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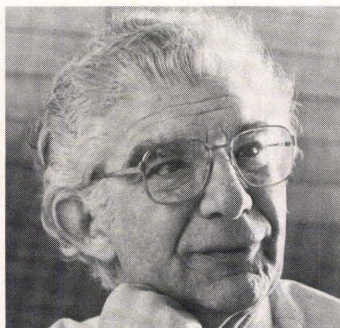
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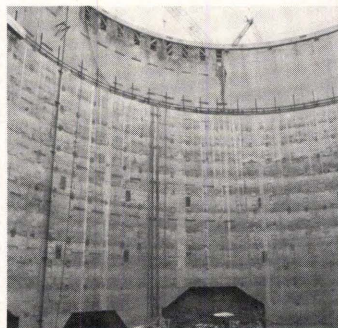
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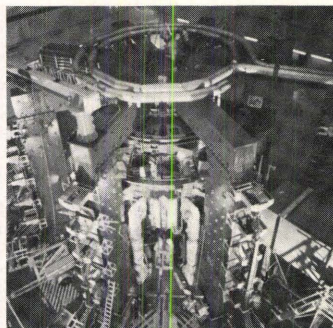
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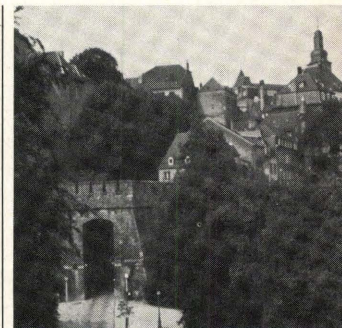
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COVER: A large majority of U.S. public opinion favors the political unification of Western Europe, according to the Gallup survey. © Steve Hill.

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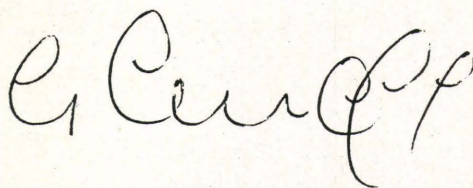
PUBLISHER'S LETTER

After two days of tough negotiations in Brussels, leaders of the 12 E.C. countries reached agreement on February 13 on a broad package of budgetary reforms, changes in agricultural policies and an increase in spending on regional development—the so-called “Delors Plan.” This plan, proposed last year by E.C. Commission President Jacques Delors, is significant not only for its immediate effects, but also because it opens the way to completing Europe’s internal market by 1992—a key European objective—and because it illustrates that the European ideal is still alive, despite the problems of integrating a dozen distinct and different nations.

While diplomats and politicians may declaim at length on the strong ties between Europe and the United States, it’s not always clear how the average American feels about Europe and the European Community. To find out, the Gallup Organization recently conducted a poll on American attitudes toward European integration, trade with Europe and attitudes toward Europe generally (cover story, page 22). The results are fascinating: While there is a widespread feeling that ties to Europe have waned over the past decade, Americans tend to agree that at least as much attention should be paid to Europe as to Japan, and that the integration of the E.C. is a good thing that should continue.

Americans—especially those Gallup considers to be opinion leaders—also tend to reject the notion that protectionism, whether by tariff, quota or other means, is the way to solve the problem of the U.S. trade deficit. Moreover, most Americans think that it is still worthwhile to keep U.S. troops in Europe. Overall, the poll reflects the fact that Europeans are still held in high regard by Americans, and that a deep commonality of attitude and belief still bridges the Atlantic.

Also in this issue, the E.C.’s Auke Haagsma examines the idea of export controls from a European perspective; Axel Krause of the International Herald Tribune looks at Norway’s interest in developing closer ties with the E.C. as the 1992 deadline for completing the internal market approaches; the E.C.’s Commissioner for external trade, Willy De Clercq, shares some thoughts on the developing economic interdependence between Europe, the United States and Japan, and the responsibilities all three partners share; and German Foreign Minister Hans-Dietrich Genscher describes Bonn’s full agenda for its presidency of the Community, which continues through the first six months of this year.





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AROUND THE CAPITALS

BRUSSELS

Finding A Government

The current search for a new Belgian Government reminded a newspaper commentator in Brussels of a report on a recent match in the Karpov-Kasparov world chess tournament. "Everywhere you look for a move there is something to block it," the commentator wrote. "There seems no way out." But then one of the players, I think it was Kasparov, made a daring shift that no one had dreamt of beforehand, and the victory was secured. There are no Kasparovs in Belgian politics—at least not that I have heard of—but otherwise the situation is the same.

One worries about King Baudouin, who is now trying to find a man to head the Belgian Government. Shortly after the general election in December, King Baudouin appointed Guy Spitaels, the French-speaking Socialist leader, to try to form a Government. This was a logical decision since the Socialists had become the largest single party in the parliament following the December elections, thanks largely to their huge vote in Wallonia, the French-speaking part of the country where government cuts in spending on the steel and textile industries had hurt most.

Spitaels was unable to deliver, however. He concluded that there were two options—a coalition between the Socialists and the Christian Demo-

crats (CD) or the resurrection of the pre-election alliance between the CD and their conservative partners, the Liberals. The King liked neither option and called on Willy Claes, the Flemish Socialist leader, to devise a way out. Claes was summoned not so much as a potential leader but as a kind of broker. He is an immensely popular and talented politician; he plays the piano on Belgian television, and leads a popular Brussels jazz band; he is probably the most liked politician in Belgium.

Alas, he proved unable to win over the support of the Flemish-speaking Christian Democrats to his own party and without that backing, his attempts to devise a Government were doomed. In Belgium, it is not enough to win party political support; one has to satisfy all of one's supporters that one is backing their linguistic claims. And this can sometimes contradict the official party line.

The King's latest gambit is to ask Jean-Luc Dehaene, the present Health Minister and a rising star in the Flemish Christian Democratic Party, to try to put together a Government. This is a provocative move. Political analysts in Brussels agree that there are only really two—perhaps three—options open: a Socialist-Christian Democratic coalition or a resurrection of the former center-right CD-Liberal Government that Dehaene is sure to favor.

There is also a third choice—a grand coalition of all



Following the December elections, a new Prime Minister has yet to emerge to lead Belgium. Above: The Parliament building in Brussels.

three main political parties. This has some charm for Dehaene's followers who feel he has a good chance of leading it, but is nevertheless unrealistic. The guessing by political commentators in Brussels is that an uneasy alliance between the CD and the Socialists will lead to the establishment of a Government by mid-year but that fresh elections could follow soon after.—ALAN OSBORN

MADRID

Trains for the 21st Century

Over the next 12 years, Spain proposes to invest a total 2.29 billion pesetas (about \$20.2 million) in the modernization and improvement of its railway transporta-

tion network. As Transport Minister Abel Caballeri explained, the Railway Transport Plan is "the most outstanding railway investment of the century, which should put RENFE, [the Spanish railway company], at the same level as Europe's best railways."

The total amount of investment will be 693 million pesetas that the Ministry of Transport will provide toward improving the substructure, and 1.4 billion pesetas, which RENFE will supply to improve and replace lines and trains, and to rationalize and improve services.

The aim of the plan is to obtain a high-speed railway system of top quality. It is expected that by 1992, the year in which the Universal Exhibition takes place in Seville, Spain will have trains running at speeds of 200 kilometers per hour (KPH). This top speed

will allow average speeds of 109 KPH for trips from Madrid to La Coruna, 124 KPH to travel to Barcelona, 149 KPH to Valencia and 177 KPH for the destinations of Valladolid or Cordoba.

The most outstanding project will be the route between Brazatortas and Cordoba, which will improve links to all parts of Andalusia except for Almeria. This new route, in which 75 million pesetas will be invested, will have one stretch of 107 kilometers for trains with speeds of up to 250 KPH and will bypass the bottleneck that Despenaperros causes at present. In this way, travelling from Madrid to Seville will take 3 hours and 9 minutes less than at present, and 2 hours and 42 minutes will be saved by those who travel from Madrid to Cordoba.

In the Northeast, where some 45 million pesetas will be invested, the project has yet to take full shape, although the route will also allow for speeds of 200 KPH to 250 KPH, which will reduce the traveling time from Madrid to Vigo to 6 hours. On trips from Madrid to Bilbao, travel time will be shortened by 2 hours and 5 minutes.

Speed and comfort, however, will have to come at a certain cost. In the train of the year 2000, the pricing policy for fares for first-class travel services will be to "cover all costs." Lower prices will only be maintained on shorter and regional trips and second-class trains on longer trips, where interest in providing a public service is important.—*Reprinted from "Spain '87", No. 162.*

The health service in the Federal Republic of Germany cost the Government about \$87 million in 1987. A draft proposal is now being prepared to dramatically cut these costs.

