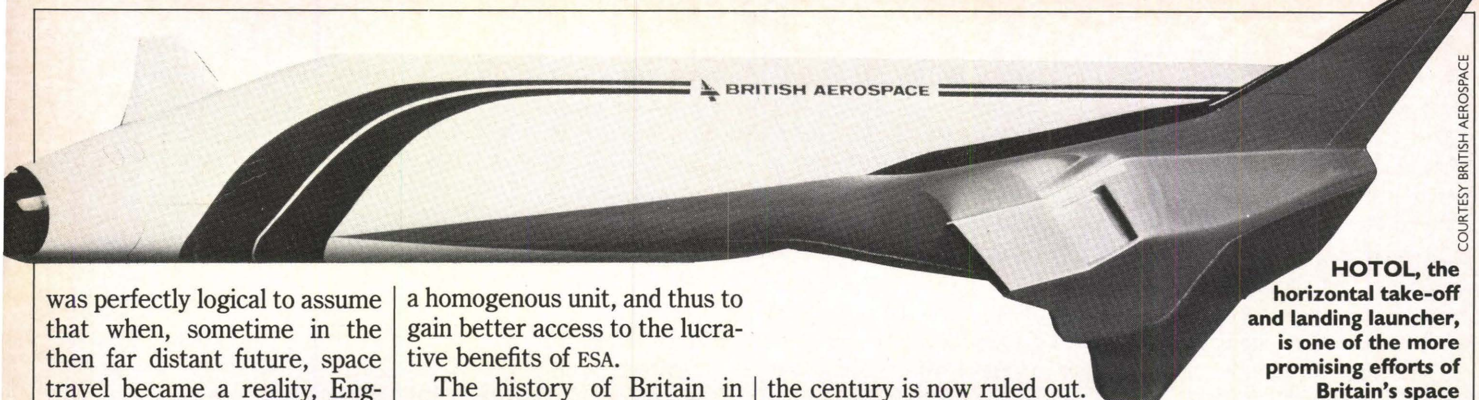
COURTESY LUXEMBOURG NATIONAL TOURIST OFFICE

LONDON

Less Spending On Space

Back in the 1950s, Dan Dare, a devilishly handsome and terribly "English" spaceman, brought pride to the hearts of every young child who read about his adventures in the comics or listened to the weekly radio space soap that detailed how he defended the free world against the terrible plots of the dastardly and wicked Mekon, a slime-green creature riding a mini flying saucer.

Those were the days when Britain still regarded itself as a major world power, and when it



COURTESY BRITISH AEROSPACE

HOTOL, the horizontal take-off and landing launcher, is one of the more promising efforts of Britain's space program.

was perfectly logical to assume that when, sometime in the then far distant future, space travel became a reality, England would lead the way. Naturally, men like Dan Dare would be accompanied by their faithful sidekicks, such as Dare's man Digby, an unsophisticated countryman as English as Yorkshire pudding.

Alas, Prime Minister Margaret Thatcher has recently pronounced that Dan Dare is dead. Well, let me amend that. Dan Dare is dead if he or Digby think that the British Government will provide any additional funds for the space program. If Dan wants a new booster rocket, then he should ask private industry to provide the funds—in return, no doubt, for a share of any spoils that may fall into the hands of the intrepid space traveler.

Dan Dare may be a comic-strip character from a more innocent age, but the real-life fathers of Britain's tiny space program are deeply concerned that the recent Prime Ministerial pronouncement may well spell the death knell for any hopes of future generations being able to derive national pride from man's adventures in space. In fact, the head of the British National Space Centre, Roy Gibson, was so outraged by the Government's parsimony that he quit in a blaze of publicity, saying there was no point in trying to develop Britain's embryo space agency under such circumstances.

Gibson was the first director of the European Space Agency (ESA) from 1975-81, and had come out of retirement in 1985 to head up Britain's space program. The goal was to plan a strategy to give the United Kingdom greater access to key technologies by welding separate space departments of various government ministries into a homogenous unit, and thus to gain better access to the lucrative benefits of ESA.

The history of Britain in space has been a sad and declining tale. From the mid-1950s until 1971, Britain had been working on a rocket that promised to give Europe an ability to launch satellites on a routine basis. British engineers worked with leading American rocket designers to develop the "Blue Steak" long-range ballistic missile as a nuclear deterrent. This, however, was cancelled in 1960 as being too vulnerable to surprise attack. A plan was then implemented to adapt Blue Streak and marry it to a French second-stage and a German third-stage rocket, thereby creating a multi-stage European satellite launcher called "Europa," aimed at breaking the American monopoly on launching satellites. But in 1971, Britain decided to pull out of the project on the grounds that it no longer could afford the costs.

Britain joined ESA when it was founded in 1975, but as a junior partner to the bigger-spending French and Germans. It contributes only $185 million a year—little more than the costs of a new jumbo jet. While ESA's other 12 members have agreed to double their spending between 1986 and 1991, Britain will not increase its outlay, and so its role in the European space program will diminish still further.

ESA is holding an important meeting this month at which it is due to decide on an expanded 10-year program including improvements to Western Europe's Ariane rocket and contributions to a U.S. space station planned for the 1990s. But the recent British decision against increased spending means that any bigger British role in space before the turn of the century is now ruled out.

It is ironic that this October, for the first time in 30 years, the International Aeronautical Federation held its annual conference in Brighton, in the south of England. Instead of this being an affirmation of Britain's intent to participate in space exploration, it only served to underline to the 1,200 delegates from around the world that this vital frontier will be probed with little help from Britain.—DAVID LENNON €

Announcing
1987 Gold & Silver ECU Coins
Finally. . . Coins From ALL Europe

Official Legal Tender: Kingdom of Belgium
Denomination: European Currency Units

The year 1987 marks the 30th anniversary of the Treaty of Rome which finalized the establishment of the European Economic Community. On this occasion, Belgium has issued historic new coinage denominated in ECU's.

A NEW GOLD BULLION INVESTMENT

The uncirculated Gold 50 ECU coin is the world's newest gold bullion coin. Because this is the first ECU bullion coin, they will be *competitive* with other ½ ounce gold bullion coins such as Canada's Maple Leaf, America's Eagle, and China's Panda coins.

A LIMITED PROOF EDITION

The significance of the uncirculated coin called for the striking of a Collector's Proof Set. The Proof set is destined to be a very desirable collectible item because these beautiful coins are being issued in a maximum of *15,000 sets.* The set contains one Proof Gold 50 ECU and one Proof Silver 5 ECU coin.

WHY ARE ECU'S A DESIRABLE COLLECTIBLE?

ECU coins deserve a prominent place in the collections of astute coin hobbyists and knowledgeable investors for these *significant numismatic firsts:*

- the first issue of coins denominated in ECU's—the official currency of the European Common Market;
- The first Belgian gold coin issued since 1914;

- The first year of a major country's issue. The Proofs are planned to be issued in 1988 and 1989 as well;
- The first time a Belgium legal tender coin has a denomination other than francs.

EUROPEAN SPIRIT IS SIGNIFIED

By assigning the coins legal tender status while giving the ECU denomination, Belgium has advanced the spirit of a united Europe another step. Each nation in the Common Market is honored by means of 12 stars on the reverse of the coins.

BEAUTIFULLY DESIGNED COIN

When assessing a potential numismatic acquisition, the beauty and importance of the design must be considered. An important subject and an eloquent design brings as much potential to a coin as does its scarcity and intrinsic value. The ECU coin's design personifies so much past and present European history that even non-collectors appreciate it and in all likelihood will seek to acquire the coins. In the case of the limited availability of the Proof sets—a sell out is almost assured.

To honor past European history the obverse side bears the fitting effigy of Charles the Fifth as it appeared on Silver Carolus Guilders, minted from 1540 to 1548.

These majestic coins are finely struck at the Royal Belgian Mint. A mint that has its origins in the 15th century. The proof strikings have a mirror like background and highly frosted designs. Each proof set comes attractively housed in a leatherette Collector's Portfolio with a Certificate of Authenticity.

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Holiday gift givers, collectors, investors and "Euro-philes" are invited to acquire the historically significant Proof Set by calling **Manfra, Tordella & Brookes, Inc.** or by returning the order form below. MTB is the exclusive distributor of the Belgian ECU gold and silver coins outside Europe.

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CLOSE U.S.-E.C. LINKS SOMETIMES RESULT IN TRADE STRAINS

A REVIEW OF LONG-STANDING TIES AND RECENT DISPUTES.

Trade relations between the European Community and the United States have recently been strained by protectionist pressures in the United States caused by a record budget deficit ($220 billion in 1986), a considerable trade deficit ($170 billion in 1986) and the crisis in farming. Moreover, the United States and the E.C. are in the odd position of being bound by close links, but at the same time competing in trade—a situation that regularly leads to friction between the two.

Background

Although there is no formal agreement setting out a general framework for relations between the E.C. and the United States, contact between the two sides is frequent. Consultations among officials, frequent exchanges of visits by ministers and members of the E.C. Commission and close relations through the Commission's delegation to the United States in Washington, D.C. and the U.S. mission to the E.C. in Brussels have taken place since the founding of the Community. In 1981, it was decided to step up the dialogue at the political level, and, since then, a large U.S. Cabinet-level delegation led by the U.S. Secretary of State has met each year with a Commission delegation headed by the President of the Commission.

The ground-rules applied to the bilateral relationship between the E.C. and the United States are those of multinational organizations such as the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). In trade, the general GATT rules apply, notably the most-favored-nation clause. Thanks to these rules, the GATT contracting parties have been able to set up a relatively transparent non-preferential structure for trade tariffs and, through the GATT rules and codes, the parties accept binding arrangements for most other nations concerning trade. In terms of quantitative restriction, trade has been almost totally liberalized.

However, while there is no overall agreement between the E.C. and the United States, a number of specific agreements have been concluded.

Euratom

This was the first agreement signed on behalf of the European Atomic Energy Community less than five years after the entry into force of the Euratom treaty in 1958. This agreement, supplemented by another agreement in November of the same year, establishes a framework for cooperation on peaceful uses of nuclear energy, including the supply of nuclear fuel to the E.C. by the United States. At the end of the 1970s, the United States proposed updating parts of the agreement relating to safeguards. Talks between the two parties are under way, and, on July 7, 1986, the E.C. and the United States signed a joint declaration of intent on research into radiation protection. A scientific and technical cooperation agreement on thermonuclear fusion was signed at the end of 1986.

Environment

In 1974, the Commission and the U.S. Administration agreed to hold regular consultations between officials and, where necessary, to take joint action on environmental issues. In 1979, it was decided to hold a meeting of experts to examine various aspects of health and safety at work.

Fisheries

An agreement on access by E.C. fisherman to United States fishing zones was signed in February 1977. The agreement has been renewed for the period 1984-89.

Economic and Trade Links

There are close economic links between the E.C. and the United States. The two are leaders in the world economic and trading system. Alone, they account for over 30 percent of world trade and, thus, have a major responsibility for the management of the system.

Between them, the E.C. and the United States account for over 40 percent of world gross domestic product. They also are linked by the size of their combined industrial output: some 35 percent of world steel production, 55 percent of world car production and 70 percent of world aircraft production.

The E.C. and the United States are major markets for each other, with trade between them totaling over $129 billion in 1986. The 1986 figures show that the E.C. was by far the United States' leading export market, worth $53.2 billion (about 24 percent), compared with Canada $45.3 billion, 21 percent) and Japan ($26.9 billion). Total U.S. trade (exports plus imports) with the E.C. of Twelve stood at $132.7 billion against $114 billion with Canada and $112.3 billion with Japan. In recent years, except 1986, there has been a remarkable increase in bilateral trade between the E.C. and the United States. E.C. imports have more than doubled from 1977 to 1986, standing at $55.7 billion. In the corresponding period, exports to the United States more than tripled to $73.9 billion.

Over the years, the E.C. has regularly run up a trade deficit with the United States. At times, this deficit has reached high levels, as in 1980, when it stood at $25 billion. However, because of the strength of the U.S. dollar, the trend has been reversed recently: In 1986, the E.C. had a surplus of $18.2 billion.

Specific Recent Problems

The E.C. and the United States have managed to settle a number of problems that were straining relations between them.

Steel. Since early 1985, steel has become a major bone of contention between the E.C. and the United States. Following a number of rounds of negotiations, the last of which ended in September, virtually all the E.C.'s steel exports to the United States (about 6 million tons a year) are now covered by arrangements that will expire in September 1989.

This solution was reached in successive stages. The E.C. and the United States first negotiated a carbon-steel arrangement in 1982. Under this arrangement, exports of 10 steel products accounting for 80 percent of all E.C. exports of steel to the United States were restricted to a given proportion of U.S.

steel consumption. The arrangement also covered 17 products that were not restricted; 16 of them became subject to restraint following a round of negotiations that ended in August 1985. Only semi-finished products remained outside quotas. However, they too became subject to restraint in September 1986 after a tit-for-tat sequence of measures and countermeasures.

An arrangement covering tubes and pipes was concluded in January 1985. It restricted E.C. exports of these products to 7.6 percent of presumed U.S. consumption except in cases where U.S. industry was not able to meet domestic demand. The initial arrangement covered 1985 and 1986 and also has been extended until 1989.

Some special steels (stainless steel) used to be subject to unilateral U.S. measures, to which the E.C. responded by taking retaliatory action. The measures on both side have now been abolished, and the products in question have been included in the steel agreements expiring in 1989.

Mediterranean Preferences. In August 1986 the E.C. and the United States managed to put an end to a long-running dispute going back 15 years concerning U.S. objections to the tariff preferences accorded by the E.C. to citrus fruit from the Mediterranean countries with which the E.C. had concluded preferential agreements. The dispute took a turn for the worse in June 1985 when the United States imposed very high customs duties on E.C. pasta products from the E.C. as a retaliatory measure.

The E.C. countered in July with measures to increase sharply the duties of walnuts and lemons. These measures came into force on November 1, 1985. After difficult negotiations, agreement was reached in August last year:

- The United States recognized the E.C.'s Mediterranean agreements and undertook not to make any further complaints about the preferences for Mediterranean citrus fruit.
- The two parties agreed on a number of concessions in the form of tariff reductions or quota increases, the E.C. on citrus fruit and almonds, the United States on products affecting the Mediterranean member states, notably olives and olive oil.

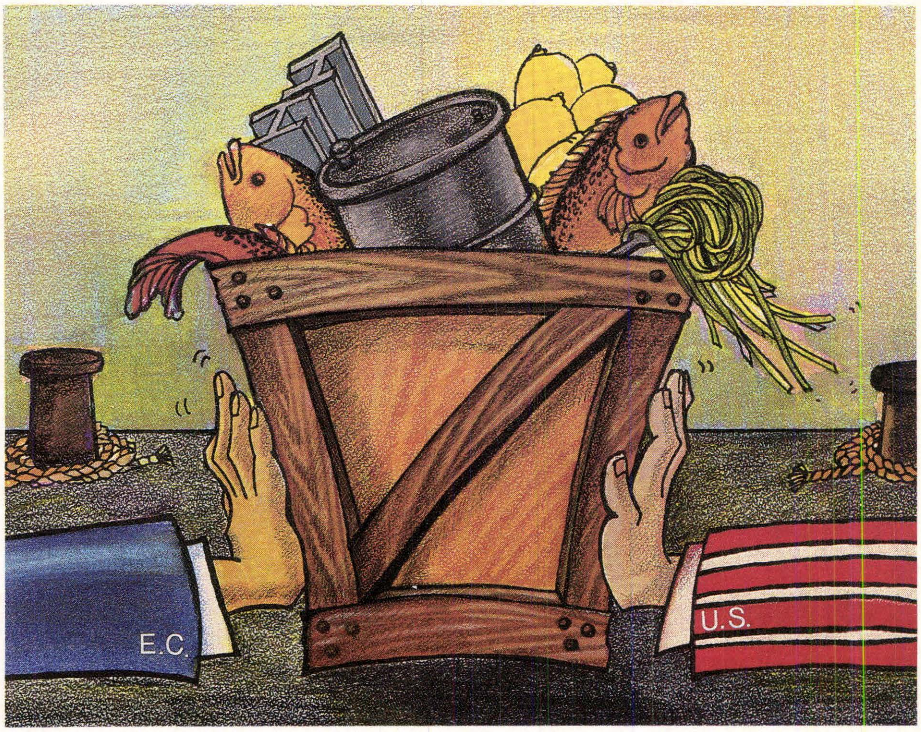


ILLUSTRATION BY BOHOK CHA

Thanks to this arrangement, both sides have lifted the retaliatory measures they had imposed on each other.

E.C. Enlargement. In March 1986, the United States raised objections about the implementation by Spain and Portugal of the provisions on agriculture in the accession treaty enlarging the E.C. to include those two countries. The United States claimed that these provisions were adversely affecting its maize, sorghum and soya exports to Spain and Portugal. The United States asked the E.C. for immediate compensation to cover the loss of earnings from the agricultural trade, which it put at a billion dollars. The E.C. considered the U.S. objections to be unjustified and argued that the effects of enlargement had to be evaluated as a whole without singling out the agricultural sector in particular. The significant reduction in customs duties on industrial products entering the two new E.C. member states should benefit non-member countries.

Nevertheless, on May 15, 1986, the United States imposed non-restrictive quotas on a number of E.C. agricultural products. The E.C. retaliated on June 16 by introducing "ex-post" surveillance on a number of U.S. products.

At the same time, the U.S. Administration announced it was going to bring in measures to suspend its tariff bindings on other agricultural products so that it would be in a position to increase the tariffs after July 1 that year if a solution had not been found by this date. The E.C. prepared a retaliatory package that would hit corn gluten feed, soya cakes, rice and almonds in particular.

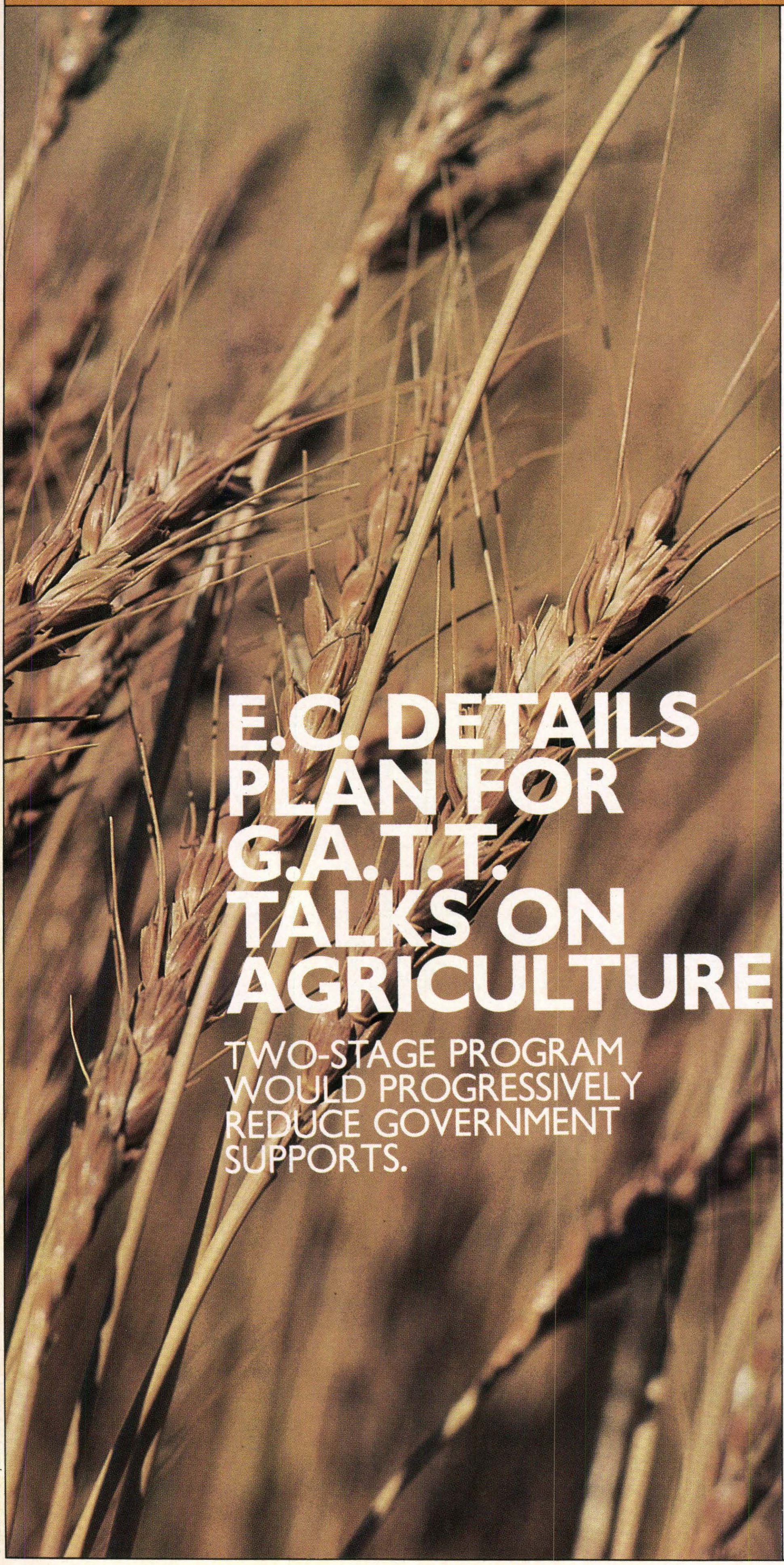
These retaliatory measures did not come into force since on July 1, the two sides reached agreements on an interim solution lasting until December 31, 1986. A further four-year interim agreement followed in January this year. The agreement provides for the opening of an all-comers quota of 2 million tons of maize and 300,000 tons of sorghum at a reduced levy and for a slight reduction in customs duties on a range of industrial and processed agricultural goods. In addition, the agreement does away with the reservation of 15 percent of the Portuguese cereals market for E.C. exporters.