BONN

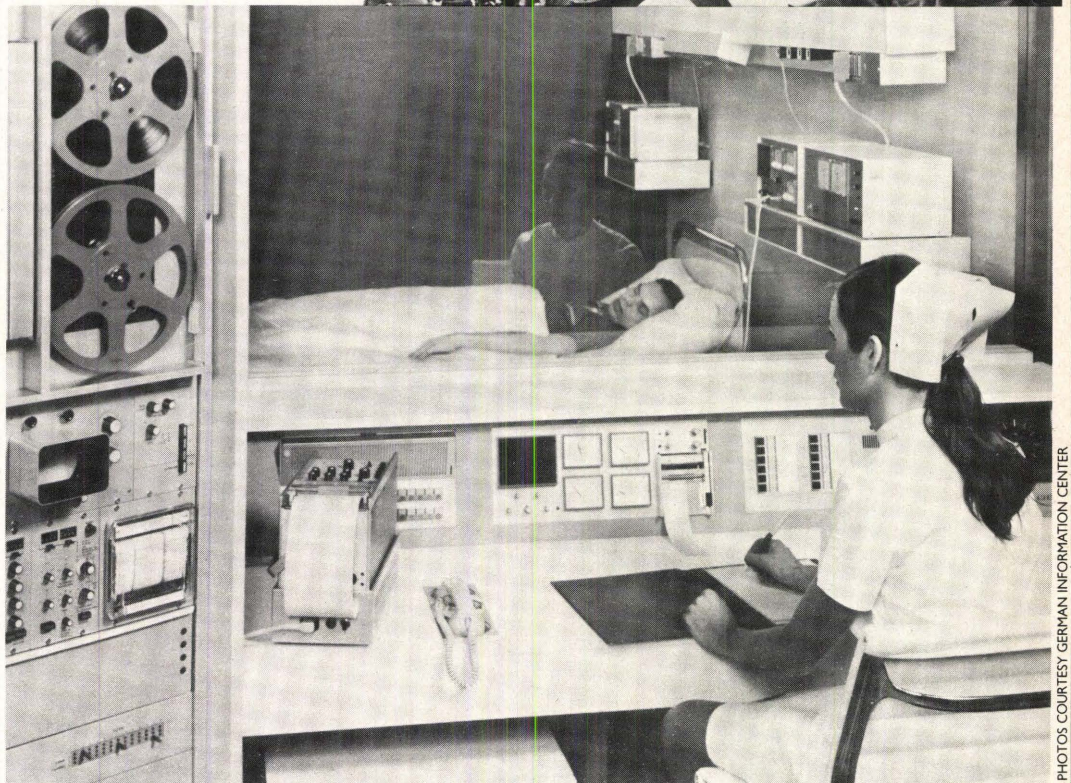
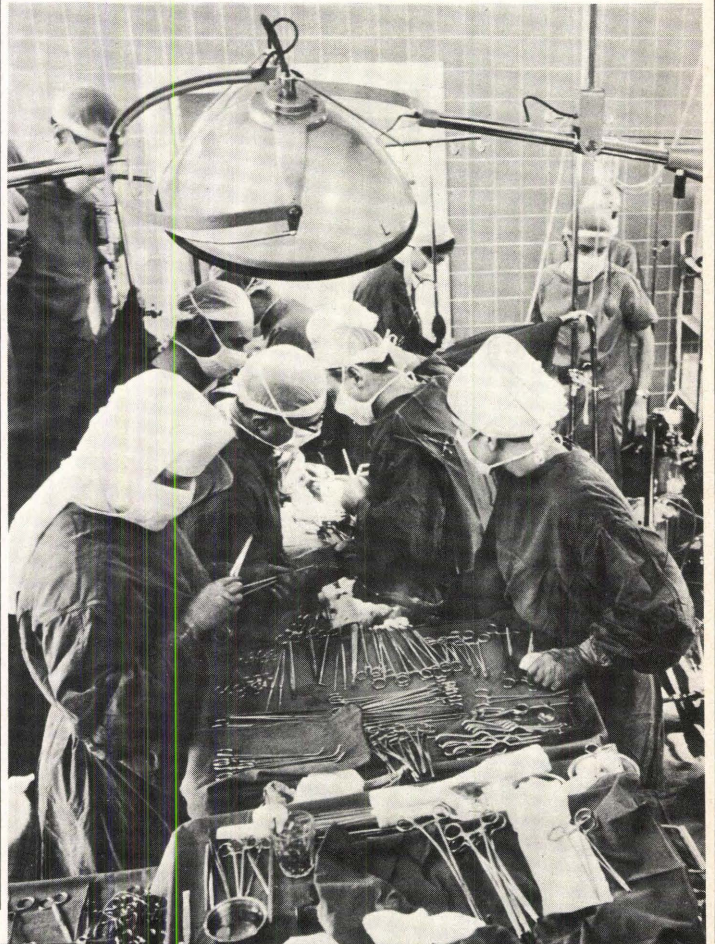
Rising Health Costs

Soaring health care costs in the Federal Republic of Germany are causing grave concern, and Social Services Minister Norbert Blüm is now preparing a bill aimed at cutting costs that in the statutory health insurance exceeded 125 billion German marks (about \$87 billion) in 1987. Compared with figures of 9 billion marks in 1960, 24 billion marks in 1970 and 86 billion marks in 1980, this increase in health care costs to the government has indeed been dramatic, to the point of health spending itself to death.

The 1987 figure reflects the negative side of a positive development: Health protection today is better than ever. Doctors and hospitals use the most modern equipment, and health insurance, which used to pay for only the most necessary things, nowadays covers almost everything. And such extensive coverage is being increasingly taken for granted in Germany where health today has become the number one priority.

In Blüm's draft for drastic reductions, patients in future will have to share costs for eyeglasses, contact lenses, hearing aids and medicines. Lengthy cures in spas will be cut and 50 percent of costs for dental treatment will have to

be covered by the patients themselves. Hospitals, which have been criticized for keeping patients longer than necessary in order to avoid budget cuts, will find the number of hospital beds reduced by about 100,000. In 1985, there were



PHOTOS COURTESY GERMAN INFORMATION CENTER

3,106 hospitals with 687,000 beds—or one bed per 90 inhabitants.

In this respect, the Federal Republic has done well in international comparisons. Hospitals are operated by the state and local governments, welfare and church organizations and private enterprises. The hospitals are financed by the contributions of the patients to their health insurances and from public budgets, and the federal government contributes 1 billion marks a year to the costs.

The pharmaceutical industry also has been blamed for the bloated health costs. While the World Health Organization says that only 250 drugs are essential to health, the German pharmaceutical industry supplies the German market with some 120,000 drugs at exorbitant prices, which are 69 percent higher in the Federal Republic than the E.C. average. Blüm demands cheaper medicine and points out that while wages have increased five times since 1960, expenditures for health insurance have increased 14 times during the same period.

At the end of the 19th century, when rapid industrialization changed Germany from an agricultural into an industrial society, Chancellor Otto von Bismarck—in order to take the wind out of the sails of a growing workers' movement—introduced progressive social welfare legislation and thus laid the foundations of today's welfare system. He first pushed through health insurance for workers in 1883, accident insurance in 1884, old-age and invalidity insurance in 1887. "Today the social welfare net, as it is known here, is, in spite of recent cuts, still one of the best in the world," comments Heinz Markmann, director of the Social and Economic Institute of the German Trade Unions.

For most West Germans, the dismantling of this social security system, to which they have grown accustomed, is unacceptable. It is a combination of self-help and communal help,

resting on the one side on funds raised from membership dues, and on the other on communal funds. The national health, pension and unemployment schemes are the pillars of the West German system, which at the moment amount to 37.9 percent of gross earnings, with employer and employee each contributing half of those dues.

The negative demographic development, which began in 1971 and still continues, poses serious social, political and industrial problems for one of the world's strongest economies. The country's 22 million gainfully employed are currently supporting 12.5 million pensioners, which puts a heavy burden not only on the state but also on the nation's workforce and on employers. Experts say that the present compulsory contributions will have to be doubled in 2030 if the low birth rate continues and if benefits are not adjusted. There is thus great urgency for the present reform, which Blüm hopes to enforce by January 1, 1989. But it is a controversial reform. The cuts, critics say, will mainly hurt the poor and trade union leader Ernst Breit says that it "punishes the sick."—WANDA MENKE-GLÜCKERT

ATHENS

Disappearing Forests

Greek schoolchildren lined up by the thousand re-

cently to visit an exhibit that illustrated the sad decline of Greece's forests, ravaged by fires every summer, by careless grazing and by illegal building. The display was timed to coincide with the European Year of the Environment and was organized by the Goulandris Natural History Museum, a private foundation that is often described as the nation's conscience on environmental matters. And to drive home the problems of Greek forests to Athenians who failed to visit the exhibit, Athens city hall erected a dozen fire-blackened skeletons of burnt trees in a pedestrian walkway in the city center.

Trees have been under threat in Greece since antiquity: In the 5th century B.C., Plato complained about deforestation in Attica; medieval shipbuilders destroyed the cypress forests in the south of Crete; and mountain warfare and the depredations of goats were blamed for the disappearance of large tracts of woodland in more recent times.

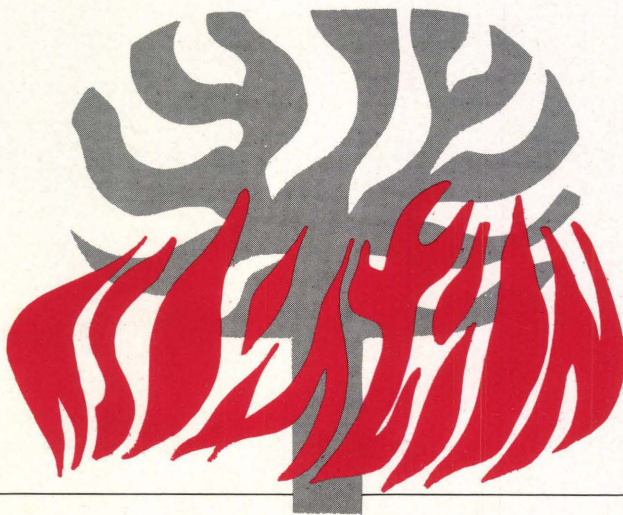
But none of that can compare with the destruction of the past 20 years, which has left Greece with the lowest percentage of forest land of any European country, estimated at just 18.5 percent of its land area. On average, more than 50,000 acres of woodland are razed by fires every summer; and while reforestation was started in the mid-1970s, it averages less than 10,000 acres annually. And the outlook seems to offer little prospect of improvement: Regardless of

future fire devastation, a new law that revises regulations for grazing is expected to reduce Greece's total forest area to just 12 percent of land area over the next decade, according to a group of forestry experts at Salonica University.