Pasta Products

In August 1987, the E.C. and the United States managed to find a satisfactory solution to a conflict on pasta products that had existed for several years. The United States disputed the legality of export refunds for E.C. pasta products, believing that pasta constituted a processed product and that therefore the refunds were contrary to international trade rules even though no condemnation of the refunds had been obtained from GATT.

This conflict had reappeared at the time of the dispute on citrus fruit, at the end of which the two sides agreed to seek a mutually acceptable settlement of their dispute on pasta products. This they did in August 1987 with a solution that does not challenge the principles of the E.C. refunds. The E.C. is introducing a balance between E.C. exports on which export refunds are given and those falling under the heading of inward processing traffic. This system involves importing the raw material, durum wheat, without payment of a levy and exporting an equivalent amount in pasta products without receipt of a refund. The system entered into force on October 1, 1987, the date on

Continued on page 46.



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E.C. DETAILS PLAN FOR G.A.T.T. TALKS ON AGRICULTURE

TWO-STAGE PROGRAM WOULD PROGRESSIVELY REDUCE GOVERNMENT SUPPORTS.

The E.C. Commission recently proposed a two-stage plan for reforming world agriculture trade by progressively reducing government support that distorts world markets. The Commission said its proposals were designed to address the "root problem afflicting trade in this sector: the imbalance between supply and demand."

The plan calls for short-term, internationally coordinated actions to stabilize those markets suffering from the most serious imbalances. These would be followed by longer-term measures to stabilize markets on a lasting basis. If approved by the E.C. Council of Ministers, the package will represent the E.C.'s opening negotiating position on agriculture in the Uruguay Round of trade talks under the General Agreement on Tariffs and Trade (GATT).

Willy De Clercq, the E.C. Commissioner responsible for external relations and trade policy, emphasized that the agriculture negotiations cannot be isolated from negotiations in other sectors. "The concept of globality is essential to the success of the new round," he said. The Council approved the Commission's agriculture proposal—which is aimed in the same direction as the U.S. proposal announced in July—during an October 19-20 meeting in Luxembourg. Details of the plan follow.

First Stage

The major farm exporters would take coordinated *emergency measures* to ease the strain on the worst-affected world markets—grain, sugar and milk. They would involve:

- introducing some discipline into world prices and other aspects of the grain market, while regulating trade in grain substitutes;
- reducing the amount of sugar put on the world market and, at the very least, maintaining the present access to traditional import markets; and
- ensuring compliance with the GATT International Dairy Agreement, even by nonmembers. (The agreement sets minimum export prices with the overall aim of expanding trade and stabilizing markets for dairy products.)

The actions would be valid for a single marketing year, renewable by common agreement.

The parties would also take other *short-term internal measures* to reduce government support in sectors with big surpluses, including grain, rice, sugar, oilseeds, dairy products, beef and veal. The measures would have to be equivalent in scope. However, the parties would take into account action already taken to control production, beginning with the 1984-85 marketing year. The E.C. already has implemented a variety of such measures, including production quotas, reduced price support and stricter requirements for government purchases of farm goods.

Second Stage

The parties would cooperate to make significant cuts in government support that encourages overproduction and contributes to imbalances on world markets. At the same time, they would adjust external protection, such as tariffs or quotas, that also distort agricultural markets. Farmers could receive income support, as long as it did not encourage overproduction.

GATT Rules

Implementation of the above plan would allow the GATT rules covering agriculture to be applied more effectively. They would need to be supplemented, however, with more detailed rules on:

- subsidies, including those for farm products that are incorporated in processed products;
- measures to increase demand for agriculture products;
- state agencies and marketing boards and their impact on competition; and
- surveillance of the measures to reduce market imbalances that the parties agree to take.

Animal and Plant Health Regulations

Rules should be drafted to reduce the negative effects of such regulations on agriculture trade. They would set out basic principles, criteria for harmonizing regulations internationally and procedures for dealing with questions on production methods and processes.

Measuring Aid

To implement the above plan, the parties would have to agree on how to measure the various forms of aid to agriculture. The measurement devised by the Organization for Economic Cooperation and Development—the producer subsidy equivalent—could be used, with certain adjustments. These would involve (a) covering only measures that significantly affect trade, (b) including a method of quantifying production restraints and (c) accommodating problems related to world price and currency fluctuations.

Developing Countries

GATT members should be involved in efforts to reform world agriculture trade according to their level of development. Developing countries, therefore, should be granted "special and differential treatment." €

E.C. CONTRIBUTIONS TO URUGUAY ROUND OF TRADE TALKS

THE COMMISSION PRESENTS ACHIEVEMENTS TO THE COUNCIL OF MINISTERS.

GATT director general Arthur Dunkel (left) and GATT ministerial conference chairman Enrique Iglesias after representatives from 74 countries reached agreement in September 1986 to launch the new round of trade negotiations.

The negotiating plans adopted by the Negotiation Committee of the General Agreement on Tariffs and Trade (GATT) in January this year provide for the initial phase to be completed by the end of the year. Progress in the first nine months of this initial phase indicates that after a somewhat hesitant start the pace has picked up and is now faster than at the equivalent stage in the Tokyo Round. Numerous suggestions have been tabled and there is no lack of participants showing a real interest in making a constructive contribution.

The E.C. has played a part in the general advance, and, with the notable exception of agriculture, there are now few subjects on which it has not made a written or oral contribution, with some of its suggestions naturally being more fully developed than others. Some of the contributions will need to be rounded out further, and the E.C. will also have to respond to some of the ideas put forward by other participants in various spheres. In any case, with the exception of tropical products—which was recognized as having priority—the initial phase was intended to cater for a preliminary examination of topics and the presentation of proposals by participants in broad outline, but not for detailed negotiating requests. These are reserved for the next phase.

The purpose of the following communication from the Commission to the Council of Ministers is to take stock of the part played so far by the E.C. at the moment when its contribution on agriculture is about to be presented. It is intended to emphasize once again the importance attached by the E.C. to treating all aspects of the negotiations as parts of a single undertaking, as specified in the Punta del Este Declaration.

Tariffs

Like a number of other participants, the E.C. has presented a contribution on an approach to the general tariff negotiations. This approach brings together two overriding requirements, namely the desirability of further tariff liberalization, notably through a lowering of the "peaks" or highest rates of duty, and the need to establish a better balance between contracting parties, the target group here being the Newly Industrialized Countries or certain developed countries with a small number of bound duties.

Non-tariff Measures

The E.C. is endeavoring to persuade its partners of the need to study the real importance of the measures still outside the Tokyo Round codes, with a view to working out appropriate negotiating methods. It considers that this is vital if proper negotiations are to get under way. It intends to present a contribution to the group before the end of the year, setting out these guidelines more fully.

Natural Resources

The E.C. has presented a two-part paper, covering distortions in international trade in raw materials and also the fisheries sector. On fisheries, it urges the importance of linking this topic with access to resources and, regarding some commodity sectors, draws participants' attention to the unfair practices falsifying the world trade picture.

Textiles

In view of the objectives laid down for this sector in the E.C.'s overall approach, it is not thought appropriate against the background of the 1986 Multifiber Arrangement to put forward any suggestions at this stage.

Tropical Products

The negotiating directive proposed by the Commission in June was adopted by the Council early in October, and the Commission was able to present its offer to the negotiating group when it met in Geneva on October 14.

Agriculture

See page 16.

GATT Articles

In accordance with its overall approach, the E.C. has proposed that the following be examined: Articles XXV:5 (waivers); the Protocol of Provisional Application, on which a number of major derogations from the agreement are still based; and Article XXIV:12 concerning the application of the General Agreement to local and regional governments.

A written contribution on Article XXV:5 has been circulated in the group. The E.C. has also stated that it may support some requests made by other contracting parties (Articles XII and XVIII, restrictions and balance of payments; Article XVII, state monopolies) and that it may make counterproposals in response to other requests, notably on Articles XXIV (customs union) and XXVIII (tariff renegotiations).

Tokyo Round Agreements and Arrangements

The E.C. has so far made suggestions on the standards code concerning the establishment of a code of conduct for private standards institutions and the extension of the code's main obligations to local bodies. It is also planned to put forward proposals on the licensing code (import licenses). The E.C. is also preparing to respond, by means of commentaries or alternative proposals, to the many requests put forward with regard to antidumping measures.

Subsidies

The E.C. set out its initial approach in a paper presented at the group's second meeting. It urged the need, if the negotiations are to be successful, to reach agreement on the vital matters of how to define and calculate the subsidy for the purpose of applying countervailing duties, before going on to examine the strengthening on subsidies and countervailing duties. On the matter of agricultural subsidies, the E.C. stressed from the outset that on this issue the agriculture group takes precedence.

Disputes Settlement

Like its main partners, the E.C. has presented its views to the group on the operation of the disputes settlement procedure and has suggested improvements. Its approach is based on the GATT practice of consensus, but with modifications regarding recourse to conciliation or mediation, the arbitration procedure and the panel system.

Safeguard Measures

In accordance with the guidelines laid down in its overall approach, the E.C. has proposed that factors such as the "temporary nature" and "degressive character" of a safeguard measure should be dealt with first. Discussion in the group invariably stumbles over the concept of selectivity, or at least the removal of the "grey area" measures.

Intellectual Property

The E.C. joined its industrialized partners in compiling a list of trade problems encountered with regard to intellectual property. The E.C.'s basic approach in the negotiations is geared primarily to the application and observance of intellectual property rights already agreed internationally. Its first aim is to promote the adoption of an agreement in the GATT concerning the implementation of intellectual property rights without, however, closing the door at this stage to wider options. The Commission departments are at present working on an outline scheme for presentation in the group at an early date.

Trade-related Investment Measures

The E.C. set out its preliminary views in a memo presented to the group in June as part of the process of identifying the measures concerned and examining them on the lines laid down for the initial phase. The memo analyzes the scope of the relevant GATT articles with reference to a number of investment measures that would seem to have a more direct link with trade.

Functioning of GATT

In the discussions so far, the E.C. has pointed out the importance among the objectives identified in the Punta del Este Declaration of greater coordination in the working out of economic policies worldwide. The E.C. has advocated closer ties between GATT, the IMF and the World Bank, via the permanent secretariats of the three institutions. It is also ready to consider the strengthening of the surveillance carried out by the GATT for the purpose of regular monitoring of trade policies.

Services

The E.C. is convinced that it is vital to establish a basis of negotiation that will attract the support of as many participants as possible in these negotiations, and is examining the possibility of suggesting to the Group of Negotiations on Services (GNS) some working hypotheses for the next phase, in the form of an outline memo. The memo takes as its starting point the concept of balance of interests underlying the Punta del Este Declaration and takes note of the work achieved in the GNS, without neglecting the safeguarding of specific E.C. interests.

Standstill

The E.C. has given notification of a number of measures that it regarded as infringements of the standstill undertaking. Having warned that the threat of new protectionist measures could endanger the success of the negotiations, the Community has put into practice its constant concern to see the standstill undertaking respected. For its part, it has refrained since Punta del Este from taking measures inconsistent with the General Agreement; it expects other participants not to distort the premise of the negotiations through the introduction of a new trade measure. In doing this, it has at the same time issued a warning to the United States whose protectionist measures adopted at the end of 1986 could be extended by measures in the draft trade bill currently under discussion in Congress.

Rollback

In accordance with its wish to contribute to rolling back protectionist measures, the Commission should present a proposal in this connection before the end of the year. €

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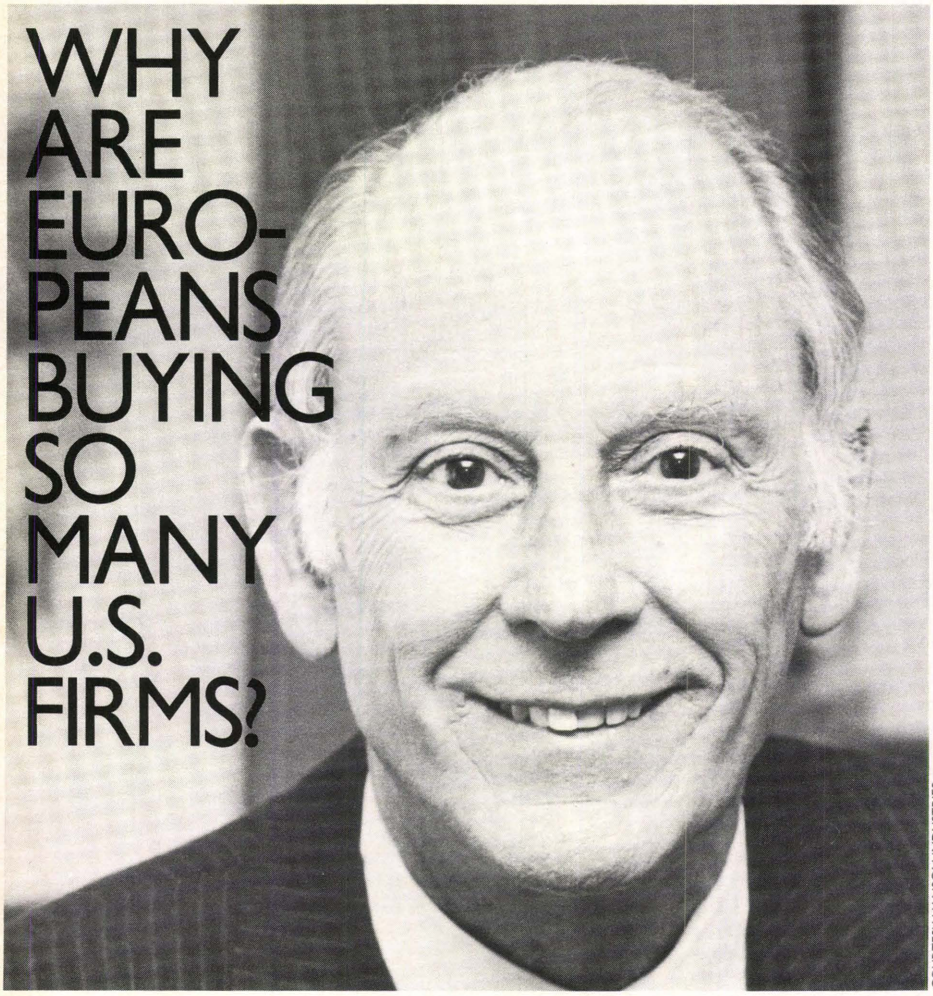


COURTESY HANSON INDUSTRIES

WHY ARE EUROPEANS BUYING SO MANY U.S. FIRMS?

A VIEW FROM ONE OF THE PRINCIPAL PLAYERS.

GORDON WHITE

Recently there has been a tremendous surge of British investment in American companies. Because of the complexities of some of the deals, accurate statistics are difficult to compile, but according to *Acquisitions Monthly,* the British trade journal that tracks such matters, in the first nine months of 1987, British companies have acquired or agreed to acquire 190 U.S. enterprises at a total cost of about $25.5 billion, and investments in other American assets could make the total grow enormously.

Many reasons go to explain this upsurge—an abundance of cash, a number of willing lenders, the relative strengths of the pound sterling and the dollar, and the state of the London stock market. I personally believe, however, that one reason is of paramount significance: the new kind of corporate entrepreneurialism that is at work in Britain today.

It is the direct result of the "Thatcher Revolution." Prime Minister Margaret Thatcher has restored the spirit of free enterprise and initiative and has infused a new mood of confidence inside Britain—and beyond. She has turned Britain around, away from dependence on the state and toward self-reliance, optimism and a "can-do" spirit. With this resurgence of the "can-do" spirit, people are looking to the United States for opportunity just as they have so often done in the past. The new methods and practices in the City resulting from the "Big Bang" have been a recent factor in helping transform this spirit into action.

This readiness to invest overseas is greatly to Britain's advantage for the future. North Sea oil is a diminishing asset, and, as it diminishes, the balance of payments will come under increasing strain. It is important that Britain should have access to an increased earnings base from sensible overseas investment to compensate for this expected decline in the revenue stream. It would be good if we could re-acquire something like that share of the U.S. economy that we held before World War II and had to dispose of to help pay the costs of the war!

Of course, when I came to the United States in 1973 to start up what has become Hanson Industries, no such large considerations of national interest were in my mind. I just wanted to get out of Britain where a new Labor Government seemed bent on stifling private initiative and destroying the economy. From past experience, I knew that the United States was the world's most exciting and dynamic business environment. But I also knew that it was a much tougher environment than the United Kingdom—a lesson that I have re-learned many times since. For example, I learned that you cannot featherbed inefficiency and high prices in a way that had become all too prevalent in Europe. On the other hand, I rapidly came to appreciate the openness of the U.S. economy and the receptivity of new ideas. If you had a good deal to offer, you could always find a listener.

Because of the British exchange control regulations, I had a modest $3,000 at my disposal as I embarked on my first acquisition. This was a fishing company called Seacoast. The owners were prepared to accept a delayed buy-out. I agreed to pay them $32 million over a period of time and I used the assets of the company to secure the notes that I gave to the owners. Thus I had early occasion to appreciate the advantages of what is now called a leveraged buy-out.

Subsequent and much larger acquisitions were based on the same principle. The money we have used to buy U.S. companies has been almost entirely U.S.-borrowed or raised there, not money brought from Britain. This, incidentally, makes nonsense of the criticisms occasionally voiced that British acquisitions abroad are at the expense of investment needed in the United Kingdom.

People have often asked me my criteria for deciding which companies to acquire. It goes without saying that the important thing is to get value for one's money. Some British companies have in the past not done their homework and have in consequence paid far in excess of worth. Hanson Industries has the reputation, which I hope we can maintain, of never bidding more for a company than we think it is worth.

There are some broad financial considerations that apply across the board. First, we believe that much can be learned from simply reading company reports. A comparison of spending against depreciation can be revealing. If spending is in excess of depreciation, this is an indication that there is a possibility of unrecognized value.

Price-to-earnings ratios are no way to judge a company; they are nothing more than the number of years it would take to get the money back if the company paid out all of its earnings as dividends, with tax put on one side—and that never happens. Firms that have a low return on equity and low price to book-value ratios frequently merit consideration. Throughout the important thought to have in mind is not what can be gained if the acquisition goes well, but what can be lost if all goes wrong. We look out for the downside; the upside takes care of itself!

However, apart from the old-fashioned principle of value for money, there is no standards template. But the companies we have acquired in the United States do show us a number of recognizable characteristics. In the first place, the so-called "sunset industries" are not for us: We are interested in industries with a future. We prefer industries where the level of competition is moderate rather than cutthroat. We look for good-quality basic businesses providing essential goods and services, and these have tended to be mature companies making medium-technology consumer and industrial products.

We are attracted by companies that have short investment cycles and where the amounts paid for them can be recouped within a reasonable period; companies with low research and development costs, low levels of capital expenditure, and potentially likely to generate sufficient money to fund their own improvement programs. (In assessing such matters we naturally prefer to be dealing with the kind of company where we have past experience of the considerations involved in capital expenditure.) We are always on the lookout for companies where there are signs that assets are under-utilized. Finally, we want sufficient managerial strength in a company to provide the leadership to run the business.

The outcome should be a diversity of operations with our divisions kept in proportion. This reduces our vulnerability if a major division has a bad year. Furthermore, friendly takeovers are to be preferred. The costs in the United States of the legal battle that often occurs in hostile takeovers defies reason. These are the kind of things we keep in mind, but the range of choice is vast, and each case is in some respect special. It may well be that the next acquisition will not fit into any of the categories mentioned above!

Hanson Industries is an industrial management corporation, in the business of acquiring and [subsequently operating] companies because we think that we can use the sum total of the assets more productively than their present owners. The very fact of our bidding means that we consider a major part of the assets worth retaining. However, once a company or group of companies has been acquired, there are important decisions to be made as to which assets are to be retained. In our acquisitions in the United States, we have been ready to dispose of components that did not fit into the general pattern of our activity or where it seemed to us that others could use the assets more profitably. (As an example, when SCM was acquired, the sale of its Glidden Paints division to ICI was clearly to the benefit of all concerned.) That the proceeds of disposals can defray the cost of the original acquisition is all to the good.