What is needed is a crusade to save the forests before it is too late. "That was the message of our exhibit," says Mrs. Niki Goulandris, who, with her husband, set up the natural history museum 20 years ago in order to fill a gap in research facilities and to stimulate awareness of environmental problems. In fact, environmental awareness has increased considerably over the past few years. The pine-clad mountainsides north of Athens used to be a favorite target for fire-raisers, since it was easy for building contractors to move in swiftly afterward before reforestation got underway. Nowadays, although the Forestry Service is still understaffed, volunteers from fire-watching organizations regularly patrol the hillsides in summer.

Contrary to what tourists accustomed to the bare limestone rock and waterless gulleys of Greek islands might expect, it would be biologically feasible to reforest most of the country—from pine woods along the coastline to deciduous forests of beech and oak in hillsides to the evergreen oaks and firs that flourish at heights of more than 6,000 feet. That would help to prevent soil erosion, which, according to the forestry experts, currently accounts for the staggering loss of 111 million cubic yards of earth that is washed away into the sea every year—the equivalent in area of a medium-sized Aegean island!

At present, the best preserved areas of Greek forest lie high in the Pindus range of central Greece, the Epirus mountains in the northwest and the inaccessible Rhodope range that marks the border between Greece and Bulgaria and contains a precious 1,300 acres of virgin forest—that is, an area where the ecological balance has never been dis-





COURTESY OLIVETTI USA

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Carlo De Benedetti, chief executive officer of Olivetti, and one of the most formidable Italian entrepreneurs, made a takeover bid for the Belgian Société Générale institution.

turbed. While the forests themselves in these areas are not considered to be threatened yet, the handful of brown bears that live in them are—especially by hunters who can sell one bear skin for several thousand dollars. Fewer than 100 bears are thought to be left in Greece and at least nine have been captured or killed in the past winter, according to environmentalists who now monitor hunting activity in northern Greece.—KERIN HOPE

ROME

Profile Of A Businessman

“I should like to have friends; instead, I have only two, both of them far removed from my professional life. But then it should be this way; life is a balance between giving and receiving, and since I can only give little in my friendships, time-wise and attention-wise, I don’t see why I should receive much.”

This remark, realistic almost to the point of brutality and with a subtle vein of sadness, could only come from Carlo De Benedetti, the suc-

cessful Italian entrepreneur, who recently made headlines with his takeover bid on Société Générale de Belgique. His also is a famous statement that many people would probably like to hang in their offices, but do not dare: “You cannot ask the employee of a stupid boss to work, but only to passively execute orders.”

Frankness that borders on aversion and then often transforms itself into courage—De Benedetti is used to it. In the years of violent union agitation that characterized Italy in the mid-1970s, he was the only entrepreneur to openly declare, to the incredulous surprise of the press and the irritation of left-wing political circles, that “in order to make industry and the economy of the country progress, the heads of companies must be able to declare bankruptcy and fire excess employees, or at least the absentees.” This came at a time of considerable support for guaranteed work for all, and De Benedetti’s courage was not appreciated. His car was burned; he was forced to move his family to Switzerland; he remained alone in Turin and declared without hesitation to the newspaper *Corriere della Sera*, that he found it very tough. “I have three wonderful

children, and it is very hard being separated from them.”

But it did not make De Benedetti give up his ideas and his way of doing business. He continued to fire whomever he wanted, generally slow workers and others who could not adapt immediately to his stressful pace. His character even made him dare to do the unthinkable. In 1975, he was placed at the head of Fiat by Giovanni Agnelli (he was a schoolmate of his brother Umberto and has always lived in the same building in Turin as Italy’s most powerful family), but resigned after only 150 days. “We saw things differently on certain matters of management,” he explained laconically. And went his own way. The dispute with Agnelli might have been a quarrel between gentlemen, but it was still a rupture that has had far-reaching consequences, as was visible in the years following. Today, if one schematizes alliances in Italian private industry, two camps are easily identifiable: one is headed by Agnelli, the other by De Benedetti (and Montedison can be found in the middle).

It has been quite a success story for the “Engineer” as he is sometimes called in Italy. His other nicknames are the “Ti-

ger” and “Headhunter,” and his cousin and partner Camillo, also an entrepreneur, is known as the “Snake.” “I was always insecure as a boy. I thought my father considered me the family idiot,” he says. Even today, his father, who is 91 years old and whose small tube company was the launching pad for Benedetti’s empire, talks about his son with a certain anxiety. “He’s too restless,” he says.

In order to prove himself to his father, De Benedetti overcame what he still considers the turning point of his life: He graduated from high school with a perfect grade point average. After that, everything went well, and even when he seemed to have been defeated, he always held true to his personal rule: Earn! Fiat had to pay a lot of money to get rid of him. So have many other companies he bought and left quickly and with a bigger bank account. Indeed, in 1987, he was awarded the title “King of Acquisitions” by the Italian press.

“It is true,” he admits, “that for years at the beginning of my career, I was obsessed with money. I wanted to become rich.” The truth is that the 54-year-old De Benedetti has never forgotten the hard time he lived through when he was

nine years old. A Jewish family, the De Benedettis were obliged to flee to Switzerland to avoid racial persecution. Carlo slept for several nights in a haystack "in the company of fleas and mice," and once was hidden in a crate and grazed by machine-gun fire that killed two cousins. "We survived those years thanks to the jewels that my mother managed to smuggle out, sewn into her corset. We knew how many we had left, but not how much money the userer would give us for them."

Perhaps this insecurity, or as he says, "a realization of the perpetual uncertainty of life," is the source of his constant desire to increase and diversify his personal estate, which already is one of the largest in Europe. And although he is represented in the United States with Olivetti, which he has transformed into a prestigious company, the "Engineer" has his eyes fixed on Europe, as demonstrated by the creation of the French-based holding company Cerus and his operations in Spain. "I want to prepare myself in time for the free market of 1992," was his explanation for his latest assault on the Belgian insti-

tution, Société Générale de Belgique. Whichever way it goes, Belgian reactions to this last enterprise by the "Engineer" show two things. First, that European unification, although it has political approval, must still deal with nationalism and local patriotism. Second, that if there is one entrepreneur in Europe who, when he talks about multinationals is not thinking just about the United States and Japan, but looks with determination to Europe, it is must be Carlo De Benedetti.—NICCOLO D'AQUINO

COPENHAGEN

Looking to 1992

Denmark is one of the most outspoken supporters in the E.C. of the internal market scheduled for completion in 1992. With foreign trade accounting for 40 percent or more of the Danish gross national product, the enthusiasm is understandable. Danish consumers cheerfully look forward to lower prices in the shops as taxation of a large number of goods is harmo-

nized, while government economists privately worry about the fiscal consequences. This is a debate that is only just starting.

Denmark has the highest income tax rates in the E.C., as well as the highest taxes on a large number of consumer goods. Cars are taxed to twice their original price, and tobacco and alcohol are other luxury items subject to high tax rates. All goods and most services have to pay a 22-percent value-added tax, which is also in the upper range of E.C. rates.

The total cost of harmonizing Danish rates to the E.C. average has not been officially calculated, but it runs into billions of dollars, money that has to be found either by raising other taxes, curbing public expenditures or accepting a large public budget deficit. The last possibility is rejected by all major political parties, and although Danish public spending competes with Sweden for first place among the industrialized countries, maintenance of the welfare state is sacrosanct to a majority in the Danish Parliament. This leaves some Danes worrying about new or higher taxes on such items as capital

gains, financial transactions and a number of legally required public services.

Cars show the kind of pressure the Danish Government faces. As the Danes produce no cars, there had been hopes that cars would remain tax cash "cows" for years to come. The issue has not been decided, but Danish auto importers and some E.C. specialists believe that while this may be true with respect to new cars, the present prohibitive taxation on imports of used cars is not sustainable. This could mean that the price gap between new cars and used cars in Denmark would become so large that most Danes would buy imported used cars at a fraction of Danish new car prices, thereby crippling sales of new cars in Denmark.

The possibility of borrowing money in the neighboring Federal Republic of Germany at half the price as in Denmark also appeals to consumers, though there is an exchange-rate risk. Danish banks are preparing to meet this challenge by wholesale borrowing and offering of foreign currency/retail loans, using their knowledge of the Danish consumers' credit risk as the com-



petitive edge. Depositing money will also be possible, though the Danes are among the worst savers in Europe, so that business is not expected to thrive.

Danish industry has long been a staunch supporter of the internal market, and only a few sectors will face the loss of protection, while the great majority are expecting to benefit from the dismantling of barriers in other E.C. countries. The internal market is thus making a lot of new friends for the E.C. in Denmark.—LEIF BECK FALLESEN

DUBLIN

Nuclear Concerns

Ireland is one of the few E.C. countries with no nuclear power or industry of any kind, so it may seem surprising that nuclear matters have been regularly making the front pages of Irish newspapers, except, of course, for the INF treaty and its follow-up.

The reason for Ireland's concern in nuclear matters is its growing irritation with the behavior of its E.C. partner, the United Kingdom, over a series of actions involving the latter's nuclear policies in the civil and military areas. In addition to the newspaper headlines, the inter-governmental exchanges are heating up and cannot always be described as "diplomatic."

Irish unease over the proximity of Britain's accident-prone Sellafield nuclear plant, only 70 miles across the Irish Sea, has existed for a number of years, but the Chernobyl disaster in 1986 heightened the fears. Apart from the threat of a possible accident, the daily low-level waste discharges from Sellafield into the Irish Sea make it, in the words of an official British parliamentary report, the most radioactive stretch of water in the world, a major cause of Irish grievance.

In fact Sellafield, or Windscale, as it was known 30 years ago, had the most seri-

ous pre-Chernobyl nuclear accident, when, in 1957, a fire broke out in a reactor producing plutonium for atomic weapons. By the time it was put out—two days later—over 200 square miles of surrounding countryside had been contaminated with radioactive material. Recently released British Cabinet papers show that the then Prime Minister, Harold MacMillan, ordered part of the official report on the accident to be suppressed, fearing that the full report could jeopardize his Government's attempts to persuade the U.S. Government to share information on nuclear weapons.