The key to more profitable use of assets is first-class management. We have found that our philosophy of management, tried and tested in the United Kingdom since the inception of Hanson Trust, is no less applicable in the United States. The emphasis is on good business principles. Division managers are required to submit detailed one-year financial budgets and capital expenditure is carefully reviewed. There has been an average cut of about 25 percent of labor costs in acquired companies and a sharp reduction in overheads.

Financial resources for our divisional companies are available from the corporate parent to facilitate future growth. The corporate center is in effect a banker to the division, but is not a particularly openhanded or "friendly" banker. We carefully monitor all investments and exert strict financial control. However, we also have a hands-off approach. We want each business run by managers with good entrepreneurial skills who know how to make their businesses profitable. The job of corporate management is to give them incentives, and this is done through generous performance-related bonuses and share options. American managers have proved no less responsive than their British counterparts to these incentive schemes.

A final point about management. It is futile to repeat the errors of King George III. Business in America cannot be run from London. If a British company wants to be a success in the United States, it must have in the United States a strong management unit, well versed in American ways of doing business.

What of the future prospects for British companies looking to invest in the United States? A good deal will depend on factors beyond their control, such as the general state of the U.S. economy, or the strength of the pound against the dollar. However, the U.S. market is vast and there will always be opportunities for British companies ready to look for them. There has, of course, to be borne in mind the possibility of new forms of regulation by the U.S. authorities of acquisitions and mergers. In the early part of this year, in the wake of the insider-trading scandal, there was a good deal of talk about the need for more rigorous government control. Several Congressional committees are currently engaged in looking at various aspects of this matter.

However, one result of the debate has been to bring out the important and necessary role of acquisitions and mergers in the restructuring of U.S. industry, which is essential if the United States is to remain competitive in an increasingly interdependent world economy. There have been abuses, such as "greenmail," a general trend toward what has been described as "casino capitalism." There is a case for curbing these abuses by legislation. It would be unfortunate, however, if regulation introduced to curb abuses were also to inhibit acquisitions that are in the interest of the economy as a whole.

From time to time in recent years, public dissatisfaction has been expressed at the amount of U.S. assets being acquired by foreigners. But, possibly because of our common language and common traditions, acquisitions by British companies seem to have generated less controversy than acquisitions by the Arabs or the Japanese. Defense-related and some communications industries are a sensitive matter everywhere. (The British Government set a limit of 15 percent to foreign holdings of the stock of Rolls Royce when this manufacturer of aircraft engines was sold to the public last May.)

It is to be hoped, however, that as far as U.S. industry generally is concerned, the U.S. authorities will not be so shortsighted as to take restrictive action that could deprive the U.S. economy of the benefits that it has undoubtedly received from foreign investment. Fears about harmful consequences of British ownership are certainly unfounded. Speaking for Hanson Industries, we see ourselves as engaged in a real and productive effort of Anglo-American cooperation. Happily, many U.S. investors are finding that to be the case as well.

As a result, while Hanson Trust, as a company, is virtually half-British and half-American in terms of its business portfolio, today nearly a quarter of our equity is owned by Americans. We believe that the partnership we have created is special.

Sir Gordon White is the chief executive officer of Hanson Industries.

E.C. APPROVES $6.2-BILLION PLAN FOR RESEARCH

"ESPRIT," "RACE" AND "BRITE" ARE SOME OF THE PROGRAMS SET TO GET EXTRA MONEY.

WILLIAM DAWKINS

Nobody in the E.C. doubts that more and better industrial collaboration should be an important part of helping Europe to close the yawning technology gap between itself and the United States and Japan. Yet member states, or, to be more precise, Britain and the rest, are passionately divided over just how the E.C. should help to foster cross-Community cooperation in research and development into new technologies.

The dust is just settling in Brussels, the headquarters of the E.C. Commission, after a long and politically bruising debate in which Commission plans for a major boost in E.C.-funded research have been dramatically scaled down. The Brussels budget will be contributing almost 5.4 billion European Currency Units (ECU), about $6.2 billion, on joint research over the next five years, a puny comparison with the £700 billion that the United States will be spending over the same period, or the £320 billion that the E.C.'s 12 member states have independently allocated to their own research budgets for 1987-1991.

Early last year, the Brussels authorities suggested that the E.C. research budget be more than doubled from 3.7 billion ECU for 1984-87 to some 10.3 billion ECU for 1987-91. This was to cover a range of projects from research into information technology to advanced telecommunications, industrial automation, nuclear safety, thermonuclear fusion and biotechnology, all of which are still included—if on a reduced scale—in the final program.

The proposal ran into immediate resistance from the United Kingdom, the Federal Republic of Germany and France, which argued that 10.3 billion ECU was wasteful and excessive at a time when the E.C. was running into another of its perennial financial crises. They are the E.C.'s main budget contributors, though, curiously enough, they are also major net beneficiaries of the research program. Bonn and Paris dropped their opposition when the Commission agreed to compromise at 6.48 billion ECU, leaving Britain stubbornly isolated until the Danish presidency of the E.C. Council of Ministers managed last July to work out a compromise to accommodate Britain's budgetary objections. By carrying over a portion of the funding after the formal end of the program, the Danes managed to reduce the five-year figure without any real cut in overall funding.

The delay has caused serious slowdowns for some projects, especially in telecommunications and information technology (IT). It has also highlighted more sharply than ever before the advantages and limitations of the E.C. roles in backing transnational research. Skeptics argue that the supposedly cumbersome Brussels bureaucracy is just out of its depth in the fast-moving world of high-technology industry. Indeed, it was partly for that reason that France inspired—against the wish of Brussels—the formation of "Eureka," a collaborative international research program outside the E.C.

Another frequently voiced criticism, shared by the United Kingdom, is that collaborative research is not cost-effective. The complications of managing transnational projects automatically mean they cost around 25 percent more than purely national ones. And, in any case, simply throwing public money at the problem is not necessarily the solution, says London. The British Government's skepticism over its own national research effort is well known. Moreover, the Treasury automatically docks E.C. research grants off the budgets of the departments concerned.

Ranked against the Big Three are all of the Mediterranean member states and the Benelux countries, which value E.C.-funded research as a way of helping to bring their own technologies up-to-date with their larger partners. Any opposition, they suspect, is motivated by national industries' desire not to share their technology secrets, an attitude that certainly seems to have been the case with Siemens, the powerful West German electronics group.

The Commission, meanwhile, has defended all along charges that it is cumbersome and inefficient. It points out that new E.C. research activities are only proposed after thorough studies have been made with the industrialists that are due to take part, and that there is no question that the renewal of existing programs is automatic. It also points to the formation of its Information Technology Task Force under Michel Carpentier, designed in part to get through the rigid barriers between the different Commission departments involved in technology research.

There are, however, a few expensive holes in the fabric, including the E.C.'s much criticized four Joint Research Centers (JRC) in Italy, Belgium, the Federal Republic of Germany and the Netherlands. These are purely E.C. institutions rather than collaborative ventures, and they take up roughly 10 percent of the new research budget—100 million ECU annually, well down from the 150 million ECU allocated under the current budget. They are mainly concerned with research into nuclear safety, solar energy and nuclear reactor design.

The Italian laboratory at Ispra, the biggest of the four, was accused of being sloppily managed and out of touch with commercial reality in an independent report commissioned by the Brussels authorities under pressure from Britain. Karl-Heinz Narjes, the Commissioner responsible for technology, is now planning to cut their nearly total dependence on E.C. funding so that by 1990 only 60 percent of their needs will come from the Community budget. The balance would come from fees from contract research for private companies and government agencies.

The JRCs apart, the Commission's major argument for E.C.-funded research is, according to a paper it put out at the height of the row, the following: "In advanced sectors, markets and technologies and worldwide, no Community country on its own can afford projects of sufficient scale to take account of this." It can cite telecommunications, where experts agree that an estimated minimum world market share of 3 percent to 10 percent is needed to achieve viability for the next generation of switches, yet no E.C. "national champion" represents more than 6 percent.

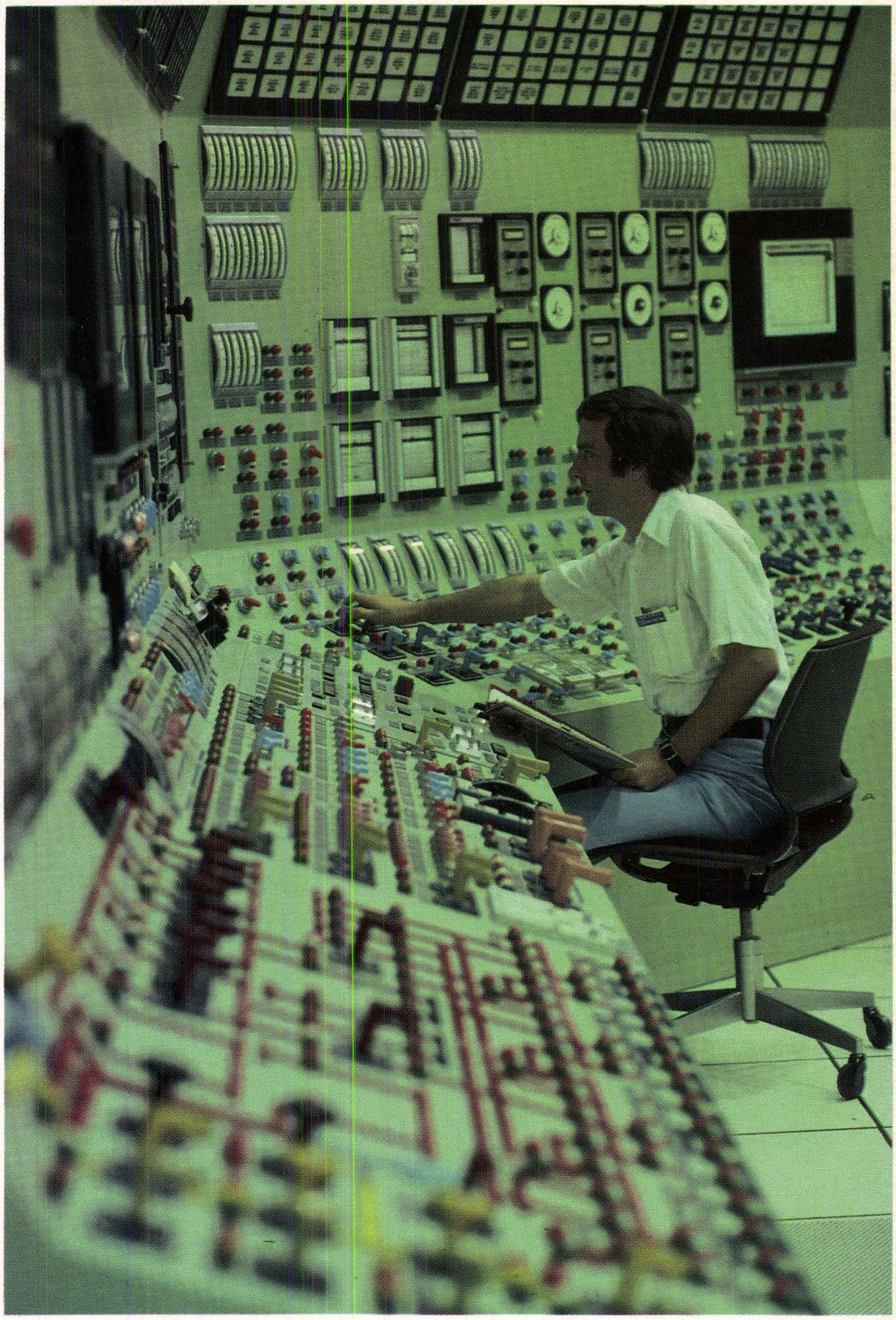
E.C. input is equally important to ensuring that new products use compatible standards, unlike the present generation of televisions where a set made in Britain will not work on the Continent, or, for that matter, mobile telephones, where member states operate half a dozen different systems. All this, of course, forms a key part of the larger drive to create a genuinely free internal market by 1992. Without common technology standards set jointly by E.C. companies, the main beneficiaries of the internal market will be their faster moving U.S. and Japanese competitors, who will impose their own industry standards, argues the Commission.

Overall, the flagship of the E.C.'s research effort, and the one to have won most accolades from industry, is the "Esprit" research into information technology. With a 1.6-billion ECU budget for its second phase—split equally between the Commission and the participating companies—Esprit II is designed to bring the projects involved closer to marketability than was the case in the first, 1.5-billion ECU, phase, which is due to run out in 1988. It is the largest in the program and involves some 3,000 scientists in more than 200 projects, representing one in 15 of the Community's IT front-line professionals.

Among Esprit's main achievements in its three-year history are:

- Establishment of a software standard to overcome incompatibilities between different methods employed by different software companies, known as Portable Common Tool Environment, involving six major groups.
- Development of gallium arsenide chips to be used in the next generation of super computers. This is a faster and more reliable replacement for silicon chips. The companies involved include Thomson-CSF and LEP of France, Siemens of the Federal Republic of Germany and Britain's Plessey.
- In integrated office systems, the first European standard for a mixed voice, text and image electronic document has been developed by a consortium including Siemens, TITN and CRIN of France and QMC-IRL of Britain.

The E.C.'s role in setting standards for the future is strongest in the RACE program for research in advanced telecommunications, which completed its 40-million-ECU definition phase at the end of last year and has been allocated 550 billion ECU for its main phase. Its main role is to define standards for integrated broadband communications for the future, a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The framework agreement covers a range of projects from research into information technology to advanced telecommunications, industrial automation, nuclear safety, thermonuclear fusion and biotechnology.

system whereby voice, text, data and visual information will all be carried on one line. Its target is to set up "cost-effective and advanced telecommunications facilities across Europe before 1995," by bringing together the Commission, national PTT administrations and the telecommunications industry.

A smaller jewel in the E.C.'s research crown is the popular 105-million-ECU BRITE (Basic Research in Industrial Technologies) program, which attracted 471 project applications before the Commission announced funding for 112 of them last month. They include a Dutch-British optical recording project, an unmanned knitting plant and computer-aided design for shipbuilding—all illustrations of the greater emphasis on industrial competitiveness that Brussels has tried to bring to the overall program.

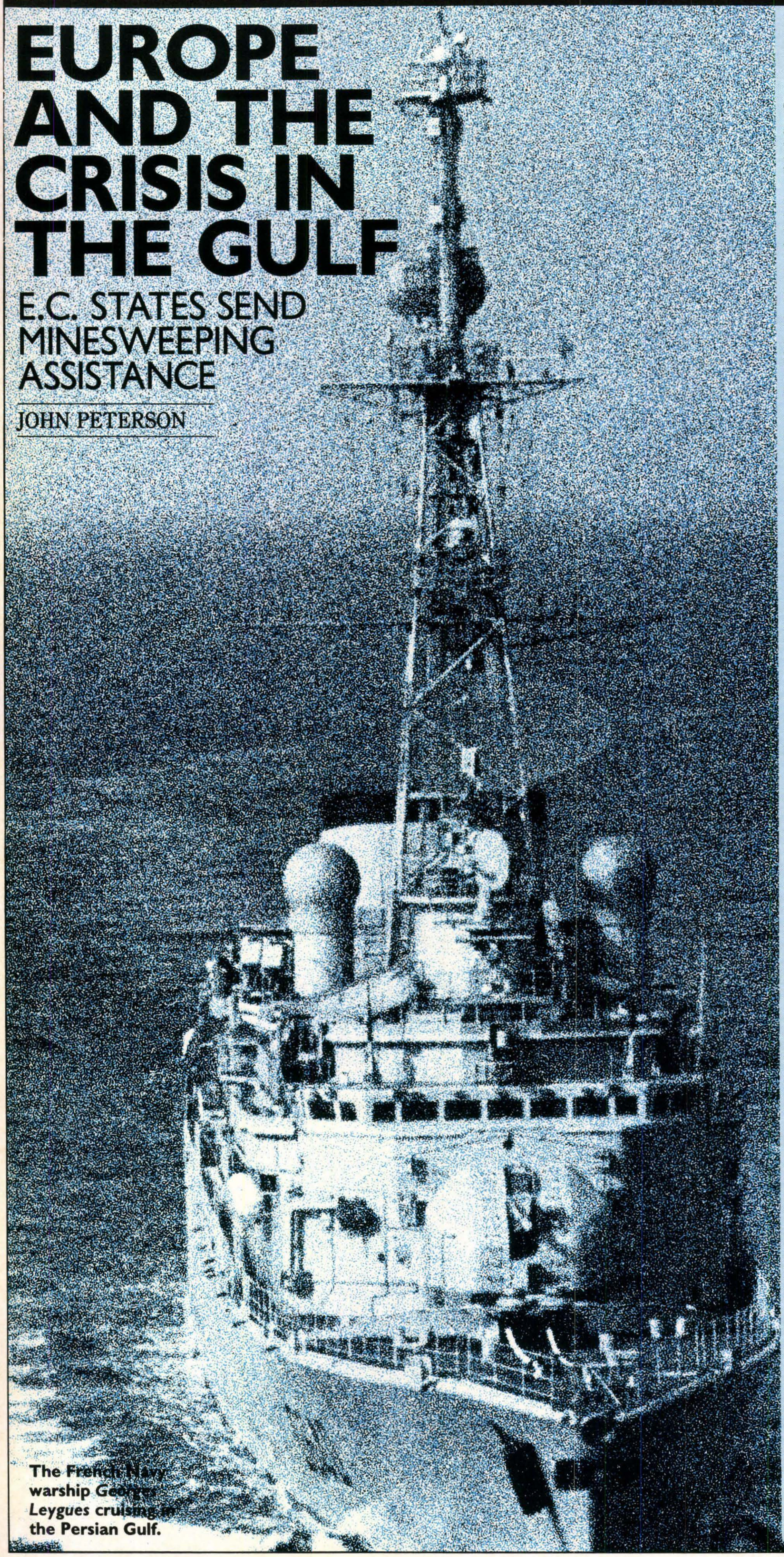
Certainly, the battle over funding has meant that—at least in the Commission's eyes—the program has suffered. "The compromise is not a very satisfactory one," says Carpentier. However, he insists that the main objectives can still be achieved. One thing is certain: When the program comes up for midterm review by member states in 1989, the old row about funding will start again with renewed force. €

William Dawkins reports from Brussels for the *Financial Times*.

EUROPE AND THE CRISIS IN THE GULF

E.C. STATES SEND MINESWEEPING ASSISTANCE

JOHN PETERSON



The French Navy warship *Georges Leygues* cruising in the Persian Gulf.

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For most of the past decade, the Persian Gulf has never been far from the headlines. From the oil crises of the 1970s through the outbreak and intractable persistence of the Iran-Iraq war during the 1980s, the Gulf has been one of the world's focal points and a source of continuing concern to the West. Interest in the Gulf flagged earlier this year as the oil glut continued and the war seemed to plod on in a never-ending stalemate, but the sharp escalation this summer in Iranian hostility and the high-profile response by the United States brought the Gulf into the public eye once again—this time with a vengeance.

The American decision to protect Kuwaiti tankers, and thus raise the stakes in the conflict in the Gulf, set off heated debate in Europe as well as in the United States. Initially wary of the American action—they felt it risked an escalation of the war, perhaps even a superpower conflict—yet concerned about maintaining stability in the area, a number of European Governments have since come around to support the American position. Uneasy about seeming to leave the protection of vital European interests in American hands, Europe began to adopt a more visible role in the late summer and early fall, and five countries—Britain, Italy, France, Belgium and the Netherlands—have now joined the United States in sending (or promising to send) minesweepers into the Gulf. The European role is still taking shape, but the higher profile reflects not only the continued importance of the Middle East to Europe, but also a new willingness to act to protect its interests there.

Chief among those interests is, of course, access to a stable, reliable supply of oil. Europe has been trying to promote Middle Eastern stability by developing its links with the Gulf Cooperation Council (GCC), an organization set up by Saudi Arabia, Kuwait, the United Arab Emirates, Oman, Bahrain and Qatar in 1981, partly in response to the Iran-Iraq war. The European Parliament summed up the European position in a report earlier this year on relations with the GCC when it said, "Using the instrument of cooperation, the Community can also promote the process of integration among the countries in the Gulf area and thus make a contribution to detente and stability in the Middle East and throughout the Arab world."

With the oil boom long over, however,

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the countries of the GCC have been left to grapple with pervasive economic recession. For the West, the tremendous commercial opportunities promised by the Gulf dried up and business began to look elsewhere. The Gulf's proportion of Europe's total oil imports declined from a level of nearly 40 percent in 1982 to 15 percent in 1985. Despite seven years of fighting, the Iran-Iraq war did not threaten Europe's oil supplies, at least not until recently. Meanwhile, the chronic European trade deficit with the GCC moved into an equally sizeable surplus.

Still, the Gulf is not unimportant to Europe. For years it has been the E.C.'s third-largest export market (consisting mainly of technological products, machinery and other manufactured goods) after the United States and EFTA (the European Free Trade Association), and still contains nearly 60 percent of the world's proven oil reserves.

But, given the historic ties and strong European economic involvement over the past decade, it is rather surprising that the GCC is the only part of the Arab world with which the E.C. has not established an economic cooperation agreement. On-and-off talks on an economic relationship have been held for years, but the desultory record of these negotiations in large part is due to the GCC's aspirations of economic diversification. In particular, agreement has bogged down over the issue of petrochemical imports from the GCC, particularly from Saudi Arabia.

At Saudi insistence, the GCC has been seeking a free-trade area with the E.C., or at least a preferential agreement similar to that of the E.C. with Mediterranean countries. In return, the Gulf is offering concessions in the tariff levels on a wide range of its European imports. The E.C., which has seen its refining capacity drop by about a third in the last decade, would also gain from the importation of refined petroleum products from the Gulf. Other complications arise from the opposition of European petrochemical makers, and there is potential division in GCC ranks as well, since the other members do not share the Saudi investment in petrochemicals.

The bargaining was set to continue in earnest in October. But as the crisis in the Gulf heated up, attention was deflected from details of tariff negotiation to the more immediate problem of ensuring that ships could get in and out of the Gulf safely, and a final decision on expanding the E.C.'s economic links with the GCC was put off until late November.

Earlier this year, it seemed that the Iran-Iraq conflict had come to a virtual stalemate. The last successful Iranian push had been the capture of Iraq's al-Faw peninsula in early 1986; another prolonged "final offensive" in early 1987 put tremendous pressure on the Iraqi forces defending Basra, the country's second-largest city, but the defenses held. Once again it became clear that Iran, while clearly the stronger belligerent, did not have the resources immediately available to defeat Iraq. Nevertheless, any continuing no-win situation would seem to favor much larger Iran.

For this reason, Iraq sought as early as 1984 to exploit Iran's vulnerability in the so-called "tanker war." With its Gulf ports closed at the onset of the war, Iraq learned to rely on pipelines through Turkey and Saudi Arabia, as well as trucks across Jordan, to get its oil out. Furthermore, Saudi Arabia and Kuwait sell about 250,000 barrels a day of their Neutral Zone oil on Baghdad's behalf. Iran, on the other hand, has no alternative to exporting its oil through the Gulf.

Consequently, Iraq has employed its superior strength in air power to strike at Iranian oil targets, including pumping stations, refineries, sea terminals and tankers. Steady pressure against the main Iranian terminal at Kharg Island forced Tehran to establish satellite terminals on islands near the entrance to the Gulf, and then to ferry the oil itself to these terminals from Kharg on chartered tankers. Not only did this cause Iranian oil exports to dip, but it also added to the costs of production. The result was less income to pay for both expensive arms on the open market and necessary imports for the war-torn economy.

Desperate, Iran struck back. It continued to press along the border, with almost daily skirmishes and strong backing for the Kurdish guerrillas in the north of Iraq. At the same time, Tehran escalated its pressure against Baghdad's supporters within the GCC, and threatened to disrupt the January 1987 summit conference in Kuwait. Not only were car bombs set off during the conference, but Kuwait has been plagued by sabotage in its oilfields and urban areas both before and after the summit. Iranian provocations during the Islamic pilgrimage to Mecca in July erupted into violence and 400 pilgrims were killed—the majority of them Iranians.

Iran also stepped up its attacks on seaborne shipping bound for Kuwaiti and Saudi ports. Vessels plying the Gulf were forced to hug the Arab shore, but even that was no guarantee of safety. By the end of 1986, more than a dozen Kuwaiti ships had been struck and the Iranian navy was increasingly boarding Kuwaiti ships passing through the Strait of Hormuz. In response, the Kuwaitis approached the United States Coast Guard about the procedure for re-registering ships under the American flag.

The U.S. response was limited to Presidential assertions in January and February that it was committed to the free flow of oil through the Strait of Hormuz. Requests by the Kuwait Oil Tanker Corporation to re-register some of its fleet went unanswered until March, when Washington learned that the Soviet Union had agreed to protect the tankers and was preparing to lease three of its own tankers to Kuwait. Changes in White House staff after the Iran-contra affair and a perceived need to mend fences with the conservative Gulf states also seemed to play a part, and American concern was intensified further by the discovery that Iran had acquired Chinese Silkworm anti-ship missiles and test-fired them near the Strait of Hormuz in late February.

On March 7, the Reagan Administration announced that eleven Kuwaiti tankers would be placed under a U.S. flag, and thereby entitled to protection for the United States Navy. The potential consequences of this decision were highlighted scarcely two months later when 37 American sailors were killed in an apparently accidental missile attack by an Iraqi fighter on the *USS Stark*.

The incident only stiffened the Administration's resolve, even as it provoked Congressional rumblings about invoking the War Powers Act. Nevertheless, the Administration delayed instituting escort convoys for the tankers until after the U.N. Security Council adopted Resolution 598 on July 20, calling for an immediate cease-fire in the war. Iraq complied and quit its attacks, but Iran prevaricated. Two days later, the first convoy entered the Gulf. Off Kuwait, one of the tankers hit a mine.

Meanwhile, relations between Iran and two key European governments were deteriorating rapidly. France broke off relations with Tehran on July 17 after becoming ensnared in a bitter wrangle with Iran. A suspected Iranian terrorist (and government official) named Wahid Gordji had taken refuge in his country's embassy in Paris and refused to speak to French police, and Paris—noting that Gordji had no diplomatic immunity—would not let him leave the country. In retaliation, Tehran accused Paul Torri, France's First Secretary in Iran, of various crimes. Nine French diplomats became virtual hostages in their embassy in Teheran, and a standoff ensued. In London, meanwhile, an assassination attempt on a leading Iranian opposition figure strained ten-

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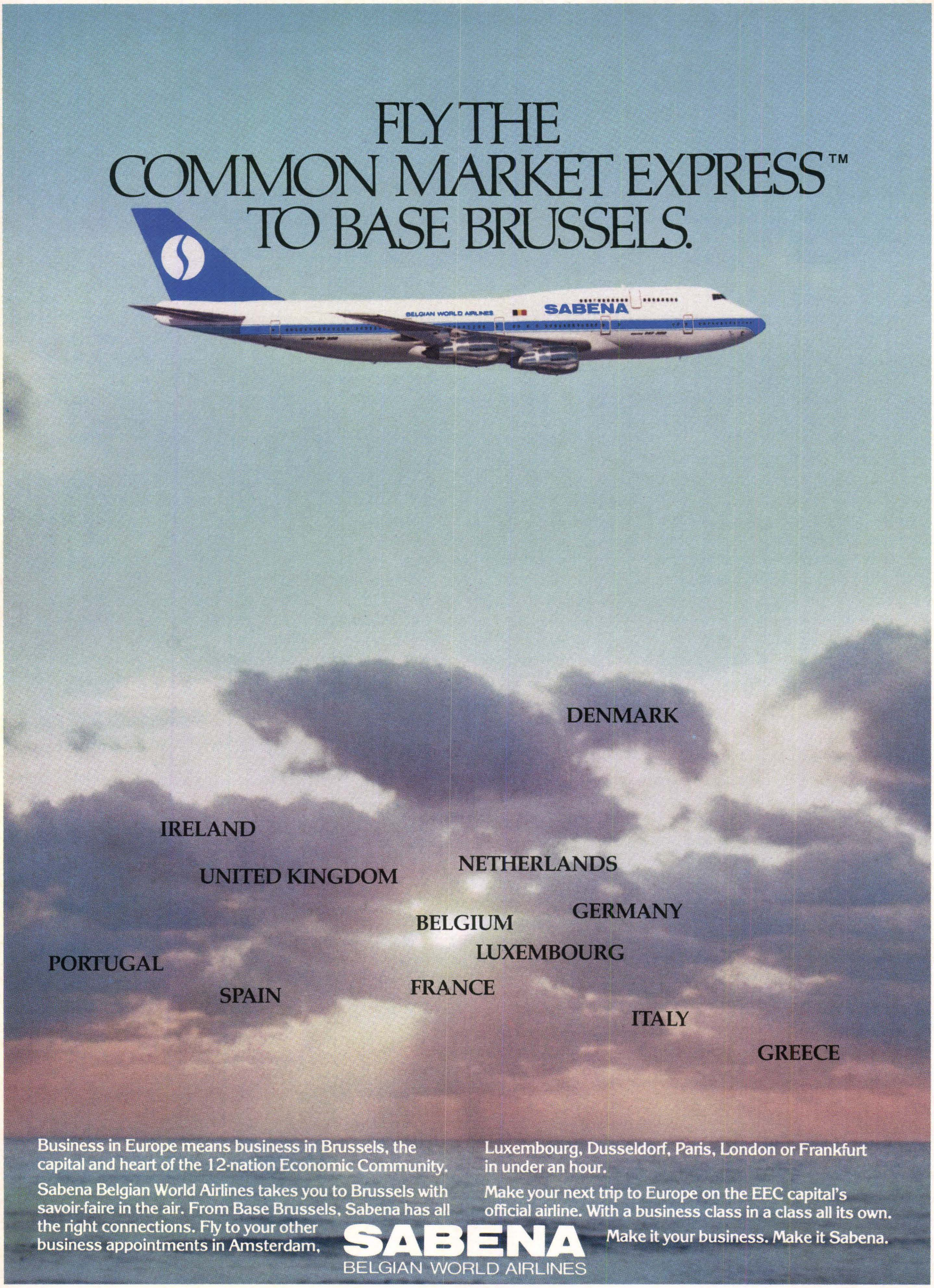

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"SINGLE EUROPEAN ACT:" BLUEPRINT FOR COOPERATION

TREATY REFORM CHANGES THE WAY THE E.C. DOES BUSINESS

QUENTIN PEEL

Slowly and somewhat unsurely, all the players in the European Community are learning to live with something called the Single European Act, or SEA. It is a misleading name, for it covers a multitude of sins. It is deceptively simple-sounding, for the document in question is complex and hard to understand.

For a 20-page text couched in obscure legal jargon, it has aroused remarkable passions, precipitating two national referenda—in Denmark and Ireland—and all sorts of accusations of loss of national sovereignty, before being finally ratified by all 12 national parliaments in the Community. It was supposed to come into effect on January 1, 1987, but only finally limped into being on July 1 when the Irish Supreme Court gave its blessing.

Yet already it is cropping up in E.C. affairs on every front: in discussions of foreign policy and East-West relations, in deciding what happens to Turkey's application for membership in the club, in settling the thorny question of clean-air standards for automobile emissions, or in pushing ahead the process of deregulating air transport in Europe. Nobody yet knows if it is going to make the E.C. more or less efficient, more or less influential in international affairs, more or less democratic in its internal operations. That is still to be seen.

The Single Act, conceived in adversity and negotiated with—for the E.C.—considerable speed (it took just six months), amounts to the first major constitutional reform of the E.C. since the founding Treaty of Rome was signed more than 30 years ago. It was born out of the coincidence of two circumstances: the five years of stagnation, from 1979-84, caused by the British demand for a budget renegotiation with its fellow member states; and the expansion of the E.C. from 10 members to 12, with the accession of Spain and Portugal on January 1, 1986.

On the one hand, the leaders of the E.C. were desperate to revive and to revitalize the body, to "relaunch" the E.C., in the words of Jacques Delors, the President of the E.C. Commission. On the other hand, they were conscious that the imminent membership of Spain and Portugal, on top of that of Greece in 1981, could turn the already cumbersome decision-making process into permanent semi-deadlock.

The Act they negotiated has four main aims. At its heart is the ambition to streamline the decision-making process. It also attempts to make the system more democratic, making it possible for the 12 E.C. member states to decide many more issues—especially those to do with removing national barriers to cross-border trade—by majority voting, instead of requiring unanimity. At the same time, it allows the European Parliament, directly elected every five years, more influence on the decisions taken.

Those two ambitions may already be in conflict: The majority voting in the E.C. Council of Ministers, where the member states thrash out their differences, should make the legislative process swifter. The need to allow the Parliament more say—even if it stops short of allowing its members a genuine power of co-decision-making—seems certain to make it more difficult again.

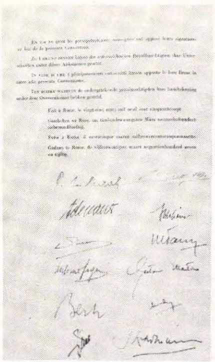
The other two aims of the Act expand the role of the E.C. into new fields. In its traditional economic role, the members have now formally given it responsibility in areas such as environmental policy, technological research and development, monetary policy, social legislation and regional policy—promoting the economically poorest regions. All were on the agenda before, but without any proper

Quentin Peel is the Brussels bureau chief of the *Financial Times.*

basis in the Treaty of Rome. At the same time, they have formalized their growing political relationship in coordinating foreign policies across the full range of international affairs—from East-West relations through the Middle East, to thorny issues such as southern Africa, human rights and the like.

The whole exercise has been a fine balance in transferring a few more areas of traditional national sovereignty to the fledgling institutions in Brussels. The process is hedged about with conditions, as national capitals keep all sorts of ways of blocking it. The ambition is nonetheless to reinforce the power of Brussels at the expense of national authority.

The desire to reform the Treaty of Rome was inspired by the members of the European Parliament, led by dedicated European federalists like the late Altiero Spinelli. They were almost universally disappointed with the result that finally emerged from the Luxembourg summit of E.C. leaders in December 1985. On the other hand, there was a strong backlash in several member states. In Denmark, anti-E.C. campaigners forced a referendum, arguing that the Single Act changed the nature of the E.C. from a purely economic animal to one with a clear political dimension. They also objected to any increase in the powers of the European Parliament, even if highly circumscribed. But they lost the referendum. In Ireland, the strong neutral lobby saw the Act as an erosion of the Constitution, because it allowed the E.C. to discuss and coordinate positions on the "political and economic aspects of security." They, too, forced a referendum, only to suffer a similar defeat as the Danish protesters.



The Treaties of Rome establishing the European Economic Community and Euratom were signed by the six original E.C. member states on March 25, 1957.

Even while the Act was still under negotiation, it was the newer member states—the United Kingdom, Denmark, Ireland and Greece—which worried the most about loss of national sovereignty. France and the Federal Republic of Germany prevaricated in the middle of the European spectrum. Only Belgium, Luxembourg, Italy and the Netherlands proved consistently keen to boost the powers of the European institutions at their own expense.

So what of the outcome? How much power has really been transferred to Brussels and to the Parliament? Will it streamline the E.C.? Will it be more democratic? In specific terms, will the Single Act make it easier to remove all the remaining barriers to the creation of a genuine Common Market in Europe—the original ambition of the Treaty of Rome? Will it strengthen the foreign-policy coordination of the member states and give them greater combined influence in world affairs?

Then there is the whole question of finance—the bugbear of E.C. progress for the past decade or more. Delors has presented a whole package of proposed budget reforms under the title of "Making a Success of the Single Act." They are currently the subject of agonizing negotiations that are supposed to be completed by December—but that show every indication of lasting far longer.

All those questions will inevitably take years to answer, not months. So far, most of the signals are merely confusing. At the heart of the Single Act is a new article inserted into the Treaty of Rome, Article 100A. It is the key reform affecting decisions to scrap internal trade barriers—national standards for differing products,

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administrative checks and systems that disrupt cross-border traffic and the like. Whereas under the old treaty, any move to adopt common regulations and remove border barriers had to be unanimous, the new Act makes them a matter for majority voting.

Majority voting in itself, E.C. style, is not entirely straightforward. It means voting according to what is known as a qualified majority, under which each member state is assigned a given number of votes according to its size. Thus the big four—the Federal Republic of Germany, France, Italy and the United Kingdom—have 10 votes each, whereas the smallest member, Luxembourg, has only two. Any decision must be taken with at least 54 votes out of a total of 76, which means that it takes an alliance of at least two large members and one smaller one, or a bigger combination of smaller members, to block any decision.

There are, however, considerable loopholes left in the new system. One of the largest is the exclusion of any changes in tax laws from majority voting. That means that radical proposals by the Commission to bring all indirect taxation in the E.C. roughly into line and to do away with tax checks at frontiers can easily be blocked by a solitary member state.

More ambiguous are the loopholes built in by the United Kingdom, Ireland and Denmark when the Act was negotiated to protect their national laws on health, safety and environmental protection. They mean that any E.C. member state can plead one of those reasons for imposing different national legislation from the E.C. norm, if it can then prove that it is not "a means of arbitrary discrimination or a disguised restriction on trade."

The purpose was to allow the United Kingdom and Ireland, for example, to maintain their health checks for rabies and other diseases, and for Denmark to maintain higher standards for environmental and consumer protection. Already the system is being put to the test. Common standards for car-exhaust fumes in the E.C.—requiring massive investment in the automobile industry, but falling short of the U.S. standards—were blocked by Denmark under the old rules of unanimity as being too lax. As soon as the Single Act came in, Denmark allowed itself to be outvoted, but made it clear it plans to impose stricter standards at home. They seem certain to be challenged by automobile manufacturers in other member states—and the European Court of Justice will almost certainly have to decide whether it is a trade barrier or a permissible loophole.

The fact that the Single Act will still allow such apparent barriers to an entirely free market is causing some concern in European industrial circles, which fear that it could end up being more protectionist than the system hitherto. The second major area of doubt is just what the Act will do for the power and influence of the European Parliament.

The new system provides for what is called a "cooperation procedure" between the hitherto almost all-powerful E.C. Council of Ministers and the largely toothless Parliament. The latter's only real powers before were over the annual budget—in itself not insignificant—and in being able to refuse to give its legal opinion, and thereby block legislation it did not like.

Since July, the Parliament has had the power to amend Council proposals at a second reading, after which, if the amendments are accepted by the Commission, the Council must be unanimous to reject. It is a power that remains essentially negative, but it is already being taken quite seriously. For example, if the Parliament were to amend the Council's proposals on car-exhaust fumes along the lines favored by Denmark—that is, by inserting the full U.S. standards—then the Council could once again be blocked in its efforts to agree on lower standards. In the middle, the Commission would be put in the embarrassing position of having to choose between the Parliament and the Council.

Christopher Prout, the British Conservative leader of the European Democratic group in the Parliament, and the author of the Parliament's opinion on the Single Act, believes the power could prove quite substantial. "The rather clumsily drafted text of the Single European Act has given more power to the Parliament than the member states intended," he says. "Indeed, what the Parliament now lacks is not power but clear evidence of the political will to use it."

In order to pass the necessary amendments, the Parliament does have to muster an absolute majority of its members—260—which it cannot do with the center-right or center-left blocks alone. Only a political consensus of the 518 members, representing 12 nationalities, eight political groups, more than 80 national parties and speaking nine languages, can succeed. So that is certainly more easily said than done.

Another clear power given the Parliament, however, is the right to vote on any new membership application to join the E.C. In the case of Turkey, for example, an absolute majority of the Parliament must vote in favor, which would certainly be no foregone conclusion without a complete return of democracy in that country. Indeed the first power of the Parliament under the Single Act, exercised in September, was a vote on extending the association agreements with North African countries to include the new E.C. member states, Spain and Portugal. That was really a foregone conclusion.

The Act means that suddenly all the other institutions—as well as the press and industrial lobbyists—are having to pay more attention to the parliamentary process, in committee as well as in the plenary sessions. Even if the final say remains with the Council of Ministers, the opinion of the Parliament matters.

The third area of uncertainty concerns just what the reinforcement of political cooperation between the 12 member states will amount to. On paper, the Single Act merely sets down a process of consultation that was already operating. It goes one important step further in establishing a small permanent secretariat in Brussels—separate from both the Council's secretariat and the Commission—to service the procedure, mainly by providing paperwork and oiling the administrative machinery.

On the sensitive question of including defense and security topics, the Act goes no further than previous practice. Due to Ireland's strict neutrality, only the "political and economic aspects" of security can be discussed. Yet the very fact that the Irish Government held and won a referendum on the Act has liberated some of those constraints.

At the last informal Foreign Ministers' meeting in Denmark, Uffe Ellemann-Jensen, the Danish Foreign Minister currently holding the six-month, rotating presidency of the E.C., announced quite calmly that they had discussed Mikhail Gorbachev's latest speech on disarmament, and only thought to add as an afterthought "or at least, the political and economic aspects of it." The distinction is frequently illusory.

Indeed, the very fact that political cooperation is now written into the Treaty of Rome, courtesy of the Single Act, seems certain to reinforce the whole process. It is still an inter-governmental exercise, rather than one in which the other European institutions have a say, yet it is slowly but surely becoming a normal part of E.C. life.