The newly released papers included a confidential note on the report that "it is of the first importance that the hazards of atomic energy should not be exaggerated in the public mind." In fact, the Irish public of the time took little interest, but 30 years later, two Dublin medical researchers published findings that suggested a link between the fire and a cluster of Downs syndrome cases in an Irish town. The link probably can never be scientifically proved, but medical authorities in both Northern Ireland and the Republic continue to be concerned about unusual patterns of leukemia and other cancers on the eastern seaboard facing Sellafield.

The news of the partial suppression of the report immediately led to a renewal of the Irish Government's campaign to have Sellafield closed. Part of this campaign, which the British Government strongly rejects, is vigorous support for the E.C. Commission's efforts to set up an independent nuclear inspectorate that would have the right to monitor the safety standards of all civil nuclear plants.

Within weeks of the release of the 1957 report, a new row blew up when British newspapers revealed that a nuclear-powered electricity generating system in Wales planned an experiment involving the cooling system to the reactor, the aim of which was to see if natural

circulation would prevent the reactor from overheating if the normal gas-cooled system was switched off. While the British authorities insisted all proper safety precautions would be observed, environmental and anti-nuclear groups raised the specter of a Chernobyl-style melt-down. The leader of the Irish Labor Party called it a "hostile act" toward Ireland, and E.C. Commissioner Stanley Clinton Davis, who is responsible for the environment and nuclear safety, said Britain might be brought to the European Court of Justice if a breach of the Euratom Treaty could be shown.

Through Energy Minister Ray Burke, the Irish Government expressed "grave reservations," but was hardly consoled to learn that the British Electricity Board planned a second similar "experiment" in a nuclear station only 50 miles from Dublin where one third of the Irish population live. On top of that, there were press reports that Britain was planning to scuttle outdated nuclear submarines several hundred miles off the South-West coast of Ireland in an area where a number of European countries have been dumping 150,000 tons of nuclear waste since 1955. Again there was little consolation in the Ministry of Defense correction that it was considering dumping only the nuclear reactors of 10 submarines and not the entire vessels.

So the nuclear "war of words" is heating up.—JOE CARROLL

LISBON

State-Owned Companies

State-owned enterprises are currently at the center of a bitter and ideological debate in Portugal as a result of the large nationalization program that was implemented in 1975. This took place within the context of the complex revolutionary process that had been initiated a year earlier.

The basic reasons for this controversy are not hard to follow: They relate to the poor results from most of the nationalized companies, to the way they were managed and to the different view that the various political majorities of the last 10 years have expressed about the economic role of the Portuguese state.

On July 19, 1987, the Social Democratic Party won a huge 51-percent majority. One of the planks in its electoral platform was, precisely, the privatization of a number of state-owned companies. This January, the Portuguese Government submitted to Parliament a draft bill presented as the "first step" of an ambitious denationalization program.

This first step is essentially a bill that would create the conditions for selling up to 49 percent of a company, with the state retaining at least 51 percent and, thus, control of the firm. Under the provisions of this bill, foreign investors would not be allowed to buy more than 10 percent of the total equity involved, and 20 percent of the shares, at least, must be sold to the employees of the company and to small, individual investors through public offerings. No investor would be allowed to buy more than 10 percent of the stock.

Proceeds from this operation—which only affects companies "with no economic or social reason to be nationalized"—will be allocated to the restructuring of other state-owned firms, to the reduction of general internal public debt and to conversion of the public debt linked to the payment of indemnities for the 1975 nationalizations. This last is a very hot issue, never resolved and now reopened by the privatization debate.

For someone not familiar with Portuguese realities, the most intriguing feature of the proposed legislation is probably the 49-percent limit imposed on the sale of shares. The reasons for this lie in a constitutional constraint imposing the irreversible nature of nationalizations. Many ex-

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perts believe this provision in fact forbids the selling of any part of the original nationalized assets of a company, and so it is possible that the legislation would be overturned by the constitutional court even if it is passed by Parliament, as it almost certainly will be.

If the court overturns the law, the only way to privatize the state-owned companies would be to amend the Constitution, a process that is scheduled to take place during the current year. A two-thirds majority in Parliament is required to amend the Constitution, so the Social Democrats will probably have to negotiate a deal with the Socialists to achieve any visible results.

With the exception of the Communists, almost everyone among the major parties wants to put an end to the "irreversible nature" of nationalizations. But one should not forget that the bargaining power of the Socialists is crucial and thus things could become difficult if the ruling party is reluctant to make any trade-offs involving other constitutional issues, such as the electoral laws.

**François Mitterrand
challenged Prime Minister
Jacques Chirac
to introduce new
laws on election financing.**

In any case, the process is only just beginning. The legislative and political fundamentals are still not quite clear, and the Prime Minister seems to have chosen a prudent pace for the number and nature of the firms to be privatized. The depressed state of the Portuguese stock markets after the October crash is one good reason for that slow pace and may help to explain why the Government so far has not named any specific companies to be privatized. In Lisbon, there is no doubt that the process has been launched, but it will take time before one can point to a significant reduction in the number of state-owned firms, which now account for roughly 18 percent of fixed investment and 5 percent of employment.—JOSÉ AMARAL

PARIS

Financing Politics

The most adept maneuver of the 1988 presidential campaign in France may have been conducted before it ever

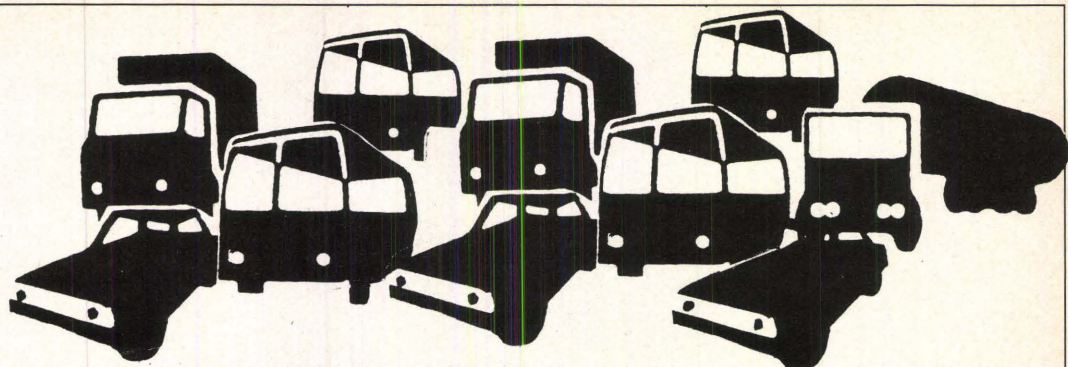


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started. Last autumn, a simmering scandal seemed about to boil over in what was about to become the French version of Irangate. In it, President François Mitterrand was at the center of the speculation about arms sales to Iran and even possible kickbacks to his Socialist Party. But Mitterrand—who was months away then from announcing whether he would run again for President—deftly deflected the speculation by shifting the question away from arms deals to the seemingly improbable question of financing of political parties. Rumors of kickbacks and other misdoings, he argued, would never arise if France had a credible system for parties to raise funds legally and openly.

It is widely considered that the shadowy financing has contributed to a drop in credibility of all the major parties. That may be one reason why, when Mitterrand dismissed the scandal and instead demanded new laws on political funding, Prime Minister Chirac rallied to the challenge and quickly summoned all major party leaders to discuss the details of such a reform. All other E.C. countries, excepting Ireland, Belgium and Luxembourg, have laws governing political spending and fundraising. France, he agreed, also must have that “transparency.”

The leaders settled on a three-pronged formula that would set limits on campaign spending—100 million francs per candidate in a presidential campaign, for example. Candidates would have to disclose names of their donors, and those seeking high office would have to submit details of their personal wealth. It would all, Chirac ordered, be finalized in a special session of Parliament. That would make this spring’s presidential election the first to be fought under the kind of financial limits that exist in all the major Western democracies and would be a result that will certainly be remembered longer than the persistent political *affaires* the old system produced.—BRIGID JANSSEN



AMSTERDAM Eternal Rush Hours

Ever worsening traffic jams in the Netherlands are fast becoming a major headache for the Dutch Government. In the words of Huub van Zwam, a senior official in the Ministry of Transport and Public Works, “the problem is not so much the bumper-to-bumper backups. What is much more worrying is the loss in productive time. Traffic jams can be found all over Western Europe, but in the Netherlands the problem is all the more serious since one-third of all Dutch national income is derived from services.” This loss amounts to about 900 million guilders (about \$468 million) a year.

The increased traffic and consequent loss in working time is due to several factors. The main one is that the Netherlands already has one of the highest population densities in the world, to which must be added the country’s strategic geographical location as a major import/export point. The Netherlands’ *randstad*, or “rim city,” which extends from Rotterdam to Amsterdam and The Hague, and stretches as far as the city of Utrecht in the center of the country, has the highest population density in the world, with up to 1,000 people per square kilometer.

Of the 14.5 million people that make up the country’s population, over 5 million own cars. Add to this another 500,000 buses and trucks that converge on the *randstad* area every day to transport people and cargo to and from the Dutch ports and airports, and

the picture of dense and worsening congestion is complete. Furthermore, it is estimated that traffic will have increased another 20 percent in five years, and that by the mid-1990s there will be 8 million vehicles in the Netherlands, which is about the size of the state of Maryland. Says Neelie

Smit-Kroes, Dutch Minister for Transportation: “The country is choking with the growth in transportation.”