That is really also the best that can be said about the Single Act as a whole: It is clumsy, difficult to understand, a negotiated compromise between national and European interests. But it is now a fact of E.C. life, and, as such people will get used to it and learn to live with it. €

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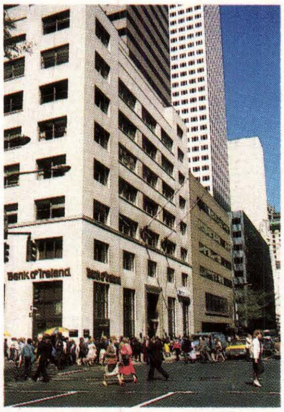

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The Irish economy has performed poorly during the 1980s. During the first few years of the decade, the blame could be laid at the door of world recession, but, since then, the world economy has recovered, oil prices have fallen and interest rates are down. Despite repeated promises of an upturn, the economy still languishes in a vicious circle of low growth, high government debt and endemic unemployment. Private consumption in 1986 was only 97 percent of its 1980 level. Gross national product (GNP) too has fallen in real terms and investment has dropped a full 14 percent between 1980 and 1986. The mood of the country has become anxious. However, the determined approach of Prime Minister Charles Haughey's new Government to the public finances, evidenced in deeds as well as words, has done something to raise morale and bodes well for the future.

The problems of budgetary deficits and the debt overhang have dominated discussion of the economy. As a result of an accumulation of deficits during the past decade, total public debt has reached a record 140 percent of GNP. Much of the money has been borrowed from foreign banks. The public sector's foreign debt of $15.6 billion at end-1986 reflects a chilling debt/GNP ratio of 70 percent. Moreover, the debt is still growing. In 1986, the Treasury borrowed a further $2.8 billion, equivalent to 13 percent of GNP.

Efforts have been made to reduce the deficit by increased taxation, but they have proved to be of limited effectiveness. The international climate of opinion is decisively against higher taxes, and a country as small and open as Ireland cannot ignore this fact. Ireland's highest marginal tax rate is 58-percent, not inherently unreasonable, but it comes into effect at comparatively modest income levels. Thus, a middle-class couple earning $45,000 could expect to face an income tax bill of $18,000. A single person could find himself in the 58-percent bracket with an income of $14,000, marginally above the industrial earnings average. Leakages through tax avoidance schemes and through the black economy are, inevitably, encouraged. Likewise, additions to indirect taxes are subject to rapidly diminishing returns given the ease of movement between Northern Ireland and the Republic. Thus higher taxation, introduced as a solution to the problem of the public finances in the early 1980s, has now become itself a major problem.

Unemployment has risen to 19 percent of the work force. It is hard to imagine that five years ago an unemployment rate of 8 percent was regarded as intolerable. Demographic factors explain the large number of young people entering the labor market every year, but they do not explain why demand for workers is so weak. For this, Irish economists have tended to point to inflexibility in the labor market. Hourly earnings have risen by 15 percent relative to major trading partners since 1981. The tax-wedge—that is, the difference between labor cost to the employer and net of tax income received by the employee—has widened. Nominal wages have been, in other words, at best only mildly responsive to the level of unemployment.

Also relevant is the fact that social welfare payments in Ireland are generous in relation to the nation's resources. Figures issued last year by the Minister of Finance, for instance, showed that welfare benefits were in many cases higher in the Republic than in Britain, despite the latter's per-capita GNP being one-third higher than Ireland's. Poor job prospects have affected the young with particular severity. Emigration is now running at 30,000 per year, most of it to Anglophone countries such as Britain, the United States and Australia.

High debt, high taxes and unemployment, on the law of averages, would tend to be associated with high inflation and a large balance-of-payments deficit. This association, fortunately, is not true of Ireland. In fact, inflation at 3 percent per year is close to the E.C. average and significantly below the U.S. level. Maintenance of a stable exchange-rate position within the European Monetary System has helped to bring this about. Although the Irish pound was devalued by 8 percent relative to the European Currency Unit in August 1986, the subsequent weakening in sterling and the dollar has resulted in the pound's effective exchange rate being maintained in value. Indeed the nominal effective exchange rate has risen by 7 percent since early 1985. All this is good for inflation (although not good for Irish cost competitiveness).

Together with lower inflation has come a decisive improvement in the balance of payments. The 1987 current-account deficit is estimated by the central bank to fall to $280 million or 1 percent of GNP, a dramatic decline from its 15 percent of GNP level a few years ago. The Irish economy now in fact enjoys the unusual position of running a large merchandise trade surplus of $1.4 billion. E.C. transfers bring in a further $1.1 billion of foreign exchange. These and other items combined are just about sufficient to cover foreign-exchange outgoings in the form of interest on foreign borrowing and profit repatriation by subsidiaries of overseas companies. Hence Ireland has not run into problems with financing its foreign-exchange liabilities. Overseas bankers, undeterred by the debt statistics, are still willing to lend to the government at the keenest rates.

Easy access to debt finance, however, could not be expected to last indefinitely. A report published in 1986 by the Na-

Dermot McAleese is a professor of political economy at Trinity College in Dublin.

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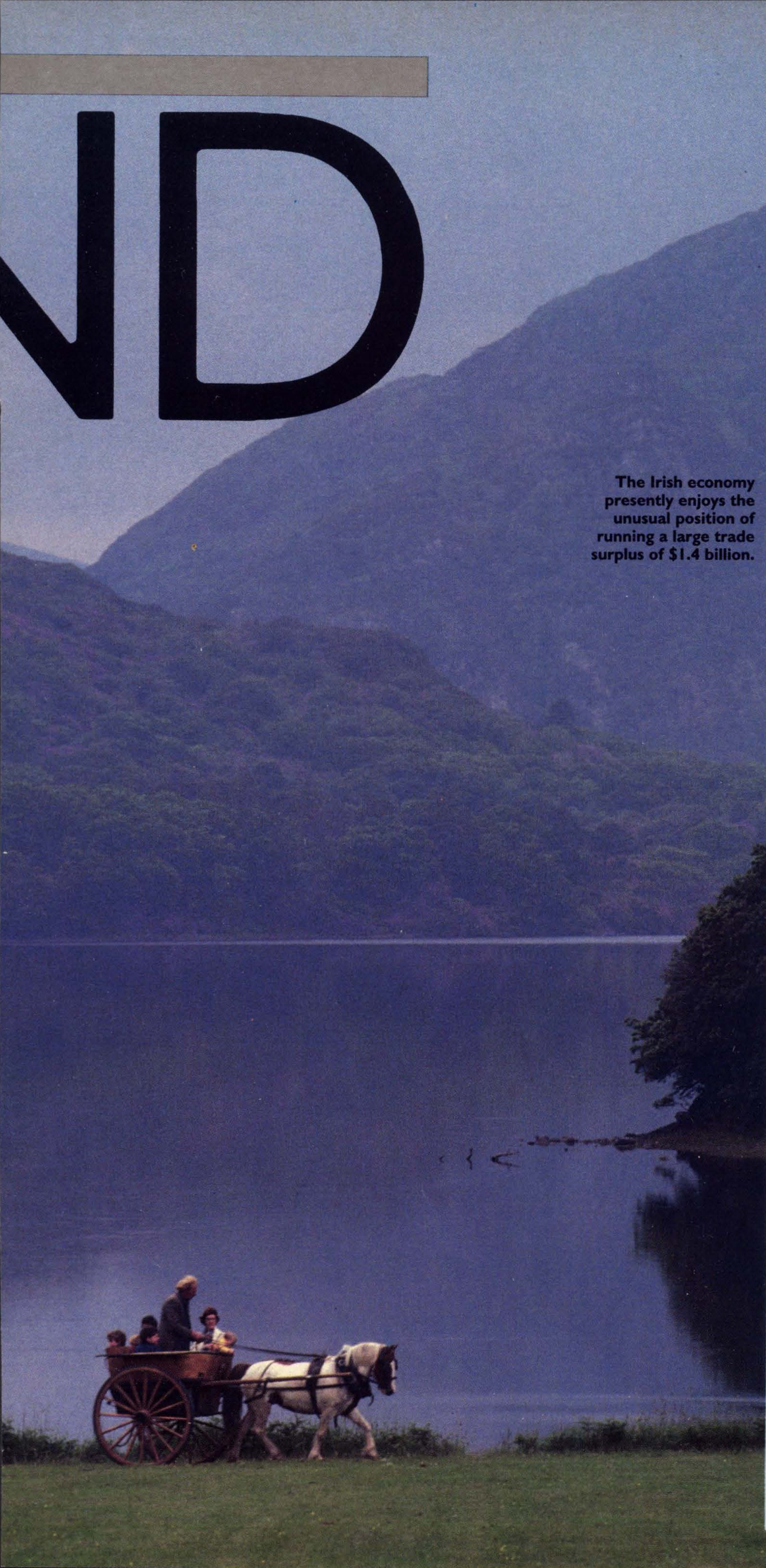


The Irish economy presently enjoys the unusual position of running a large trade surplus of $1.4 billion.

tional Economic and Social Council, *Strategy for Development 1986-1990,* explained just how tenuous the position had become. The report charted the alarming rise in the debt/GNP ratio and concluded that neither faster growth nor any external *deus ex machina* was likely on their own to restore the financial position to a sustainable level. Far-reaching changes in domestic policy would also be needed.

The report presented a timely and comprehensive analysis of Ireland's economic ills. The fact that it emanated from a council representative of the major interest groups in Irish society (including of course the unions) gave it real weight. Significantly, the report's message appears to have won acceptance by the new Fianna Fail Government, despite pre-election predictions to the contrary.

Although less than a year in power, the Government has taken significant steps to rescue the economy. Economic policy is being directed toward three targets:

- restoration of balance in the public sector's finances;
- restructuring incentives to the private sector so as to increase growth and reduce unemployment; and
- reform of the tax system.

The 1987 budget provided for a cut of two percentage points in the Treasury borrowing requirement. Numbers employed in the public service are to be reduced, severe restrictions on pay have been imposed, hospitals have been closed, and some state agencies have been abolished. Charges are being increased and/or introduced for many government services and a major shakeup is occurring in the state-owned enterprises. Further restrictive budgets are promised next year and beyond.

Initial reaction to these cutbacks has been encouragingly supportive. Many Irish people feel glad that decisive action is being taken—while fervently praying that the ax of retrenchment will not fall on them personally. Even more encouraging has been the support for Alan Dukes, leader of the main opposition party in succession to Garret FitzGerald, for the Government's fiscal measures. This far-sighted display of bipartisanship will be very useful in enhancing the effectiveness of the strategy.

National confidence has been further boosted by the conclusive two-to-one referendum vote in favor of the Single European Act (SEA). The referendum debate attached more than its normal share of cranks and red herrings but, in the last analysis, the "yes" vote indicated a conviction that Ireland's future lay within a strengthened European Community.

Getting the overall budgetary position

in order will be a long haul. Even the harsh 1987 budget could only reduce Treasury borrowing to 11 percent of GNP, a level that is way above the E.C. average and is unsustainable. A series of tough budgets will be needed. In the meantime, how to induce the private sector to take up the slack left by the withdrawal of public-sector expenditure? For, without some response from the private sector, cutbacks in expenditure alone could prove self-defeating.

One obvious possibility is to restore incentives to the private sector by tax reform and deregulation. Steps to widen the tax base—e.g. by charging a value-added tax on food and children's clothing and/or by introducing a more effective property tax—and to improve collection procedures can be expected. In this way, some room may be created for reducing the tax burden on people with modest incomes and for moderating the widespread sense of dissatisfaction with the tax system. The non-indexation of the income tax bands in this year's budget, however, means that the tax burden is likely to get heavier before it gets lighter.

Some growth impetus also can be expected from the industrial sector. Despite its domestic economic problems, Ireland still remains an attractive location for foreign investment. The European Management Forum's 1986 World Competitiveness Report ranked Ireland as first among the 24 Organization of Economic Cooperation Development (OECD) countries on terms of welcoming foreign investments and second after the Federal Republic of Germany on "the extent to which a foreign investor can rely on government pledges for facilities." In a recent survey of 471 U.S. electronics companies, the Irish Republic was voted second most suitable European investment location. The inflow of new projects is, of course, much below the levels reached a decade ago, reflecting the decline in overseas investment by U.S. firms. Ireland's share of U.S. investment abroad has held up well and major initiatives are being taken to attract new industries and joint ventures from the Far East. The Industrial Development Authority has opened an office in Seoul and is extending its facilities in Japan.

In addition to foreign investment, continuing efforts are being made to encourage more indigenous activity. Venture-capital schemes, tax incentives to small enterprises and grants for technology acquisition are part of a continuing package of incentives. Maintaining the competitiveness of the economy will be very important if indigenous firms are to expand their Irish operations. In recent years, the more successful ones have grown via external acquisitions rather than by domestic employment creation and exports from Ireland. The restoration of confidence in the economy's future will lead, it is hoped, to increased investment. A 4-percent growth rate in manufacturing output is estimated for 1987. Industrial exports meanwhile are expected to recover strongly to a growth rate of 9 percent this year, with every prospect of further growth in the years ahead.

The services sector also is being focused on as a source of growth. Tourism has performed much better than last year with the return of U.S. visitors (despite the weaker dollar) and the reappearance of sunshine in Irish summers! The decline in air fares following the introduction of more competition into Aer Lingus routes has made travel to Ireland less expensive—the Dublin-London ticket, for example, has fallen to about half its level a few years ago. Competition also has led to reduction in transport costs within the country. Exports of consultancy services have grown and a financial services center is being planned for Dublin (see page 36.) The appearance of a developing financial services sector could be an appropriate companion to a strong commitment to restore balance in the public finances.

Given Ireland's heavy dependence on dairy products and beef, it is harder to see opportunities for development in agriculture. Milk output is expected to fall by 2 percent in 1987 in response to a substantial cutback in the national quota. Agriculture prices are likely to remain depressed as the E.C. tries to reduce its food surpluses. Indeed, a fortunate combination of better weather, green pound adjustments and lower input prices is expected to raise farm incomes by 9 percent in 1987.

Taking a longer view, it is clear that emphasis must shift from output quantity to higher quality food output. The development of policies toward greater economic and social cohesion as promised in the SEA also impinges strongly on Irish farmers. FEOGA grants per farmer in 1984 were twice to three times higher for Dutch, British and Danish farmers than for Irish farmers. Over the period 1977-85, real prices received by Irish farmers fell by 32 percent. This contrasts with an E.C.-9 average decline of 20 percent. While accepting that further agricultural reform is needed, the Irish Government has made the point that the burden of adjustment should fall as far as possible on those most able to bear it.

The SEA, with its promise of a Europe without physical frontier controls and an integrated market by 1992, portends a dramatic change in the business and investment climate of the Community. On balance, the effects should be favorable for the Irish economy. First, to the extent that the SEA will improve the Community's overall economic performance, opportunities arise for a trickle-down effect to the periphery. A more prosperous Europe does not guarantee a more prosperous Ireland, but it offers a more hopeful prospect than that from a fractured and slow-growing Europe.

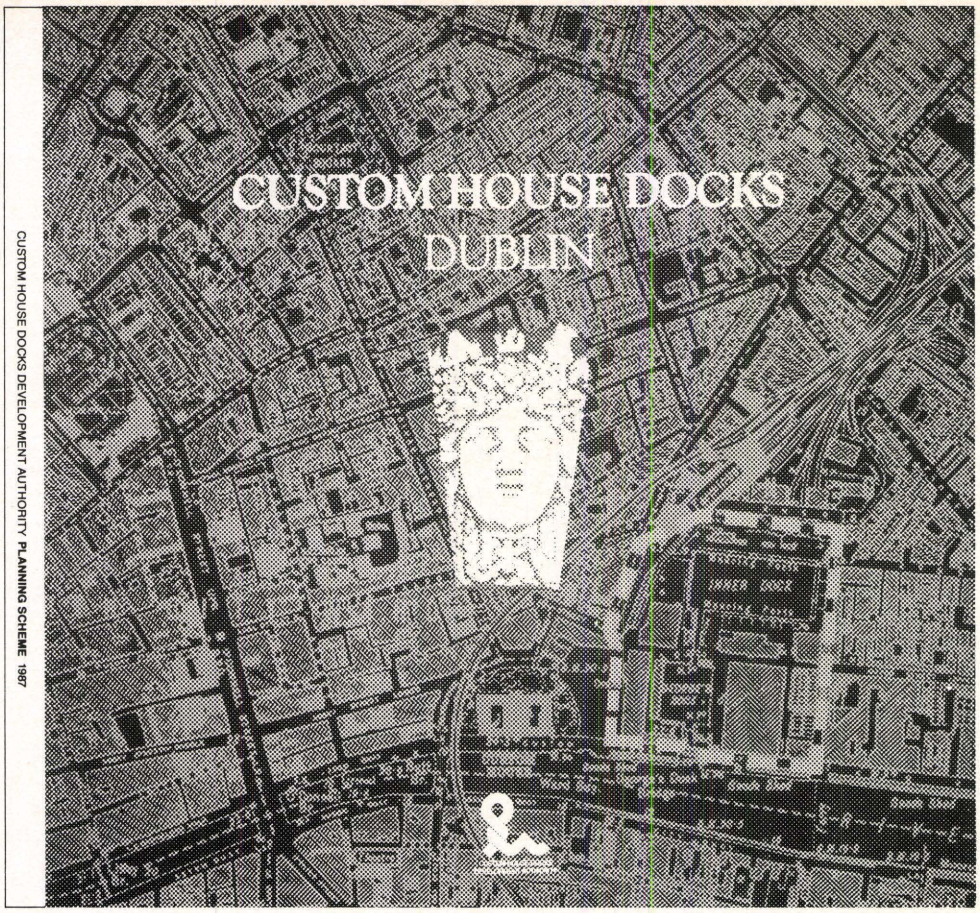
Second, removal of technical barriers, restrictive government procurement practices and trade frontiers will make it easier to export. Multinational subsidiaries will clearly benefit, but so will indigenous companies. At present, the latter sell only one-eighth of their exports to continental Europe compared with one-half in the case of the Irish-located multinationals. Non-tariff barriers play a role in explaining this low degree of penetration by indigenous firms, albeit only a minor role. The industrial sectors most likely to benefit are chemicals, health care, electronics, engineering products and food-processing.

Third, as a small trade-oriented economy, Ireland will tend to gain disproportionately from the decline in the transaction cost of trade attendant upon the removal of frontier controls, simplification of trade documentation and such.

However, every move toward economic integration brings threats as well as promises. Since Ireland has resorted far less to non-tariff barriers than other countries, we expect little extra import penetration to occur on the industrial side. Certain parts of the financial sector—notably non-life insurance and the building societies—will face severe competition from larger E.C. enterprises. On the other hand—and there always is another hand where trade is being liberalized—opportunities for Ireland's fledgling financial services export industry to develop will have opened up.

There also will be some difficulties as a result of indirect tax harmonization. Ireland's alcohol taxes are one of the highest of the E.C., and excise taxes account for proportionately more revenue than any other E.C. member state. The provisions of the SEA, however, give the Irish Government ample scope for insisting on its concerns being taken into account. More generally, the clear commitment of Art. 130A that "the Community shall aim at reducing disparities between the various regions" and "shall develop actions leading to the strengthening of economic and social cohesion" offers assurance that,

Continued on page 47.



A UNIQUE DEVELOPMENT OPPORTUNITY IN THE HEART OF DUBLIN

The Custom House Docks Development Authority is a new agency appointed for the regeneration of the Custom House Docks Area in Dublin's heartland on the north bank of the River Liffey.

This Area has a fine historic ambience dating back to the early nineteenth century with two interlinked dock basins and warehouses from the same period.

Prospective end-users are invited to participate in the most exciting development to take place in Dublin for centuries. A Planning Scheme which sets out the manner in which the site should be redeveloped has already been published.

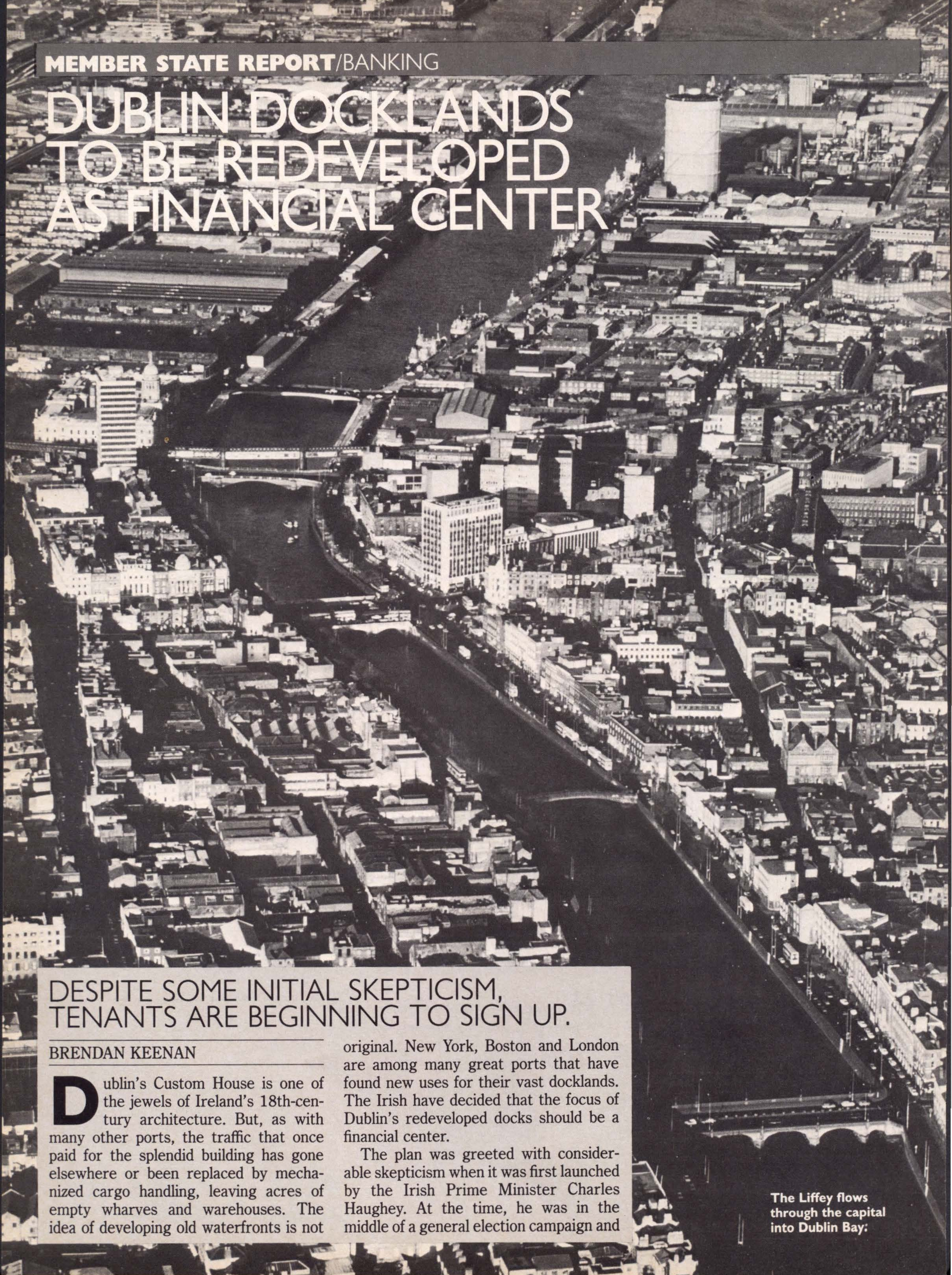
A unique package of tax incentives apply, and are intended to create an attractive financial climate for the large-scale investment required.

The Government have also authorised the setting up within the Area of an International Financial Services Centre and are providing for additional tax incentives to encourage financial service industries to locate on the site. This Centre will provide an important flagship element in the overall development of the Area. The Custom House Docks Development Authority invites proposals from interested end-users. The Authority will provide interested parties with all relevant information concerning the development.

Please contact: The Secretary, Custom House Docks Development Authority, Floor 1, Block 7, Irish Life Centre, Lower Abbey Street, Dublin 1, Ireland. Telephone: (01) 788699. Fax: (01) 788528.

THE MOST EXCITING DOCKLAND DEVELOPMENT THIS CENTURY

DUBLIN DOCKLANDS TO BE REDEVELOPED AS FINANCIAL CENTER



The Liffey flows through the capital into Dublin Bay:

DESPITE SOME INITIAL SKEPTICISM, TENANTS ARE BEGINNING TO SIGN UP.

BRENDAN KEENAN

Dublin's Custom House is one of the jewels of Ireland's 18th-century architecture. But, as with many other ports, the traffic that once paid for the splendid building has gone elsewhere or been replaced by mechanized cargo handling, leaving acres of empty wharves and warehouses. The idea of developing old waterfronts is not original. New York, Boston and London are among many great ports that have found new uses for their vast docklands. The Irish have decided that the focus of Dublin's redeveloped docks should be a financial center.

The plan was greeted with considerable skepticism when it was first launched by the Irish Prime Minister Charles Haughey. At the time, he was in the middle of a general election campaign and everyone knows about politicians' election programs. And Ireland, although it has a significant amount of multinational companies manufacturing in the country, has no track record as a financial center.

The election was only nine months ago. Haughey took office with a minority Government, but has moved with such speed on the Custom House scheme that even the skeptics are now beginning to think the thing might work. Tenders for the $300-million development contracts are about to be awarded. That was the easy part, with eight consortia, including a Boston-based company, competing for the contract and the income- and property-tax reliefs that they will enjoy on the rent from the buildings.

But the tenants are beginning to show up as well. The scheme got its biggest boost so far when a major European bank, the Belgian Kredietbank, applied for a license to operate out of the center. The world's biggest bank, U.S. Citicorp, will also be involved indirectly, as a shareholder in the Gandon Group, a company specially formed to trade in the center. There are hopes that Citicorp might also set up shop in its own right.

Dermot Desmone is the man most often credited with devising the idea of the center and persuading Haughey to take it up. He built his National City Brokers into Dublin's second largest stockbroking firm in just five years. He also used the experience gained in the dealing rooms to develop an internationally successful rang of computer "courseware" to train budding dealers.

Irish financial institutions are already showing keen interest in the site. The two biggest banks, Allied Irish and Bank of Ireland, both have plans to move some of their foreign operations to the center. But therein lies one of the potential snags in the plan.

There is no doubt that what is fueling the Custom House scheme is the generous tax incentives being offered to firms that establish there—especially the 10-percent corporate tax rate. "It was quite a coup getting the E.C. to approve the 10-percent rate," says Paddy McEvoy, chief executive of Kredietbank's Irish subsidiary. The E.C. Commission's approval had to be sought because E.C. policy is to move toward single tax rates in the E.C., but exceptions are made to encourage development in the less prosperous regions, like Ireland.

The normal rate of corporate tax on financial institutions in Ireland is 50 percent. The fear is that Irish firms moving operations to the Custom House will simply be reducing their tax rate with no corresponding advantage to the community. Jim Farrel, chief executive of Citicorp's Dublin subsidiary, disagrees. "The true rate the banks pay after various tax breaks is probably nearer to 10 percent anyway," he says, arguing that any loss of revenue will be more than compensated by the increase in business generated by the center.

Everyone agrees that what is really needed for success is a mixture of foreign and Irish companies in the site. Ireland's Industrial Development Authority is paying particular attention to Japan and Hong Kong. The feeling is that the arrival of a leading bank or security house from the Far East would set the seal of success on the scheme. Industry Minister Albert Reynolds plans a tour of the region to drum up support. He sees Hong Kong as an especially promising area because of the political uncertainty of its future.

Behind all the plans is the need to create more jobs in a country where 250,000 people, almost 20 percent of the work force, are unemployed, despite emigration of 30,000 a year. The ultimate target of 7,000 jobs in the Custom House site may seem tiny in comparison, but the boost to national confidence if it succeeds would be incalculable. €

Brendan Keenan is financial editor of the *Irish Independent*.

TOWNSCAPES OF EUROPE

EXHIBITION TRACES DEVELOPMENT OF SQUARES, MARKETPLACES AND PIAZZAS.

The Grand'Place in Brussels, the Belgian capital.

The history and development of European town squares, marketplaces and *piazzas* from antiquity to the present are traced in an exhibition entitled "Townscapes of Europe" exhibition that opens November 5 at the American Institute of Architects headquarters in Washington, D.C.

Each of the 12 countries that make up the European Community are represented in the work of more than a dozen photographers. Exhibit panels featuring visuals and text give glimpses of the town square in the Greek, Roman and Medieval traditions; in the Gothic, Renaissance and Baroque periods; in Neo-Classical and 19th-century planning; and in 20th-century urban design. The cultural, social and political importance of the town square is portrayed by a series of selected architectural subjects—some familiar sites, such as the Champs-Elysées in Paris, and lesser known centers of community life, such as the local marketplace or *piazza*.

"Townscapes of Europe" began its international tour at the Georges Pompidou Center in Paris. The exhibition was initiated by the center and produced in cooperation with the E.C. and the Italian Touring Club of Milan. The exhibition is concurrently showing in locations around the world: Australia, New Zealand, Turkey, South America and the United States. The exhibition's first showing in the United States—last March at Chicago's Richard Daley Civic Center—attracted over 13,000 people.

Throughout history, cathedrals and city halls have been integral to the design of many town squares, serving as focal points for religion and politics. For example, the Platia Sintagma (Constitution Square) in Greece is the venue for most major political rallies in Athens. Platia Sintagma encloses a large public garden and slopes gently downhill from the esplanade of the former royal palace, which is now the national parliament.

Town squares have seen the burning of heretics and have echoed to the sound of gunfire. People flock to the square to celebrate victories, mourn heroes or start revolutions. During the French Revolution, for instance, the Place de la Concorde in Paris was the site of the guillotine and was known then as the "Place de la Révolution."

There are several cases where the influence of European town planning can be seen in America. The oldest section of New Orleans, known as the "Vieux Carré," was based on the European fortress style first developed by the Italians in the Renaissance and subsequently taken up by the rest of Europe in the 17th and 18th centuries. And one of the most unique residential squares in the United States, Boston's Louisburg Square, had English precedents, visible especially in the garden square developed in London during the 18th century.

The exhibition of photographs and watercolor plans will be on view weekdays from 8:30 A.M. to 5 P.M. at 1735 New York Avenue, N.W. until January 5, 1988.

To schedule a showing of the exhibition, contact: Sandra Auman; European Community Information Service; 2100 M Street, N.W., 7th Floor; Washington, D.C. 20037; tel. (202) 862-9500.

SPEAKING EUROPEAN

A POCKET GUIDE TO EURO-NEOLOGISMS.*

STEPHEN BROOKES

*neologism **1:** a word, usage or expression that is often disapproved because of its newness or barbarousness. **2:** a meaningless word coined by a psychotic.

In the early days of European integration, when the world was young and guaranteed food surpluses were only a dream, commentators on the European scene found themselves stymied by the lack of an adequate vocabulary to describe the vast social transformation that was getting underway. Treaties had been signed and something was happening, but no one could say exactly what, for in drawing up the Community's blueprint the Founding Fathers had neglected to include a dictionary.

Historians concur that disaster was averted by the quick thinking of European writers (and their subspecies, journalists) who undertook to forge a new language that could grasp the subtleties and plumb the depths of the new European Community. They met the challenge with their customary élan. The beauty of the solution was, of course, in its simplicity: merely by adding the prefix "Euro-" to any word, that word could be invested with a new meaning. Worlds of opportunity opened to headline writers.

The rest, of course, is history. Europessimism continues to vie with Euro-optimism for supremacy, Euro-missiles are bandied about like popcorn and Eurocrats speak Euro-jargon to this day. What follows are a few recent examples of this linguistic enrichment, culled from the pages of prominent European and American newspapers and magazines. We've supplied our own definitions.

• ***Euro-babble:*** The clear, concise and eminently sensible language that the E.C. bureaucracy uses to talk to itself. Comes in nine official dialects. "In the European Parliament, ***Euro-babble*** can turn to ***Euro-Babel.***" *The Economist,* July 18, 1987.

• ***Euro-blood:*** The stuff that flows in Euro-veins. "As far as the creation of a real common market is concerned, it remains to be seen whether the signing and eventual ratification of the SEA will prove to be an irreversible conclusion of the period of stagnation that has characterized the Community since 1966, or just a temporary rush of ***"Euro-blood"*** to the head." 1987 booklet put out by the Belgian Chamber of Commerce.

• ***Euro-con:*** Any event staged more for its public relations value than any actual usefulness. "Time to scrap the ***Euro-con.***" Headline to article by Simon Jenkins on the Community summit meeting in Brussels last June. London *Sunday Times,* July 5, 1987.

• ***Euro-crats:*** The anonymous hewers-of-wood and carriers-of-water who toil in the Community's bureaucracy. "All Brussels' ***Euro-crats*** speak French or English, although this is not a formal requirement." *The Economist,* July 18, 1987.

• ***Euro-enthusiasm:*** New phenomenon starting to supplant the popular Euro-apathy of recent years. "A passionate display of ***Euro-enthusiasm*** upstaged the predictable and largely nationalistic bickering of E.C. Heads of State as the European summit got underway in Brussels yesterday. Hordes of ***Euro-fanatics*** descended on the Charlemagne building just after lunchtime making their presence felt with placards calling for a 'United States of Europe' and throwing water 'bombs' constructed from balloons commemorating the 30th anniversary of the Treaty of Rome. The leader of the Italian radical party, Mr. Marco Panella—a member of the European Parliament and a super ***Euro-enthusiast***—attempted to throw himself in front of a car, but happily missed." Tim Dickson in the *Financial Times,* June 30, 1987.

• ***Euro-fun:*** What one has at Euro-parties. Usually restricted to the Euro-glitterati. "***Euro-fun*** beats ***Euro-blah*** blues." Headline to article on an E.C. cultural convention by Jill Tweedie in *The Guardian,* April 7, 1987.

• ***Euro-fog:*** A variation on the ***Euro-babble*** theme. Coined by Lord O'Hagan, Member of the European Parliament, in a memo to the Commission April 1, 1987: "Subject: ***Euro-fog.*** The Commission will be aware that its pronouncements are increasingly wrapped up in a fog of jargon, technocratic verbal juggling, syntactical contortion and linguistic miscegenation. Is the Commission trying deliberately to invent a new language to equip it for its role as the thirteenth Member State?"

• ***Euro-husbands:*** A mate chosen more for his European nationality than any per-

ILLUSTRATION BY JOHN CAMEJO

sonal attractiveness, usually for the purpose of obtaining E.C. citizenship. "Most countries have recently tightened up their laws to curb marriages of convenience. That practice became common in Ireland, where Moroccan girls took to acquiring ten-minute ***Euro-husbands*** for a few pounds." *The Economist*, July 11, 1987.

• ***Euro-hand:*** Those who wear the scars of battle in the European bureaucracy. "'How much do you reckon the conference cost,' I asked an old ***Euro-hand.***" Jill Tweedie in *The Guardian*, April 7, 1987.

• ***Euro-harvest:*** The bloated costs, ballooning food surpluses and other unwelcome fruits of Europe's Common Agricultural Policy. "A bitter ***Euro-harvest.***" Headline to story on farm policy in *The Sunday Tribune*, June 28, 1987.

• ***Euro-jargon:*** A linguistic wall against communication, erected brick-by-brick by a dedicated bureaucracy. "The European Commission has added a new word to ***Euro-jargon*** to describe its latest scheme for remedying regional imbalances: it calls this 'cohesion'." *The Economist*, June 27, 1987.

• ***Euro-lobbyists:*** Usually found haunting the halls of European institutions in search of Euro-power-figures. "This is one of the big hunting grounds for ***Euro-lobbyists,*** a fast-growing breed that, according to some of its members in recent years, has become only second to its Washington counterpart in sophistication and effectiveness." William Dawkins in the *Financial Times*, May 8, 1987.

• ***Euro-look:*** The 1980s version of the Europeanist ideal. "For dedicated followers of French political fashion, one of this year's most intriguing trends is the sudden return of the '***Euro-look***'. Europe is back in style with a vengeance. On television, government-sponsored commercials extol the virtues of France's membership of the Community, while political leaders of widely differing persuasions are united in urging the country to look beyond national frontiers to wider European horizons." Guy de Jonquières in the *Financial Times*, July 17, 1987.

• ***Euro-malaise:*** Euro-version of the widespread queasiness that afflicted the United States under Jimmy Carter. (Unrelated to the saying, 'When America sneezes, Europe catches cold.') "Time to tackle the ***Euro-malaise.***" Headline to article on economic stimulation in Europe. Samuel Brittan in the *Financial Times*, June 22, 1987.

• ***Euro-market, Euro-dollars, Euro-bonds, Euro-yen, Euro-issues, Euro-commercial-paper market, Euro-medium-term note, etc:*** Esoteric financial terms frequently encountered in the British business magazine ***Euromoney.*** Largely irrelevant to this lexicographer, for whom "solvency" is just a theoretical concept.

• ***Euro-mergers:*** Industrial consolidation among European corporations: the trendy new response to competition from the United States and Japan. "British Air move could fuel ***Euro-mergers.***" Headline to story by Alexander MacLeod in *The Christian Science Monitor*, July 28, 1987.

• ***Euro-network:*** The expanding web of communication and business links in the European Village. "A ***Euro-network*** for nurturing enterprise." Headline for story on business and innovation centers by Charles Batchelor in the *Financial Times*, June 23, 1987.

• ***Euro-party:*** Where you go for Euro-fun. This year's excuse was the 30th anniversary of the signing of the Treaty of Rome, the Community's founding charter. "On the whole, the ***Euro-fair*** (including, appropriately enough, hot air balloons) is likely to be more fun. The events amount to a gigantic three day ***Euro-party,*** and are Belgium's final contribution to the anniversary before it hands over the baton (in the form of the rotating E.E.C. presidency) to the far less ***Euro-minded*** Danes." Richard Owen, *The Times*, June 29, 1987.

• ***Euro-rules:*** The things that keep Europe from falling apart. "With all this diversity, it is hardly surprising that no standard ***Euro-rules*** cover the longest leave of all: time off work for having babies." *The Economist*, August 22, 1987.

• ***Euro-sclerosis:*** Hardening of the economic arteries brought on by excessive indulgence in welfare-state politics. Coined several years ago by Herbert Giersch of the World Economic Institute. "Still growing by leaps and bounds, the black-market economy was cited as another and powerful indication of ***Euro-sclerosis.***" H. Peter Dreyer in the *Journal of Commerce*, February 4, 1985.

• ***Euro-speak, Euro-blah:*** The language of the future. "Someone proposed that a kind of idiomactectomy should be performed on major [European] languages, rendering them the more easily understood for the absence of baffling phrases like, presumably, 'Up yours, Charlie.' 'We're into ***Euro-speak*** now,' said a spectator. In boxes along the side of the room four female, simultaneous translators acted out all our dreams as they battled through a jungle of words—determinism, social approbation, allowance pursuing activities. 'That's ***Euro-blah,***' explained one, mopping her brow. 'The same in all languages. Meaningless'." Jill Tweedie in *The Guardian*, April 7, 1987.

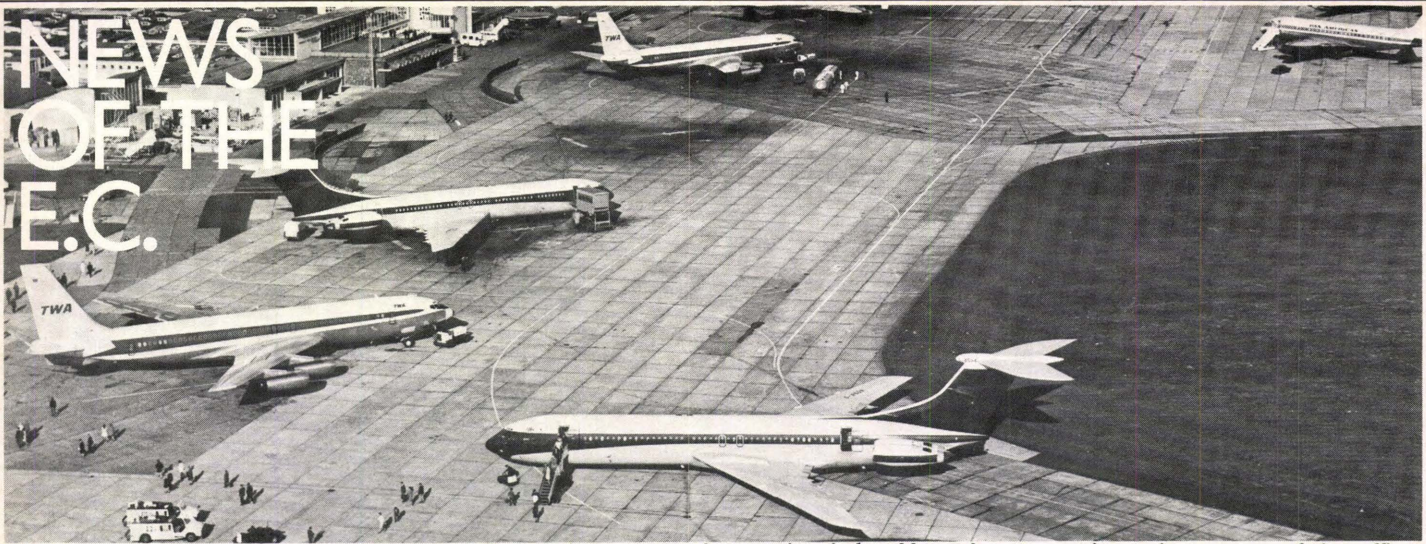
• ***Euro-tat:*** ('Euro-tack' in American). The creeping homogenization of national cultures under the European influence. "***Euro-tat*** is that corporate third-rateness . . . that permeates all our lives. ***Euro-tat*** is the conference center, the shopping mall, the leisure complex, the hypermarket, the airport, as designed by cost-conscious drawing-board hacks with the architectural sensitivity of a cowboy builder of breezeblock privvies in a lorry park. ***Euro-tat*** is our lasting legacy from Europe, bequeathed to us by worried-looking men in dark suits with name badges on their lapels and executive briefcases stuffed with computer print-outs, who shuttle backwards and forwards from one look-alike airport hotel conference suite to another." Keith Waterhouse in *The Daily Mail*, July 7, 1987.