The cities affected by this development and the Dutch Government are now working together to remedy this situation, and are drawing up a joint integrated action program. It

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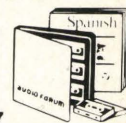
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calls for a reduction in travel time to and from work at peak hours by raising road taxes and prices for long-term parking facilities. The government also is considering a system of toll roads to be introduced sometime in the mid-1990s. Under this system, each car would be equipped with a unique electronic identification tag, and could be identified when entering toll roads by loops laid in the surface of the road. Feasibility studies already have been made in Oslo, Singapore and Hong Kong, but many organizations in the Netherlands, such as the national tourist agency, oppose the system claiming that it is expensive, unpractical and subject to fraud.

The main objective of this exercise would be to reduce automobile travel time and thus make more room for business and freight traffic, which is of vital importance to the health of the Dutch economy.

The Transportation Ministry also is working on a "mobility scenario." Part of this plan includes raising road taxes and parking fees, construction of four tunnels in the *randstad* to be financed by private means, construction of underground roads for car traffic in the city and a possible doubling of the number of rail and bus travelers, in an effort to make alternative modes of transportation attractive for those commuting to the cities from the suburbs.

Construction firms, for their part, are studying ways in which to entice back to the city those people who, a few decades ago, moved to the suburbs. One idea is to make city centers, now crowded with offices, more attractive to more prosperous citizens. It has been estimated that some 30,000 people who had moved outside Amsterdam have returned to live in the city in the past two decades. Nevertheless, despite this positive population flow, many more homes must be built to ensure a return to the city of the more wealthy population.—NEL SLIS



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The increasing globalization of the financial markets has brought large numbers of Japanese to London.

LONDON

Japanese Influences

A new phenomenon has appeared at my local underground station in the past year—the dutifully bowing Japanese wife welcoming her husband back from work. This is only one of many signs indicating that the Japanese have landed. For those working in the "City," the financial heart of London, the dramatic increase in the number of Japanese businessmen has been most evident. Not only can earnest groups of Japanese in their Burberry coats be seen on every street, but Japanese restaurants also have been multiplying.

It is difficult to ascertain exactly how many Japanese live in London. Conservative estimates believe that their numbers have grown from 5,000 five years ago to some 50,000 today. (These figures do not include the ever growing numbers of Japanese tourists, whose increased presence underlines the great strength of the yen.) Some have described this as the greatest influx by any foreign group since the Arabs brought their petro-dollars to London in the mid-1970s. However, unlike the Arabs, the Japanese are not on a buying spree, but have come to London to work.

Many of them have been brought to London by the development of the global financial market. Because of the time zones, the three key centers are New York, London and Tokyo. When London financiers arrive at the offices at 8

A.M. in the morning, their Tokyo colleagues are looking at their watches, noting that it is 5 P.M. and beginning to think about the evening's entertainment. In New York, it is 3 A.M., and all good bankers and financiers are fast asleep. So, like a relay race, the corporate representatives in each center hand over the task of making money from one city to the next, ensuring that money is made 24 hours a day.

Because this is a highly specialized business, and because the Japanese are a very private people, their impact and interaction with British society has been limited. The long working hours, the brief lunch breaks, the six-day work week and the willingness to devote much of the evening hours to business meetings, make the Japanese stand out against the rather more laid-back working patterns of the British. Furthermore, like expatriates everywhere, they tend to cling together for comfort and support against the alien environment into which their work has thrust them. This is especially true of the wives sent to London along with their husbands. While the man of the house may spend most of his day at work, surrounded by the support system of secretaries and colleagues, his wife and children are left to face the strange English natives all alone.

However, the wife, whose command of English may be much less fluent than that of the breadwinner, can today fall back on an entire network of Japanese service companies that have sprung up in the past few years. These include Japanese real estate agents, food stores, restaurants and bars, as

well as dentists, doctors, priests and even a Japanese-staffed garage to fix the car. Then there is a Japanese-language London telephone directory, and three locally published newsletters in Japanese. And the leading Japanese newspapers, *Asahi* and *Nikkei*, are sufficiently aware of the growth in the Japanese population in London to have arranged same-day home delivery of their papers.

In our neighborhood, the arrival of Japanese families renting houses has had a dramatic effect on our fishmonger. The Japanese like their fish fresh and they have managed to train this particular Englishman in their ways. As a result, we all have benefitted by having a wider variety of fresher fish on offer today than ever before.

One disappointment, however, is that, despite the Japanese example, my wife still refuses to bow when she picks me up from the station.—DAVID LENNON €

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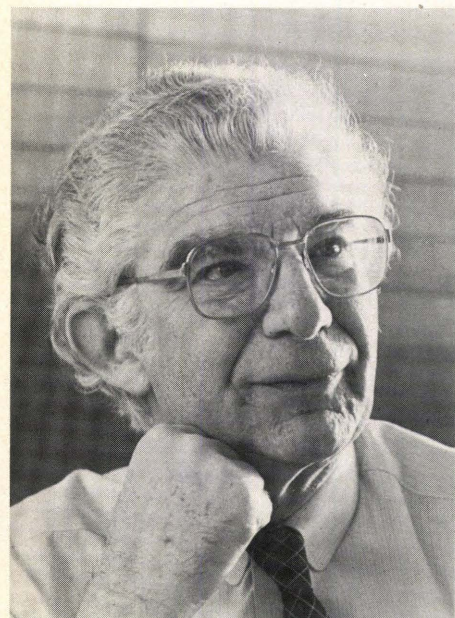
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THE U.S., JAPAN AND THE E.C.: WHERE ARE OUR RESPONSIBILITIES?

INTERDEPENDENCE MEANS
COORDINATION IS ESSENTIAL.



Willy De Clercq

WILLY DE CLERCQ

The theme of this article is the responsibility shared by the United States, Japan and the European Community—a responsibility to resist the temptations of protectionism, a responsibility to organize international trade on an open basis that is beneficial for all and a responsibility for macroeconomic coordination.

Without returning to the causes of the stock-market crash, whose shock waves are far from over, let us keep in mind that the market has condemned certain policies, or the lack of them, just as a court hands down a sentence. We should also try to learn a clear lesson from this: our interdependence. Thus, when Wall Street crumbles, all of the other stock markets fall in turn; when one economic system sneezes, the rest catch cold.

Facing such a phenomenon, the response must be just as clear: The three major economic poles of the end of the

20th century—that is, the United States, Japan and the E.C.—must exercise their responsibilities in a coordinated manner. Just two statistics suffice to support my thesis. The United States, Japan and the E.C. represent 47 percent of world trade and account for 59 percent of world gross national product (GNP). The multilateral trading system thus rests on these three pillars. Their respective attitudes have a great deal of influence on those of other countries. If one of these great markets should resort to protectionism, the pressure on another would be so great that it would in turn have to protect itself.

Together we must push back protectionism

When facing difficulties, many countries react like an oyster, withdrawing into their customs borders and protecting their markets. More than ever, it is vital to reiterate how harmful protectionism is for the economy. It is also a deceptive solution. Protecting an industry does not substantially improve the competitiveness of companies; eliminating import competition from a market cuts off a considerable growth factor. Finally, reverting to protectionism leads other markets to react in the same manner.

Conversely, there are many advantages to the open multilateral commercial system. During the last four decades, international trade has constantly been one of the most dynamic elements of the world economy; it has multiplied over thirteen-fold in the last 25 years. The E.C. is in an especially good position to talk about this spectacular growth: It drew strength from the increase in order to expand itself, and it helped others benefit from this growth. The E.C. absorbs 19 percent of world imports, and it exports 20 percent of the world total. And these figures do not include intra-E.C. trade.

We must emphasize that the growth of international trade is to a large extent

due to the successive multilateral trade negotiations that have taken place under the General Agreement on Tariffs and Trade (GATT). However, significant commercial imbalances do exist. Adjustments today are vital. But the main objective of any policy must be to avoid exporting the deflation caused by the crisis in financial markets to our partners by using unilateral trade measures.

Our American partners must reject protectionist pressures, especially on the part of Congress, because keeping their markets open is essential. However, the principal markets, especially Japan's, must be open on a comparable level. More than ever, the E.C. and the United States are justified in expecting Japan to open its markets and increase its imports.

Nor is the E.C. free from protectionist pressures. Moreover, it must integrate its economies within the framework of the larger market, and it must give these economies a greater degree of flexibility. Clearly, the E.C. cannot do so unless world markets are and remain open. The success of the Uruguay Round is thus fundamental. This is why our second responsibility mentioned in my introduction is that of organizing international trade on an open basis that is beneficial for all.

The defenders of multilateral trade

Why this responsibility? First of all, because the United States, Japan and the E.C. themselves reap the benefits of open international trade. But also because their responsibility toward developing countries in the commercial realm is obvious: Together, these three absorb two-thirds of the exports from developing countries. The E.C. has long recognized and demonstrated this responsibility concretely in the preferential treatment it gives these countries. The same applies for the United States. But the fact remains that the operation of international trade, including GATT regulations, must be improved, and we must restore a better balance of GATT benefits.

The United States deserves credit for having shown the way on the international economic level by asking for a new round of multilateral trade negotiations. However, for a year, the E.C. had to act as the bridge between developing countries and the United States, and to negotiate the convergence of positions that made possible the successful launch of the Uruguay Round at Punta del Este in September 1986.

The current U.S. Administration is firmly involved in the Uruguay Round. It

has contributed fully from the beginning of the exercise, by placing detailed and valuable ideas on the table in many sectors such as services, intellectual property and agriculture. However, on the latter subject, the E.C. does not find the U.S. proposal realistic.

During 1987, which constituted the initial phase of negotiations, the E.C. played a very active role. We were the first to present a substantive proposal for tropical products. We presented our general approach on agriculture—which we believe to be more realistic—on services and on intellectual property.

As for Japan, let us recognize that, from the beginning, it has been a strong supporter of this new round, in which it has shown more interest and in whose discussions it has participated more fully than in previous rounds. Nevertheless, until now, Japan has given no sign of contributing to restoring a better equilibrium in GATT benefits.