• ***Euro-tussle:*** The perennial intra-E.C. tug-of-war over money. "This Autumn's ***Euro-tussle.***" Headline to story on settling differences on the Community budget. *The Economist*, August 29, 1987.

• ***Euro-waffle:*** The old diplomatic soft-shoe. "There was the usual talk about "unprecedented progress" toward "tough new disciplines" and the usual fudging of nasty decisions at a time when the Community is effectively bankrupt. But stripped of ***Euro-waffle,*** the other 11 countries wanted Britain to agree that existing, outrageous farm support levels should be regarded as a new "floor" and that more taxes should be imposed on the people of Europe to pay for the resulting cost." Simon Jenkins in *The Sunday Times*, July 5, 1987. €

EURO-PESSIMISM CONTINUES TO VIE WITH EURO-OPTIMISM FOR SUPREMACY, EURO-MISSILES ARE BANDIED ABOUT LIKE POPCORN, AND EURO-CRATS SPEAK EURO-JARGON.

Stephen Brookes is associate editor of *Europe*.



Experts from E.C. member states will meet in a Commission-sponsored symposium in late November to examine various aspects of air traffic safety in Europe.

INDUSTRY

E.C. PLANS AIRLINE SAFETY SYMPOSIUM

The E.C. Commission will hold a special symposium on November 26 and 27 to discuss air safety in Europe. The symposium will be divided into three panels, covering the prevention of accidents, protection of accident victims, and investigation of accidents.

"Since the beginning of this decade, approximately 7,000 people have been killed in civil aviation accidents," Commissioner Stanley Clinton Davis told the European Parliament recently, when announcing the symposium. "To contemplate this simple, harrowing fact is to realize once again that in the development of transport policy, it is the safety of the traveling public which is the highest law. We must not permit any dilution of the culture of safety which happily characterizes the civil aviation industry, at least in Europe."

The first panel of the symposium will review the training and licensing of personnel in civil aviation, aircraft maintainence and the air traffic control system that has to handle an ever-increasing number of flights while maintaining a safety net around each individual aircraft.

The second panel will be devoted to airports. A greater proportion of accidents take place at or near airports and the issue of better landing aids and the response to aborted take-off incidents or emergency evacuation of airports will be reviewed.

The third panel, on accident investigation, will examine the suitability of the present system and the existing safety reporting systems.

"Community policy must not develop in a way which provokes a confusing duplication of responsibilities among all authorities concerned," said Clinton Davis. "It is important that we identify what is best done by the Community and then do it well. I am sure that the Community's strengths lie primarily in the field of coordination, shared research and advice."

E.C. LOOKS FOR STEEL CUTS

European Community Industry Ministers agreed in late September that surplus capacity in Europe's steel industry had to be slashed, according to diplomats, but put off the painful decisions on how and where to make the cuts. Steel companies and labor unions have applied enormous political pressure to escape the next round of plant closures and redundancies, and to keep the current system of production quotas which guarantees them a share of the dwindling market.

Diplomats said those pressures were reflected in the lukewarm reaction to a plan by the European Commission to cut production by 30 million tons over the next three years at a cost of up to 80,000 jobs. "There was a broad consensus around the table that a healthy steel industry should be created at least by 1992 and that a quota system must help restructuring," one diplomat said.

But Kenneth Clarke, Britain's Trade and Industry Minister, told reporters that the Ministers would refer the crucial problem of where the axe should fall to a special commission of 'Three Wise Men.' "Their role will be to advise on how and where adequate commitments might be obtained to achieve reductions," he said.

Diplomats said most Ministers agreed that money will have to be found to persuade companies to make cuts, to compensate redundant workers and to stimulate investment in regions already blighted by industrial decline. "But there are broad differences on where the money should come from," one diplomat added.

They also accepted that the price of maintaining some production quotas, which are due to expire at the end of this year, is progress on restructuring the industry to face up to competition from low-cost producers in the Third World. "We agreed that there will be no quotas without restructuring," Clarke said.

E.C. Commission member Karl-Heinz Narjes, who is responsible for industry, wants firm commitments from the industry by November 30 that cuts will be made before agreeing to extend a limited number of the quotas. He also wants firms to pay for part of their allocations in order to build up a fund of $700 million to compensate victims of the cuts. The firms themselves, which failed earlier this year to agree a voluntary program of cuts, say they are still too weak to face up to international competition—especially since the weak dollar has made U.S. exports cheaper again.—*Reuters*

COMMISSION INVESTIGATES SHIPPING ACCORD

The Commission said in late September that it was opening an investigation into a freight rate agreement among shipping lines on the North Atlantic. The accord is between one of the rate-setting groups, or conferences, of shipping lines covering the transatlantic trade and two independent shipping lines.

The investigation is the first under new E.C. laws which this July extended fair competition rules to cover shipping, an E.C. spokesman said. He declined to give details, but said the Commission was acting on a complaint by the British Shippers Council, a group of importers and exporters.

In its complaint, the Council said the North Europe-U.S. Atlantic Conference (NEAC) and two independent lines, Polish Ocean Lines and Evergreen Lines of Taiwan, control 90 percent of the traffic between Northern Europe and the United States. NEAC includes the U.S. shipping line Sealand Transfreight Lines, Dart Lines, a unit of Hong Kong's C.V. Tung Group, West Germany's Hapag-Lloyd and Atlantic Carrier Lines, a consortium of six European shipping companies. The Council alleged that the pact had forced smaller competitors from the market and pushed freight rates higher.

If the Commission's investigation comes down on the side of the Council, the E.C. could declare the agreement void and fine the companies involved, although diplomats in Brussels said this could lead to conflict over jurisdiction with the United States.—*Reuters*

GERMANY OPENS PHONE MARKETS

The German post office, the Bundespost, announced in late September that it had agreed to open up transatlantic telephone links between Germany and the United States to more U.S. companies. A Bundespost statement said that the move took account of a rise in competition in the United States after deregulation of the telecommunications market there. This has meant that, besides the traditional international carrier, American Telegraph and Telephone Company, other companies sought international links.

The Bundespost said that new links would be opened for an initial period of six months from the start of 1988, and that

agreements had been reached with MCI International and U.S. Sprint.

U.S. Sprint had agreed to set up an international "gateway" which would transmit traffic for smaller companies along with Sprint's own traffic. At first, transmission would only be possible from the United States to Germany, but two-way transmission was envisaged after six months.—*Reuters*

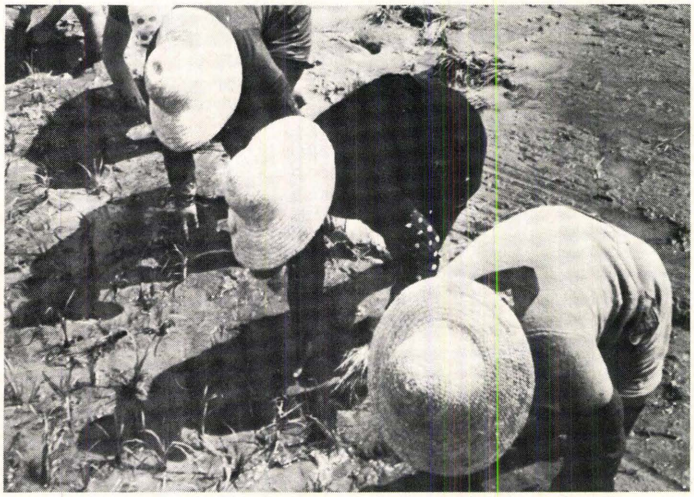
ENVIRONMENT

WATER POLLUTION FROM FARMING A GROWING PROBLEM, SAYS COMMISSION

Europe's waterways are becoming increasingly polluted, but not just by factories, according to the E.C. Commission. New evidence points to growing pollution from chemicals used in farming, especially nitrates and phosphates, as well as from the waste that intensive farming produces.

Commissioner Stanley Clinton Davis told a recent conference on the subject that very high nitrate levels are being found in the Netherlands, while the level has doubled in the area around Paris in the past two decades. "And in Belgium," he warned, "nearly all non-woodland watercourses are reported to be suffering from eutrophication."

Rising phosphate levels and their associated metallic impurities are also a growing source of concern and could in time prove to be an even more serious problem than nitrates. And another source of trouble, which complicates the problem of chemical pollution, is the waste produced from intensive farming. This can be highly polluting—cattle slurry and sileage effluent are, for example, up to 200 times more polluting than sewage, and the quantities produced are vastly in excess of the absorptive capacity of the very limited land areas required for this type of farming. "The consequence," said Clinton Davis, "is a major local problem of waste disposal which, if it is inadequately solved, can lead to very sharp local peaks in the levels of nitrates, phosphates and metallic and other impurities which are deposited on the land and ultimately washed into the water table.



Concern is growing in Europe over water pollution from farming. Above: tending the rice crop

The scale of these problems is growing rapidly, according to the Commission, and the Community is still in the process of putting together its policy response. The main lines of that response are clear, however:

- Clear standards for the content of nitrates and other impurities in water must be set and enforced. Without them, Clinton Davis remarked, "We cannot be sure of the target at which we are aiming and, as pollution rises—and special interests oppose the costs of limiting it—we could expect to see a steady ratcheting down of the standards we set ourselves.
- A much stricter system of type approval for pesticides must be introduced and a campaign launched to ensure that pesticides and fertilizers are used in the minimum quantities compatible with good agricultural yields.
- The problems posed by intensive farming must be tackled by requiring a full environmental impact assessment before such units can be set up, and by ensuring in particular that they include adequate waste storage and treatment facilities and plans for using wastes in a nonpolluting fashion.

E.C. TO FIGHT SEA POLLUTION

The European Commission has established a Community task force to deal with major pollution incidents at sea, such as shipwrecks and collisions. The task force comprises several dozen specialists in member states. Their services can be requested within minutes of an incident report, so that if necessary they can travel immediately to the scene of the emergency to give advice.

Announcing the new task force in the European Parliament, E.C. Commissioner Stanley Clinton Davis, who is responsible for environment policy, emphasized the importance of immediate action in the event of an accident at sea to minimize the extent of pollution. "The establishment of this task force will give the Community the capacity to react at once," he said. "We will be able to call on the special expertise needed, whether on the recovery of spilled oil, use of dispersants, cleaning of the shoreline, remote sensing from the air or dealing with chemical pollution."

Plans to establish the task force were announced by Clinton Davis in the European Parliament in December 1986, and strongly supported by the Belgian Government in the wake of the Herald of Free Enterprise tragedy. It will provide a vital element in the Community's resources for fighting pollution at sea and is a logical extension of the Community information system for controlling oil and chemical pollution.

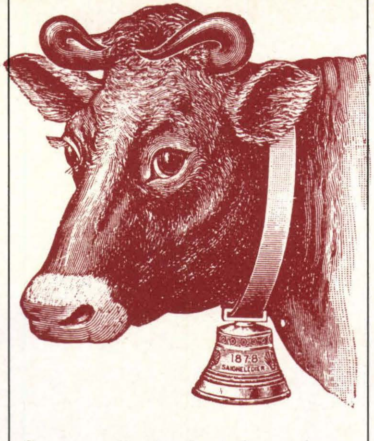
Most of those in the task force are government experts, although private consultants may also be used. Emergency travel costs can be met from the Community budget and special arrangements have been made to ensure that travel tickets can be provided without delay. The services of the task force may also be called upon by developing countries faced with maritime pollution emergencies.

The task force has been formed on the basis of experience from several recent disasters. In 1985 a collision and fire involving the Patmos threatened severe pollution in the Straits of Messina; a Dutch expert was called to advise on minimizing the oil spillage. In late November 1986 the iron ore carrier Kowloon Bridge foundered in Bantry Bay off the Irish coast. Experts were found through the Community system to help deal with the consequences and the Commission financed an operation to extract 300 tons of oil and toxic paints from the wrecked vessel to make it inert. They also advised on the unloading of crude oil from the Capo Emma, an oil tanker which caught fire in Irish waters at the same time. The most recent operation of the Community information exchange system was after the Herald of Free Enterprise tragedy, because certain dangerous chemicals were on the ship.

AGRICULTURE

DUTCH PRODUCERS SAY MILK LAKE DRYING OUT

The European Community "milk lake" is on the verge of drying out, according to the Dutch Dairy Federation. The combination of tough production taxes and quotas to cut milk output and take some of the strain off the overstretched



Community budget have been too successful, Federation Chairman Cornelius Francken said late in September.

The Federation estimates that the E.C.'s dairy export potential next year will be more than 13 million tons, but says that production available for export will only be around nine million tons because of production curbs. "The European Community is imposing new measures to cut milk output at the same time as export demand is rising," Francken said.

The shortage would be mainly in skimmed milk and be most noticeable during the autumn and winter next year, Francken said. "There has been overkill in milk. The Commission should relax some of the measures and make sure they take closer account of world market potential. It is foolish for us to lose export opportunities just when they are beginning to develop," he said. Francken added that the Netherlands, which exports more than 28 percent of its dairy production compared with a Community average of 12 percent, was being penalized by output curbs. —*Reuters*

FOREIGN AFFAIRS

E.C. NOTES CONCERN ON ISRAELI SETTLEMENTS

Foreign Ministers of the E.C.'s 12 member states issued a statement in late September noting their "serious concern" over the continuing Israeli policy of establishing new settlements in the occupied territories, most recently at the Avnei Hefetz site on the West Bank.

The Ministers reiterated their "strong conviction that progress towards a just, comprehensive and lasting peace in the region depends on the creation of a climate of confidence between the parties to the conflict. The Twelve believe that the opening of new settlements as well as the disturbing increase of the number of settlers in existing settlements pose a serious risk of jeopardizing the prospects of peace," they said.

The Ministers also noted that they consider every new and existing settlement to be in violation of international law, and called upon the Israeli Government to put an end to the illegal policy of settlements in the occupied territories.

NORWAY URGED TO RECONSIDER E.C. MEMBERSHIP

Norwegian Foreign Minister Thorvald Stoltenberg said in late September that it was time for Norway to reconsider joining the European Community, almost exactly 15 years after a divisive national referendum narrowly rejected membership. Stoltenberg's comments to a private seminar in Oslo were the latest of recent signs that Norway, which enjoys one of the highest standards of living in the world, is gingerly moving toward closer links with Europe—a taboo subject since 1972.

"A long time has passed since the referendum," said Stoltenberg. "We are ready to have a new debate on Europe in Norway. We want to take an active part in Europe's work, but we don't want to divide our own nation."

His cautious approach was typical in a country still deeply scarred by the referendum on September 25, 1972. Norway, now Western Europe's second-biggest oil producer after Britain, was at the time just beginning to reap the wealth from North Sea oil. Left-wing radicals joined powerful lobbies of farmers and fishermen to argue against entering the E.C., while the Conservative Party was strongly in favor. The clash was essentially between the old ways of isolated, rural Norway and the new affluence and international links brought by oil. "The new generation does not have the same limiting historical experiences," Stoltenberg said. "European cooperation has entered a new and active phase."

Although politicians are still cautious about public debate on the issue, government officials say privately that the prospect of a free internal E.C. market, planned to come into force by 1992, could force Norway to join the Community. Two-thirds of Norway's exports find their way to the 320 million consumers in the E.C.'s 12 member states, and the country is already faced with a large foreign trade deficit, high industrial costs and an annual inflation rate of almost eight percent—far higher than that of most of Norway's trading partners.

One Oslo-based diplomat said, "The question is, can Norway afford to be left out when the internal market comes into force? They can't expect to reap any of the benefits if they don't join the club." —*Reuters*

COMMISSION PROPOSES DEBT-AID PROGRAM

The E.C. Commission has proposed to the Council of Ministers that the Community implement a special 100 million ECU (about $110 million) program to aid highly-indebted low-income countries in sub-Saharan Africa. This program, which is in the form of quick-disbursing aid, is to be in addition to financing available under the third Lomé Convention and is to be used to finance sectoral and general import programs. It would reduce the burden of debt servicing borne by those countries and stimulate their productive capacities.

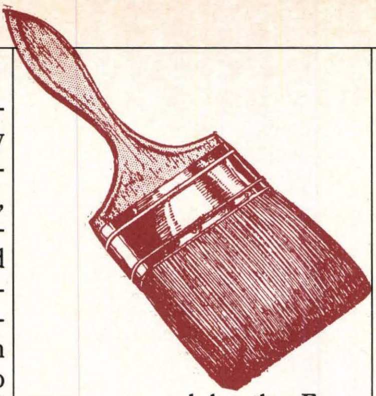
Debt problems received particularly close attention at the Venice Summit last June. According to an analysis made by the Commission in a communication forwarded to the Council, the Heads of State and Government of the Twelve recognized that the problems of the highly-indebted low-income countries—in particular those in sub-Saharan Africa—needed to be treated as a special case, and that a positions should be agreed before the end of the year on the various proposals put forward.

The Commission considers that the immediate and temporary purpose should be to counter the shortage of foreign currency caused by the excessive debt burden, the fall in export earnings from commodities and the inadequacy of external financial flows, all of which has led these countries to cut back their imports to levels incompatible with the minimum consumption requirements of households and industry, and investment in and maintainence of basic infrastructure.

To counteract these difficulties, the Commission is planning a number of operations which will complement normal operations providing long-term development aid and which must be tailored to the specific objective in question—hence the importance of quick-disbursing aid, especially sectoral import programs.

SCIENCE AND TECHNOLOGY

COMMISSION APPROVES NEW BRITE PROJECTS



The E.C. Commission has just approved 112 new projects for the BRITE program (Basic Research in Industrial Technology), selected out of 471 research proposals submitted. Out of those, 46 projects will receive Community funding up to a total of 45 million ECU (about $50 million) as soon as the contract has been finalized. The remaining 66 projects may receive up to 60 million ECU as soon as the Twelve have formally approved the revision of BRITE proposed by the European Commission.

Launched in 1985 as a four-year program to increase the use of advanced technologies in the traditional sectors of industry, BRITE "has already brought about a climate of cooperation in industrial technology and has contributed to establishing the basis for a new competitiveness for European companies," according to the Commission. Research conducted under the BRITE program is designed to be "precompetitive" in nature, with commercial product development being left entirely to industry. BRITE projects cover a wide range of industrial sectors and technical disciplines, often making surprising use of techniques developed in one area to make new applications in another, and a few key technological fields (including laser technology, membrane science, catalysis and particle technology, new material joining techniques, etc.) have been made priorities.

The 112 projects chosen will involve 573 participating organizations, of which 60 percent are industrial firms, 25 percent are research institutes and 15 percent are universities. Among the projects:

• A Dutch chemical manufacturer has teamed up with laser specialists in the United Kingdom to develop new optical recording materials based on polymers. Unlike existing photographic films, these new materials will not need chemical processing, and will have the advantage of erasability.

• Research institutes in seven E.C. member states will be developing a self-stratifying paint which will allow primer and topcoat layers to be applied in a single coat.

• Irish, Belgian, Italian and Dutch partners will be developing a prototype unmanned knitting plant (including the development of special yarns, new systems for yarn feeding, the automatic removal of knitted pieces, and fault correction). The consortium includes a yarn spinner, a machine builder, knitting companies, a knitting industry association and specialist research institutes.

• One project is designed to extend the use of computer aided design and manufacturing techniques in shipbuilding, especially for engine room design, piping arrangement and cabin layout.

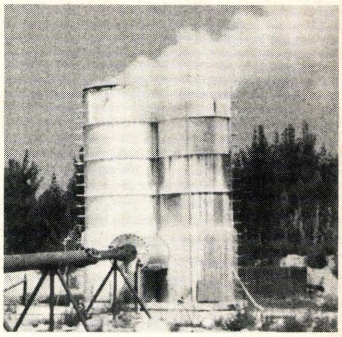
• Polymer science and blood biochemistry will join together in the development of an artificial blood vessel for cardiovascular implants. For the first time, an attempt will be made to colonize a synthetic polymer with human endothelial cells.

• Partners in four member states will be working on a picture-processing system which will recognize and classify defects (in pattern, structure, sheen and color) in close and loosely-woven fabrics without coming into contact with the material itself.

E.C. FUNDS GEOTHERMAL PROJECT

France and Germany signed an agreement recently aimed at setting up an unusual geothermal research project at Soultz in Alsace, to be co-financed by the E.C. Commission as part of its non-nuclear energy program.

The project is interesting because of the conditions at Soultz, where temperatures may exceed 50° C at a depth of 500 meters (as compared with



Above: tapping geothermal energy in France.