“We must turn our backs on unilateral measures and carry the Uruguay Round to a successful conclusion.”

I draw these conclusions to provide a clearer definition of roles: It is the United States that offers strong impetus in many sectors; it is the E.C. that contributes actively to the achievement of rapid progress, but at the same time pays more attention to the need to maintain cohesion and consensus among participating countries. Could this be the duty of the Community? Indeed, the latter is a privileged interlocutor with developing countries, in international circles; it is also an important partner of the United States. However, I am not certain that the United States is prepared, or still has the means, to continue to play this role as locomotive.

Indeed, the early signs of danger are present. If proposed trade legislation currently before Congress becomes law, the risk of dealing a fatal blow to the Uruguay Round is great; if the United States turns its back on the multilateral process of trade, that will be the end of the multilateral trade system. What can be done? Should the E.C. pick up the slack?

The E.C. is not prepared to take on the responsibility or the burden of open trade alone. This is even less the case for Japan. The only solution is collective responsibility. Of course, to this end, we must first

be able to find solutions to our bilateral quarrels (hormones, or Airbus, for example) not only to set a good example, but also to give the multilateral dimension additional dynamism. The interdependence of the world economy leaves us no choice but to pull the train of the world economy by three locomotives that share the driving role.

However, this train can only stay on its tracks if financial and monetary disturbances are first stabilized, and then cleaned up.

Macroeconomic coordination is indispensable

Well before the events on the stock markets and the decline in the dollar in recent months, the outlook for world growth was quite mediocre. There was already a great deal of uncertainty because of profound imbalances between savings and investment. Since then, the markets have taken the lead, and their concern demonstrates the intolerable nature of the current imbalances, and thus of the underlying domestic policies.

Should these markets be left on their own today? This, in my opinion, seems very risky for all those involved. I believe that giving them a more stable and more credible context seems to be more prudent. The imbalances must be corrected in an orderly fashion, avoiding the additional cost of excessive market oscillations. This requires formal and sufficiently massive commitments from the various countries—they must demonstrate a willingness to adjust domestic policies, to take concerted measures and they must ensure the credibility of these adjustments and measures to solve the international imbalances.

First of all, the exchange rate for the dollar must be stabilized at a reasonable level. The only way to do so is through a policy mix at a global level, reestablishing confidence in the markets. The agreement reached in the United States between the Administration and Congress concerning the reduction of the federal budget in 1988 and 1989 certainly constitutes a first step.

For its part, Japan should indeed transform its economy so that growth is generated by domestic demand rather than by exports, with all of the profound changes this involves. It should maintain adequate growth in domestic demand in the medium term. There are no macroeconomic constraints that would really prevent Japan from experiencing considerable growth in upcoming years.

As for the E.C., we should apply a medium-term growth strategy, for durable growth that can solve the unemploy-

ment problem under healthy conditions and help correct the international imbalances. The competitiveness of European industries must continuously be reinforced, especially in the perspective of the completion of the internal market in 1992. Because of its size, this huge market will open up new possibilities for growth in coming years.

As for concerted measures, they involve improving the international monetary system. Taking example on the European Monetary System, we should look for firm agreements on exchange rates and a minimum of regulations and procedures to make these commitments credible. Moreover, we should expand the international monetary system by encouraging wider use of the yen and the European currencies. An expanded system would diffuse the effects of the policies of one country, and would also require a greater degree of coordination. Of course, a tri-polar system does not guarantee stability. However, fewer disparities in the degree to which the dollar, the yen and European currencies are used in trade and at the level of reserve funds would be of great help in ensuring that the three major players recognize their responsibilities and act in a concerted manner in the international realm.

Conclusion

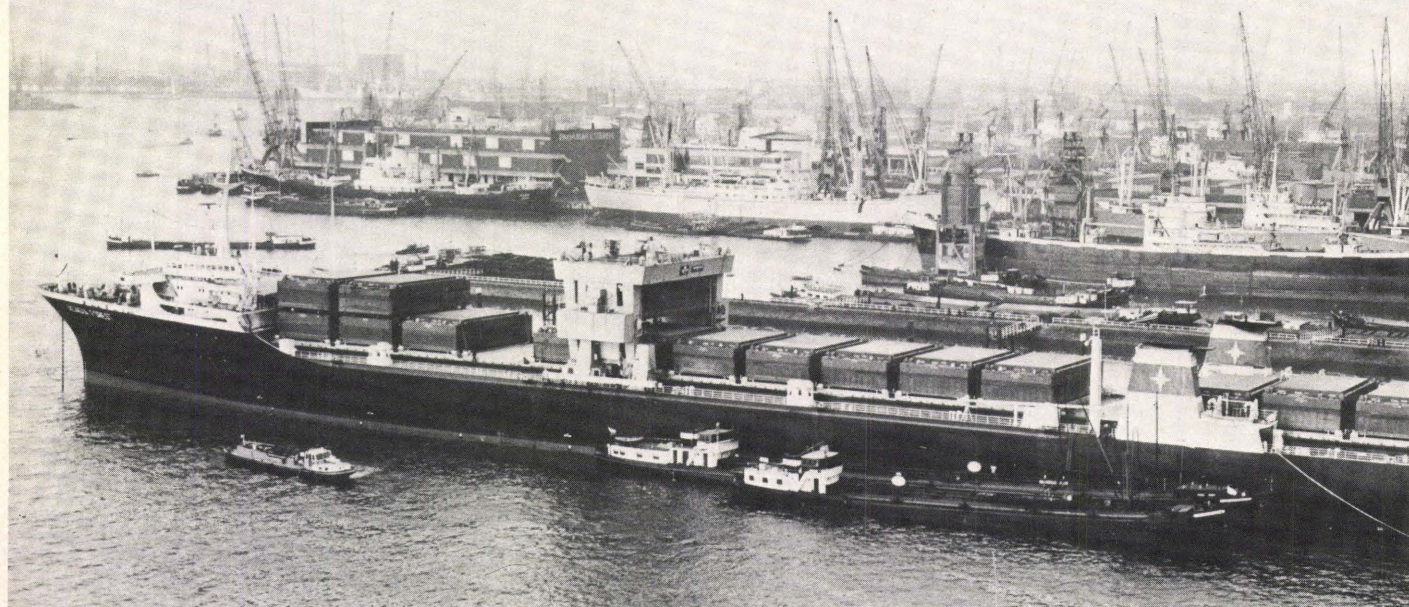
Unless they recognize their individual and collective responsibilities, and take concerted actions in keeping with these responsibilities, the United States, Japan and the E.C. run the risk of cutting off the limb they sit on. The damage would go beyond their borders, and the consequences at the world level bear names such as stagnation, even recession, with a grim procession of cumulative effects on all societies and individuals.

This responsibility is too heavy to think that if one of us does not take it on, another will. No country alone seems to be able to serve as the locomotive of growth. Those days are gone, as the markets have proven to us. Without a collective and massive jump, they will not react.

In trade, the way has been traced for us by the Uruguay Round. We must turn our backs on unilateral measures and carry the round to a successful conclusion. On the monetary level, the foundations are there: The Plaza and Louvre agreements opened the way, as did the reinforcement of the European Monetary System after the Nyborg accord. We must continue our efforts so that any new sentence does not condemn us. **€**

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

EXPORT CONTROLS AND THE SINGLE EUROPEAN MARKET



E.C. WELCOMES SOME PROPOSED U.S. REFORMS, OPPOSES OTHERS.

AUKE HAAGSMA

Nineteen eighty-seven saw many changes in the U.S. export-controls field, and the groundwork was laid for what may be more in the months to come. While this opens many opportunities for the European Community, the E.C. also faces a number of challenges.

When the E.C. was formed, one of the basic ideas was to create one single market. However, despite the fact that many refer to the E.C. as the "Common Market," so far a really integrated market has not been achieved. The current E.C. Commission, and especially its President, Jacques Delors, decided that for Europe to meet the U.S. and Japanese challenge, a truly unified and integrated market had to be established soon. The completion of the internal market—in which the remaining barriers between the 12 member states are to be removed—is scheduled

for the end of 1992.

This policy objective was formalized by an amendment to the 1957 Treaty of Rome establishing the E.C. that was adopted by the E.C. member states at the end of 1985 as part of the Single European Act. The Treaty specifies that the internal market is an area without internal frontiers, in which the free movement of goods, persons, services and capital is ensured.

One of the areas in which such measures are necessary is the field of export controls. At the moment, those member states that are part of the Coordinating Committee (COCOM) of the North Atlantic Treaty Organization (NATO) have agreed to control the exports of certain strategic goods. No exception is made to take account of the special situation of the Community. This means that if, for instance, a certain type of computer is sold by its producer in the United Kingdom to a client in France, the British authorities have to provide an export license.

Obviously, there can be no "internal market" as long as such controls are still being applied. They can, however, probably be disposed of unilaterally by the member states involved, even for exports

to Ireland, although that country, as a non-NATO member and a non-COCOM partner, presents some particular problems.

Slightly more difficult is the situation with regard to the U.S. re-export controls. If, in the example mentioned above, the computer is based on U.S. technology or incorporates more than 25 percent of U.S. parts and components, then, in addition to the export license from the British, a re-export license from U.S. authorities is needed. Even in the case where such a computer is bought by a firm for use in its London office and it is decided to move the office and equipment to Brussels, then once again a U.S. re-export license is required.

A really integrated market, of course, would require that such re-export licenses be abolished. This, by the way, is what the E.C. has persistently argued for over the past few years. Not specifically because it was an obstacle to the completion of the single market, but because re-export controls are legally not justified, as they are based on the premise that U.S. law extends to actions by foreign citizens that take place outside U.S. territory. Some E.C. countries found this extraterritorial reach of U.S. law so objectionable

The E.C. is opposed to the extraterritoriality of U.S. re-export controls, for reasons of principle and because these controls can frustrate the creation a single European market.

that they adopted so-called blocking statutes that make it illegal to apply for a U.S. re-export license.

The process of reforming U.S. export controls, which was put in motion by a 1987 National Academy of Sciences study and, led to actions by both the Congress and the Administration, promises a series of improvements, both here and in other fields. This offers increased opportunities for the E.C. in the sense that streamlining the fairly cumbersome and slow procedures for obtaining export licenses makes it easier for European industry to find a reliable supplier in the United States. This should increase trans-Atlantic trade.

In addition, there are also promises for improvements with regard to re-export controls. Indeed, some of these have already materialized. Thus, for example, a regulation was published by the Department of Commerce that eliminated certain re-export controls for products incorporating a maximum of 25 percent of U.S. parts and components. More reforms have been announced for 1988.

Congress is moving in the same direction. Both versions of the trade bill contain language that would eliminate controls on re-exports to cooperating COCOM countries. However, this is not done to

respond to criticism over the U.S. re-export controls or to accommodate E.C. plans for a unified market, but only to enhance U.S. industry's competitiveness in cases where alternatives for U.S. technology exist elsewhere. When this is not the case, and the United States can, therefore, unilaterally control a certain technology, then, as explicitly stated in the Senate version of the trade bill, re-export controls can still be maintained.

The E.C. will remain opposed to such controls, both for reasons of principle and because these controls will frustrate the creation of a single market. In addition, the Senate bill gives other reasons for concern. It contains very controversial provisions that would increase the extraterritorial aspects of the U.S. exports controls legislation. This is the so-called Garn amendment, which foresees mandatory sanctions, such as an import prohibition and exclusion from U.S. Government contracts for periods of up to five years, in cases where a non-U.S. company violates non-U.S. law outside U.S. territory. In an official note to the State Department, the E.C. declared that such sanctions would be unacceptable and that, were they to be imposed, it might well have to retaliate.

Taken together, the export-control re-

forms undertaken by the Administration and Congress offer some improvements that are welcomed by the E.C., but they leave some concerns over extraterritoriality in the case of re-export controls and even increase them in the case of the Garn amendment.

The E.C. will also have to reflect on the future of its own export-control system. As indicated above, it will have to abolish all controls on intra-E.C. shipments of sensitive material in order to be able to create a unified internal market. But the E.C. has always gone beyond the mere elimination of barriers within the E.C. and tried to create a common set of rules applying to imports and exports, regardless of the place where the goods leave or enter E.C. territory. This was done in order to avoid trade diversions. It may well be that the E.C. will find that an effective export-control system also requires common rules for exports of sensitive material from anywhere in the Community. Thus, the E.C. could even contribute toward a better enforcement of COCOM, an important and interesting challenge. €

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SOCIÉTÉ GÉNÉRALE USA

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EUROTUNNEL PROCEEDS DESPITE INITIAL CAPITAL DIFFICULTIES

EUROPE'S LARGEST INFRASTRUCTURE PROJECT
EVER IS DUE FOR COMPLETION IN 1993.

SARAH HOGG

On February 5, British Prime Minister Margaret Thatcher did her bit for the Eurotunnel. At the controls of a \$6.2-million boring machine, some 40 meters under the British Channel, Thatcher enthusiastically took the service tunnel of the 50-kilometer fixed link between England and France about one-half meter closer to the French tunnelers working on the other side. It is the final, personal identification of the Prime Minister with a project from which the Government had initially remained at arm's length, refusing to inject

government money or guarantees.

Inevitably, however, both the French and the British Governments were involved. Thatcher's digging trip came just a year after the British and French jointly announced a scheme for "*le plus gigantesque péage du monde*." That was the way that Eurotunnel, the Anglo-French company set up after due solemnities—a treaty signed in July 1987 by Thatcher and French President François Mitterrand—endeavored to sell the £4.9-billion project to the French public. To buy

The tunnel will run some 50 kilometers under the English Channel.

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shares in the twin-bore rail tunnel to be built under the channel between south-east England and north-west France was, potential investors were told, to make a "rendezvous with history."

Until last year, history persistently had refused to keep the appointment. In 1802, Albert Mathieu laid down plans for a tunnel from Cap Gris Nez to East Wear Bay near Folkestone. In 1881, there were the first tentative diggings for a tunnel designed to run from Shakespeare Cliff near Dover to Sangatte near Calais. But it was nearly 100 years later before another trial bore was made in 1975.

Even so, the tunnel's proponents were



All these securities having been sold, this announcement appears as a matter of record only.



European Investment Bank

£100,000,000

9½ per cent. Notes due 1994

Issue Price 99½ per cent

Kleinwort Benson Limited

Baring Brothers & Co., Limited

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Generale Bank

Morgan Grenfell & Co. Limited

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Union Bank of Switzerland (Securities) Limited

able to assemble an impressive collection of historic supporters of the idea: Queen Victoria, Napoleon III and Winston Churchill, though one may assume the last named may have had a different opinion of the link at certain moments of 20th century history.

But Eurotunnel had a struggle getting off the ground, particularly in Britain. The French saw it from the start as a crucial component in a new trans-Europe high-speed rail system linking Paris with all other capitals. In Britain, however, the tunnel's proposers had to bore their way through the instincts of independent islanders, the fears of invasion of all kinds—not least of animals carrying rabies, a disease from which the United Kingdom still remains free.

Nor were all the inhabitants of the crowded countryside surrounding Cheriton in Kent exactly delighted at the prospect of the tunnel's construction and subsequent use. And natural fears of the risks of disaster somewhere along the tunnel's 50-kilometer course were heightened by the lives lost in a fire in the subway station at a major London terminal—King's Cross—during the run-up to the Eurotunnel share launch.

In 1986, a good deal of arm-twisting was needed to ensure that British institutions took up their £70-million share of a £206-million international share placing. British enthusiasm was again called in question when it became clear that British banks came only fourth on the list of suppliers of some £5 billion of loan finance for the project. Eurotunnel's troubles were exacerbated by boardroom difficulties—the resignation of the first British chairman, Lord Pennock, and the departure of the French chief executive, Jean-Loup Dherse—until Alistair Morton, chief executive of the financial services group Guinness Peat, joined André Bénard in joint chairmanship in February 1987. The British side of the board was also strengthened by the appointment of Sir Kit McMahon, the chairman-designate of Midland Bank and former deputy governor of the Bank of England.

Then, in November 1987, came the struggle to get the £770-million share issue underwritten. A by-then-powerful board succeeded in whipping in the British financial establishment. Support came, controversially, in a poll published by Eurotunnel's publicity advisers, Dewe Rogerson, which suggested that over half a million British people were certain to invest in the project. In the event, there were only 112,000 share applications in Britain, and 200,000 in France.

The British sales drive was, nonetheless, rather more low-key than the

French pitch. It was still an expensive and controversial campaign. The total costs of the share issue were reckoned at £68 million—of which £41.5 million represented the underwriting cost. For this Eurotunnel succeeded in raising the desired £770 million—but the public share issues in both France and, more particularly, Britain were heavily undersubscribed. And on the day dealings opened in London, the share price fell nearly £1 below the £3.50 offer price. It was still trading at similarly low levels in the New Year.

Eurotunnel was, of course, unlucky in its timing. The public-share issue fell after the October stock market crash; and in Britain, it followed all too closely on the heels of the Government's sale of its remaining monumental stake in British Petroleum—whose price collapsed so badly that the Government had to agree to bail out the underwriters by buying back the shares at a "floor" price. Eurotunnel could do nothing but to go ahead—not because it urgently needed the money, but because its ability to draw on the much more substantial loan finance arranged had been made dependent on the share issue.

The tunnel also faced a pretty formidable bunch of opponents. Flexilink—the group of ferry operators and the like opposed to Eurotunnel—countered the share issue publicity with a shower of critical advertising. They argued that the traffic estimates were unrealistic and that costs were bound to overrun. Eurotunnel's prospectus indicated that it aimed to capture 44 percent of cross-Channel passenger traffic, and 17 percent of freight traffic when it opens—which is meant to be in May 1993. That would amount to a total of about 30 million passengers a year, rising to nearly 40 million in 2003, according to Eurotunnel's estimates. Passengers—and their cars—will be carried on special trains, requiring rapid loading, and raising complex issues of compatibility between French and English railway tracks.

Freight is estimated to rise from 15 million tons at the start to 21 million tons 10 years later. On these figures, Eurotunnel was aiming for a profit of £70 million in its first fully operating year, rising to inevitably pie-in-the-sky estimates of a £14.5-billion profit in 2041—the year before the concession to operate the tunnel system is due to expire.

Flexilink, by contrast, argued that a recent study by the British Department of Transport suggested the tunnel might attract only 18 million to 19 million passengers by the turn of the century, and less freight than Eurotunnel hoped to

carry, as well. Jumbo ferries—which the cross-Channel operators hope to bring into operation before the tunnel even opens—would, Flexilink argued, knock Eurotunnel's finances by cutting fares way below the tariffs suggested in the prospectus.

Most brutally of all, Flexilink pointed to the poor time-keeping of major engineering projects in Britain. The second Dartford tunnel under the Thames River was, Flexilink claimed, four years late and cost 200 percent more than budgeted. The barrier across the Thames, designed to protect London against possible flood tides, cost £461 million, instead of the originally estimated £23 million. Lest it should sound too anti-British, Flexilink also pointed to the terrible delays and cost overruns associated with the construction of the Selkan tunnel connecting Hokkaido to the northern island of Japan.

Eurotunnel had some good answers to these criticisms. A recent study by Britain's National Economic Development Office of 25 major construction engineering projects since 1981 showed a dramatic improvement in timekeeping. Of 25 projects studied, one was five months late, the rest on time or completed quickly enough to satisfy the client. One third, indeed, were completed early and a quarter were under budget.