20° C in a thermally normal region), and 110° C at a depth of 1,000 meters. Recent studies have shown, however, that it is not possible to exploit this energy potential by conventional methods, which use the water contained in underground aquifiers. At Soultz, the aquifiers are too near the surface and there is little hope of achieving the temperatures required for economic exploitation (between 150° C and 200° C) except in the granite substratum 2,000 meters down.

However, it may be possible to exploit the reservoir by applying the "hot dry rocks" principle. This entails extracting the underground heat by setting up an artificial water circulation system whereby cold water is injected into a borehole, the water then permeates the mass of rock through a network of fractures created from small natural fractures and then, at a much higher temperature, the water returns to the surface via a second borehole.

The purpose of the new Franco-German project is to determine whether it would be possible to apply this principle to the Soultz reservoir. The site is equidistant from the central laboratories of the French and German teams of scientists and has the advantage that, around the site selected for the boreholes, there are already several abandoned oil drillings which could take the seismic sensors which are used to monitor the progress of the water injected.

The energy project is being financed jointly by the Commission and the other parties involved.

U.S.-E.C. LINKS
Continued from page 15.

which refunds for exports of pasta products to the United States were reduced to 27.5 percent. The United States, for its part, undertakes not to take any measures against European exports of pasta products and not to reopen the dispute at GATT level.

Semiconductors The E.C. has protested the agreement concluded on July 30 last year between the United States and Japan on semiconductors. In its opinion, some aspects of the agreement go against the rules of international trade and threaten the E.C.'s interests. Two aspects of the agreement of particular concern: the arbitrary increase in the price of semiconductors on the E.C. market and U.S. firms' privileged access to the Japanese market. The E.C. has therefore started proceedings in GATT under both Article XXI/2 and the Anti-dumping Committee.

Agriculture

The E.C.'s Common Agricultural Policy (CAP) is still a target for U.S. attacks although the respective forecasts of budget expenditures in 1986 for the United States and the E.C. showed that the United States will spend more than $7,000 per head of the farming population, while the E.C. will spend only $2,800.

U.S. criticisms of the CAP notwithstanding, the E.C. remains the U.S. farmers' best customer and the world's biggest importer of agricultural products. In 1986, the E.C. easily retained its position as the United States' main export market: $6.4 billion against $5.1 billion for Japan. Furthermore, U.S. agricultural exports to the E.C. have fallen by only 3 percent compared with 19 percent on other markets. They now account for some 24 percent of total U.S. exports.

Tensions between the E.C. and the United States over agriculture stem largely from the decline in U.S. agricultural exports, which fell from $48 billion in 1981 to 26 billion in 1986. The U.S. Department of Agriculture, however, blames the recent drop in U.S. agricultural exports on the high dollar in the early 1980s, U.S. price-support levels and the fact that the developing countries have either not had the money to buy these products or have improved their self-sufficiency in the agricultural sector.

The United States therefore has embarked on an aggressive policy of capturing world markets. This was the main aim of the program of export subsidies, the Export Enhancement Program. Under this program, $2 billion will be available to U.S. exporters over a three-year period to help them boost their sales of agricultural products, especially wheat, on foreign markets.

The E.C. Commission immediately condemned this move, which it believes is unwarranted and liable to disrupt world trade in agricultural products. It argues that although the U.S. share of the world wheat market has shrunk from 49 percent in 1981-82 to 29 percent in 1985-86, it is hardly the E.C.'s fault since the E.C.'s share has remained steady during this period at about 14 percent. The United States had no share of the world market in dairy products in the early 1980s, but took 10 percent in 1985, an increase achieved at the expense of the Community.

These frictions are the manifestation of a deeper phenomenon: the structural imbalances at world level in agricultural sectors. They require serious change in agricultural policy in the main producing countries. As for the E.C., a readjustment of the CAP has taken place over the last few years with substantial results in production, in particular in the milk, beef and cereal sectors. The E.C. hopes that this adjustment—which is extremely hard on European farmers—will be accompanied by similar modifications in U.S. agricultural policy. This is why the E.C. attaches particular importance to the agricultural discussions that will be held in the Uruguay Round.

THE E.C.'S MAJOR CONCERN IN ITS RELATIONS WITH THE U.S. IS PROPOSED TRADE LEGISLATION.

Outstanding Matters

The E.C.'s major concern in its current relations with the United States remains the various trade legislation under discussion in Congress. These bills contain many protectionist aspects that, if adopted, would seriously affect the Community. Consequently, the E.C. has spared no effort in presenting its point of view to the U.S. authorities. On several occasions, the Commission and E.C.'s Council of Ministers have warned the United States against adopting such measures. The E.C. Commissioner responsible for external relations and trade policy, Willy De Clercq, and the Commission Vice-President responsible for agriculture, Frans Andriessen, visited Washington in July 1987 to discuss this problem with leading Congressmen.

They concentrated on those provisions of these bills that most worry the Community:

- The unilateral redefinition of internationally established trade protection rules (anti-dumping and countervailing duties).
- Potential restrictions on foreign investment in the United States.
- The concept of sectoral reciprocity.
- The establishment of new non-tariff barriers.
- The limitation on the powers of the executive in matters of trade policy.

The two E.C. Commissioners made it clear that if such measures were adopted, the E.C. would be forced to take similar measures. This would have adverse effects not only on the 5 million jobs that depend on exports to the United States, but also on the future of the entire international trading system.

Other Issues

Airbus. The United States challenges the subsidies received by the Airbus consortium and, in March 1987, requested discussions in the framework of the GATT Committee on Trade in Civil Aircraft. The purpose of these discussions is to find a common interpretation of Article 4 (public procurement) and Article 6 (Government support). At the two meetings on this matter held in Geneva, progress was made on the interpretation of Article 4. Since the positions are still divided on the interpretation of Article 6, the two sides will continue their contacts.

E.C. directives on abattoirs and hormones. The United States is opposed to the E.C. directive introducing hygiene rules in abattoirs because it believes that this directive will obstruct its exports. The U.S. authorities have recently requested the setting up of a GATT panel to deal with this subject. The United States also is strongly opposed to the E.C. directive prohibiting the use of hormones in meat. The E.C. believes that neither of these directives is discriminatory since they apply both within the E.C. and to non-member countries. Moreover, they have been adopted for reasons of health and consumer protection. Discussions on this subject will continue.

The E.C. has complained to the GATT about certain U.S. measures concerning imports that, the E.C. claims, are discriminatory. They include the "super fund," a tax on oil imports that a GATT panel has declared to be contrary to the United States' international obligations, and the "customs user fee" measure that is currently being discussed by a panel. €

GULF

Continued from page 25.

sions with Britain.

And yet, as the American plan to defend Kuwaiti ships went into effect, an appeal by the Reagan Administration for European help in minesweeping went unheeded. Concern ran high that it was provocative and risky. And, indeed, rather than subdue the Iranians the increased American military presence seemed to embolden them. A U.S. destroyer fired upon two unidentified boats that drew close in August, an Iranian minesweeper was sunk and its crew captured after being caught in the act of laying mines in September, and three Iranian patrol boats were sunk after opening fire on a U.S. helicopter in October.

The rapid buildup of American forces and tough talk from Washington put Iran in a position where it could not back down. For every move made by Washington, Iran countered with another twist of the screw, laying mines in the narrow channel leading to Kuwait, slipping other mines into the previously safe waters of the Gulf of Oman, attacking shipping off the shores of the U.A.E. and sending a speedboat armada across the Gulf to intimidate Saudi Arabia.

Iraq, meanwhile, which had set the scenario in motion with the attack on the *Stark*, found itself bound to accept the U.N. resolution and maritime ceasefire, even as the land fighting continued to sputter. The lull in the tanker war was clearly to Iran's advantage and so it stalled in answering the U.N. resolution. Iraqi forbearance hit its limit after six weeks and aerial attacks on Iranian oil and economic targets were resumed at the end of August.

Like all the other actors, Europe found itself caught in the middle, too. Foreign Ministers from the 12 E.C. states issued a joint statement early in September condemning the attacks on merchant ships and calling for an early ceasefire, yet Europe had not been entirely neutral in the past. France had been one of Iraq's major arms suppliers during the war and it had also sold considerable military equipment, as well as providing security assistance, to Saudi Arabia and several of the smaller states. Britain had long supplied arms for all the Arab Gulf states, and the 1985 Tornado fighter sale to Saudi Arabia demonstrated Europe's potential in penetrating an American market opened by the opposition of the United States Congress. Seconded British officers still served in the Omani armed forces and London provided advisers elsewhere in the GCC. Furthermore, a number of European firms were bidding in 1987 to supply maritime patrol aircraft to the GCC and up to eight submarines to Saudi Arabia.

Europe was vulnerable to the arguments of some in the United States that the countries receiving the oil—as well as those producing it—should play a more positive role in helping to defend it. Despite considerable White House pressure, however, no one seemed disposed to take action and it was not until mid-August, after mines were discovered near al-Fujayrah anchorage in the Gulf of Oman, that Britain announced it would send four minesweepers to protect British shipping and its Armilla patrol, which has been escorting British ships through the Gulf since the war began. At the same time, France announced that it would add two minesweepers to the task force built around the aircraft carrier Clemenceau, then underway for the Gulf. France keeps a permanent naval presence based at nearby Djibouti. Italian qualms about getting involved were swept away by an Iranian gunboat attack on an Italian container ship in early September, and an eight-ship task force was quickly dispatched. The Netherlands and Belgium soon fell into line, sending minesweepers of their own.

Finally, Prime Minister Margaret Thatcher evinced strong support for the U.S. sinking of the Iranian minesweeper, and the near-simultaneous attack on a British tanker resulted in the late-September order for Iran to close its military procurement office in London. Soon after, Germany announced that it would send three warships to the Mediterranean to take over the duties of NATO members' ships which had been diverted to the Gulf, marking the first time that German warships have patrolled the Mediterranean for NATO and a strong symbolic expression of "solidarity with our allies," as an official statement put it. (Unlike the British, however, the Germans chose to leave a similar Iranian procurement office in Frankfurt alone.) While not expected to have a profound effect on the minesweeping operation, the German move was welcomed by outside observers as indicating Germany was increasingly willing to share in European defense responsibilities.

By the beginning of October, the Western armada of ships patrolling the Gulf had risen to nearly 100—yet Iran had not backed down. In a speech to the United Nations General Assembly the day after the United States sank the minesweeper, Iran's President Khamenei was scathing and unyielding. Iranian assaults on shipping continued to match those of Iraq, and both sides traded aerial and missile barrages on oil, industrial and civilian targets inland. Hostilities rose a notch on October 19 with the shelling of an Iranian missile launching platform by the United States in retaliation for an Iranian attack on a U.S.-flagged Kuwaiti ship. The action was, in general, positively viewed in Europe. While European Community Governments offered little in the way of official reaction, most European analysts agreed that the move had been both expected and carefully thought out, and public opinion appeared to be broadly supportive.

The Western buildup in the Gulf may have provided a bit more security for civilian vessels, but it solved no problems. It's beginning to look uncomfortably like a permanent necessity. €

IRELAND

Continued from page 34.

given good management of the economy on the Government's part, the E.C. will play its role in providing assistance to overcoming problems of integration and in securing an open environment for trade within Europe.

Over 70 percent of Irish exports are sold on the E.C. market. For this reason, the prospect of a more dynamic Europe is of key importance from a national point of view. The SEA promises a more favorable external environment, but Ireland's domestic problems are such that the process of adjustment cannot be expected to be either speedy or painless.

For the immediate future, good domestic management is the key. Initially, government budgetary measures will have a negative impact as cutbacks lead to short-term easing in aggregate demand. The beneficial effects of the structural improvements brought about by these cutbacks will become apparent only after a time lag. The process has been compared to crossing a desert. The dangers of "austerity fatigue"—of people and governments tiring of the process of adjustment before it has had time to take effect—are well known. However, the imperative necessity of the austerity measures being taken by the government is widely understood. The pressure for change comes from the pragmatic need and not from ideological conviction. (There are few gung-ho free marketeers in Ireland.) If structural reforms can be translated effectively into growth and the European economy continues its recovery, crossing the economic desert may prove less fearsome than it now appears. €

RECENT BOOKS

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

Risk Analysis for Offshore Structures & Equipment. By ASTEO (Association Scientifique et Technique pour l'Exploitation des Oceans). Graham & Trotman, Boston, 1987. 215 pp. $95.00.

This book closely examines the new procedures of risk analysis by the fault tree method used in the nuclear, aeronautical & aerospace fields. The application of such methods for new offshore oil structures and operations is also evaluated, in addition to techniques of inspection, maintenance and repair technology. Extensive appendices provide substantial technical and statistical information.

The European Parliament and Article 173 of the EEC Treaty. By Johan Barnard. European University Institute, Badia Fiesolana, 1987. 58 pp.

This paper examines Article 173 of the Treaty of Rome and its legal implications for the European Parliament. Taking into account recent pronouncements of the Court of Justice, this study is based upon the following topics: the value of the Parliament's claim to a right to initiate proceedings under Article 173; the interpretation of the Parliament's assertion that certain acts should by exempted from judicial control; and the reasons behind the Parliament's desire to declare its opinion in the form of a resolution.

New Strategies in the EEC for Equal Opportunities in Employment for Men and Women. By Odile Quintin. European University Institute, Badia Fiesolana, 1987. 26 pp.

This paper examines the efforts the European Community has taken to eliminate discrimination in the workforce and obstacles to equal employment opportunities. Strategies include legislation that addresses both de jure and de facto discrimination, the establishment of public service organizations in some member states, to the promotion of local initiatives among others.

Diffusive Sampling: An Alternative Approach to Workplace Air Monitoring. Edited by A. Berlin, et al. Brussels-Luxembourg, 1987. 484 pp.

This extensive text is comprised of invited written papers and posters as well as synopses of significant discussions. Material includes a wide range of topics, from the development and application of diffusive sampling to its role in the work place.

Environmental Protection Policy. By Eckhard Renbinder and Richard Stewart. Walter de Gruyter, New York, 1985. 350 pp.

The second volume in the series "Integration Through Law: Europe and the American Federal Experience," this study presents not only an in-depth comparative analysis of the American and Community experience with regard to environmental law, but also offers a better understanding of the transnational/federal system of governance. As a result, there is as much to be learned from this volume on the process of integration and its difficulties as there is to be learned on the legal dimensions of environmental protection.

The Legal Integration of Energy Markets. By Terrance Darntith and Stephen F. Williams. Walter de Gruyter & Co., Berlin, 1987. 176 pp. $42.00.

The fifth volume in the series "Integration Through Law: Europe and the American Federal Experience," this study examines and evaluates the legal structures for creating and maintaining unified energy markets in the United States and the European Community. In so doing, the authors offer reciprocal lessons that the United States and the Community may learn through the careful evaluation of the other's energy markets and legal frameworks.

Consumer Law, Common Markets and Federalism in Europe and the United States. By Thierry Bourgoigne and David Trubek. Walter de Gruyter, New York, 1987. 271 pp.

This book is the third volume in the series "Integration Through Law: Europe and the American Federal Experience." Consumer laws and relevant issues in the United States are examined in order to provide insight into the difficulties of reconciling the principle of open borders with the legitimacy of state intervention on the consumer's behalf. By contrasting and comparing the American system to the Community's experience, the authors provide a lucid analysis of the problematics of consumer protectionism in an integrated market.

Targets and Indicators: A Blueprint for the International Coordination of Economic Policy. By John Williamson and Marcus H Miller. Institute for International Economics, Washington, D.C., 1987. 108 pp. $10.00.

In response to the initiative launched at the 1986 Tokyo Summit, the authors have presented their comprehensive set of proposals for an indicator system to guide the international coordination of macroeconomic policies. The proposals are placed in the hypothetical situation of being effective during the 1980s and are also compared to other alternatives for international monetary reform. Criticism of these proposals is addressed as well.

Anti-protection: Changing Forces in United States Trade Politics. By I.M. Destler and John S. Odell. Institute for International Economics, Washington, D.C., 1987. 204 pp. $10.00.

While much information has been published regarding those forces within the United States that favor protectionist legislation, little has been written about the interests that benefit from international trade. This study helps fill that void by focusing on the forces that suffer from import restrictions and the role they play, or can play, in trade politics.

The Future of World Trade in Textiles and Apparel. By William R. Cline. Institute for International Economics, Washington, D.C., 1987. 325 pp. $20.00.

This book examines the comprehensive and persistent protectionist measures that textiles and apparel have received during the last three decades. From the standpoint of the nation as a whole, the authors conclude that a gradual liberalization of these sectors is the best policy rather that an increased severity of protection.

Trade Unions of the World. Edited by F. John Harper. Gale Research Company, Detroit, 1987. 503 pp. $90.00.

This text is a comprehensive international guide to trade unions and their activities throughout the world. Material is arranged by country, with basic background information and full details regarding trade unionism and active unions provided for every country or territory.

European Legal Literature Information Service: A Master Guide to Commentary on European Community Law. Vol. I, No. 10. Europe Data, 1986. 74 pp.

ELLIS provides a listing of approximately 200 sources pertaining to Community law and legal issues. A wide variety of material is referenced, from books and periodicals to academic papers and official studies. Each indexed source is accompanied by an abstract, enabling the user to decide whether the document is relevant to his/her needs.

Family Policies in the Member States of the European Community. COFACE, Brussels, 1986. 65 pp.

This study examines the family policies of the member states. Its conclusions spotlight the trends and the explicit and underlying orientations of the various policies as well as the problems to which a community response might possibly be expected.

World Meetings: Outside United States and Canada. MacMillan Publishing Co., Riverside, NJ, 1987. 120 pp. $165.00 for an annual subscription.

This sourcebook is a two-year registry of all important future medical, scientific and technical meetings to be held throughout the world, outside the United States and Canada. It is completely revised and published quarterly.

Regional and Long-range Transport of Air Pollution. Edited by S. Sandroni. Elsevier, New York, 1987. 510 pp. $170.75.

A compilation of 19 lectures of a course held at the Joint Research Center in Ispra, Italy on September 15-19, 1986. The aim of the course was to provide a current overview of the present knowledge in the different fields involved in the atmospheric transport of trace constituents.

Electronic Mass Media in Europe: Prospects and Developments. Edited by Elsa de Bens and Manfred Knocke. D. Reidel Publishing Co., Boston, 1987. 542 pp. $78.00.

This volume is the compilation of papers delivered at an international workshop held in Bruges, Belgium in 1986 by experts in the field of communications. The three broad topics to which all reports pertain are channels of transmission, audio-visual media, and electronic text media.

Dreams and Delusions: The Drama of German History. By Fritz Stern. Knopf, Inc., New York, 1987. 323 pp. $19.95.

This text is a collection of ten essays on German history which illustrates the "German Drama" since around the turn of the century.

Fixing Farm Trade: Policy Options for the United States. By Robert L. Paarlberg. Ballinger Publishing Co., Cambridge, MA, 1988. 159 pp.

Discussed are ways to improve U.S. agricultural trade policy. Policy options which work within and outside the framework of the GATT are among the topics highlighted.

The Limited Partnership: Europe, the United States, and the Burdens of Alliance. By Joseph Joffe. Ballinger Publishing Co., Cambridge, MA, 1987. 225 pp. $29.95.

Among the topics discussed is the challenge of Euromissiles, the European Peace movement, the Alliance versus the isolationist impulse, what detente has wrought upon the Alliance, and how NATO has responded to crises like those in Afghanistan and Poland.

Europe: Dream-Adventure-Reality. Edited by Hendrik Brugmans. Greenwood Press, Westport, CT, 1987. 262 pp. $65.00.

A history of the development of Europe and the ideals which led to the formation of the European Community is portrayed. Chapter contributions are made by different experts on the Community, including Pierre Pflimlin, former President of the European Parliament, Jacques-Rene Rabier, former Director-General at the European Commission, as well as associates of Jean Monnet and 23 other distinguished Europeans.

Arms Control and the Atlantic Community. By Werner J. Feld. Praeger Publishers, New York, 1987. 192 pp. $35.95.

Professor Feld begins his project with a review of the negotiations controlling strategic and intermediate nuclear forces as well as space-based weapons since the 1979 signing of SALT II. Following the review the professor examines bureaucratic and parliamentary interactions between the U.S. and West European NATO governments on arms control talks. The author then discusses arms control in the Reagan administration and continues with an analysis of the efforts to improve East-West relations.

The EEC: A Guide to the Maze. By Stanley A. Budd. Kogan Page, Ltd., London, 1987. 254 pp. U.K.£6.95.

The author feels that a basic introduction to the European Community is needed. He describes the E.C.'s purpose, how the institutions function, the policies and people and changes to be made. Also included is an analysis of funding and development projects, and a chapter on the myths and misconceptions regarding the Community.

State Aids Under the EEC Treaty Articles 92 to 94. By Despina Schina. ESC Publishing, Oxford, U.K., 1987. 221 pp. U.K.£21.50.

Ms. Schina examines the necessity for state aids, the different kinds of aids envisaged by the EEC Treaty and compatibility of these aids with the Common Market. Particular emphasis is made regarding state aids to agriculture and transportation.

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