Eurotunnel also has grounds—in every sense—for arguing that the technical difficulties are not overwhelming. For most of its length, the tunnel will be driven through chalk marl, which is good for digging; there are only four kilometers of badly fissured ground on the French side.

Even so, the tunnel has had a rough start. By December 1987, when boring started on the British side, it was clear that it was already running three months late; that could be tolerated within the margins built into the contract, but narrowed them considerably. On the French side, tunnelling has been plagued by strikes. On the British side, the contractors have been experiencing difficulty in recruiting a sufficient number of qualified engineers—more than 1,000 are needed. Transmanche Link, the consortium of 10 British and French construction firms building the project, has been advertising for engineers worldwide: It faces penalties of over £300,000 for every day that the project overruns its target date of May 1993.

And after that? Thatcher, at least, seems in no doubt. Fresh from her personal engineering feat on February 5, she was confident that boring would then have to begin on a second tunnel. €

Sarah Hogg is the business and City editor of *The Independent* newspaper in London.

All these securities having been sold, this announcement appears as a matter of record only.



Banque Nationale de Paris

£75,000,000

9⁵/₈ per cent. Notes 1993

Issue Price 101¹/₄ per cent.

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AMERICAN ATTITUDES TOWARD EUROPE: A NEW GALLUP POLL

PUBLIC PLACES HIGH VALUE ON IMPORTANCE OF TIES.

The Gallup Organization conducted a study late last year on attitudes in American public opinion toward U.S.-European relations. The following is Gallup's summary of its findings in two telephone surveys—one a national sample of adults from the general population and the other an elite sample of national opinion leaders.

U.S.-European Relations

Respondents from the general population, and national opinion leaders, express positive attitudes toward Western Europe and U.S.-West European relations.

While the public places a high value on the importance of American ties with Western Europe, the feeling that those ties have waned over the past 10 years is widespread.

General favorability ratings of West European countries are highly positive and somewhat greater than Japan, but lower than Canada.

For both survey groups, the importance of leadership attention being focused on West European countries is high and equal with Japan, but lower than the Soviet Union.

Despite these highly positive favorability and importance ratings of Western Europe, most respondents recognize a lack of strong popular interest in what goes on there.

Although one quarter of the general public, and one-third of the national opinion leaders feels the U.S. contributes too much to the defense of Western Europe, a large majority from both survey groups say it is necessary for American troops to be stationed there to prevent a Soviet attack.

Large majorities of both groups surveyed favor the political unification of Western Europe, and similarly large proportions think U.S. policy supports such unification.

While national opinion elites think the political unification of Europe will give the Europeans a stronger voice in world af-

airs, the opinion of these leaders is divided on whether such unification will make them a stronger competitor of the United States in world markets.

Trade Relations

Even among the better educated and informed, or those more interested in politics and international affairs, public opinion on issues about international trade relations and deficits is more salient with reference to Japan than to the countries of Western Europe.

Respondents are much more likely to know of the overall U.S. trade deficit with Japan than with the countries of Western Europe—and this holds for the interested and informed groups of the general population as well as the national opinion leaders.

Although about one-third of the respondents believe that West European countries engage in unfair trading practices with the United States—both national opinion leaders and the general public cite Japan as an unfair trading partner more than twice as often as the countries of Western Europe.

Respondents feel the best solutions to the U.S. trade deficit are factors internal to the American economy—producing better products more efficiently or reducing the U.S. budget deficit—rather than by imposing restrictions and tariffs on products from other countries.

While research institute experts and business leaders are more likely to oppose a U.S. trade policy that places *any* restrictions on trade, policy makers are more inclined to favor retaliatory restrictions and tariffs against countries that restrict U.S. goods.

Despite widespread agreement among national opinion leaders that the European Community is a good market for U.S. goods, the opinion of these elites is divided on whether the E.C. helps balance U.S. trade with Europe.

Most national opinion leaders *agree* that U.S. farm subsidies are likely to be

cut substantially because of the budget deficit, but *disagree* that criticism of E.C. farm subsidies will create pressure for lower subsidies to farmers in the United States.

Although national opinion leaders are *not* likely to cite West European countries as the greatest threat to U.S. agriculture, these elites are even less likely to name Europe as the greatest opportunity for American farmers.

Importance of Europe

When comparing the social and cultural characteristics of American and West European societies, as well as the technological achievements of these countries with those of Japan, respondents express a mixture of beliefs partially shaped by national pride, stereotypical images, and personal experiences.

The public displays a keen respect for West European cultural achievements in art, music, theater, literature and fashion design, but generally reserves higher credit to American society for its equality of opportunity, encouragement of individual creativity, leadership in science and technology, and for being a rapidly changing society.

National opinion leaders are more likely than the general public to think Western Europe, rather than America, provides excellent education and fosters good work attitudes for its citizens, encourages cooperation between workers and management, and places great importance on family social position.

Japan not only tops Western Europe, but also the United States, in producing the best products and services according to respondents from the general population and national opinion leaders.

Despite these views about products and services, most people think the United States has the most advanced technology compared to Western Europe and Japan—especially the national opinion elites.

Public opinion is divided on whether the best cars are made in the United States or Japan, but national opinion leaders are more likely than the general population to say cars made in Western Europe are best.

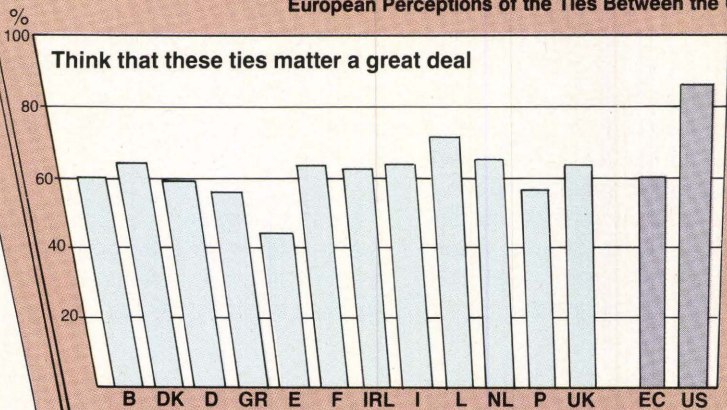
Awareness of the E.C.

The level of awareness of the E.C. is relatively low among the general public, and in addition, the proportion who have read or heard anything about the E.C. or the Common Market has declined significantly compared to the measurement taken in 1973.

Even among the segment of the public aware of the E.C., respondents display a

Eurobarometer Survey

European Perceptions of the Ties Between the United States and Europe



United States Ties with Western Europe

Importance of Ties	E.C.	U.S.
Matter a great deal	60%	86%
Not very important	24%	10%
Don't know	16%	4%

Today's Ties Compared to Ten Years Ago	E.C.	U.S.
Closer	43%	33%
Not as close	29%	53%
Same (Volunteered)	N/A	6%
Don't know	28%	8%

A Gallup Poll: Attitudes Toward U.S.-European Relations

A Survey on American Public Opinion about Western Europe

(G.P.-General Public, O.L.-Opinion Leader)

United States Ties with Western Europe

Importance of Ties	1987 G.P.	1987 O.L.	1973 G.P.
Matter a great deal	86%	99%	65%
Not very important	10%	1%	16%
Can't say	4%		19%

Today's Ties Compared to Ten Years Ago

Comparison	1987 G.P.	1987 O.L.	1973 G.P.
Closer	33%	30%	31%
Not as close	53%	50%	39%
Same (Volunteered)	6%	17%	12%
Don't know	8%	3%	18%

What is Best for U.S. in the Long Run

Opinion	1987 G.P.	1987 O.L.	1973 G.P.
To strengthen our ties	53%	63%	N/A
Continue as they are now	31%	35%	
Reduce our ties	11%	2%	
Don't know	5%		

Common Market More Likely to Benefit or Hurt U.S.

Based on those who heard of the European Community

Opinion	1987 G.P.	1987 O.L.	1973 G.P.
Benefit	51%	60%	42%
Hurt	37%	35%	32%
Don't know	12%	5%	26%

Political Unification of Western Europe

For or Against Efforts to Unify Western Europe	1987 G.P.	1987 O.L.
For-very much	27%	33%
For-to some extent	38%	38%
Against-to some extent	13%	9%
Against-very much	5%	5%
Don't know	17%	15%

Opinion of Government Policy Towards European Unification

Opinion	1987 G.P.	1987 O.L.
Supports	64%	63%
Opposes	16%	15%
Don't know	20%	22%

Feelings about E.C.

Based on those who heard of the European Community

Feeling	1987 G.P.	1987 O.L.
Very good	27%	24%
Fairly good	63%	61%
Neither good or bad (Volunteered)	4%	4%
Rather bad	2%	9%
Very bad	2%	1%
Don't know	2%	1%

Attitudes about Trade with the European Communities

European Community Helps Balance Our Trade with Europe	1987 G.P.	1987 O.L.
Completely agree	15%	2%
Mostly agree	42%	37%
Mostly disagree	23%	42%
Completely disagree	10%	8%
Don't know	10%	11%

European Community is a Good Market for U.S. Goods	1987 G.P.	1987 O.L.
Completely agree	31%	25%
Mostly agree	47%	63%
Mostly disagree	14%	10%
Completely disagree	4%	1%
Don't know	4%	1%

lack of factual knowledge about the E.C.—its member countries, policy areas it actively pursues, and its economic and industrial capacity compared to the United States.

Despite this general lack of detailed knowledge, an overwhelming proportion of those who are aware of the E.C. express positive feelings toward it.

Most national opinion elites, and a bare majority of the aware public, think that

the Common Market is more likely to benefit the United States overall, rather than to hurt it.

International Involvement

While many respondents in the general population sample say they are very interested in news about relations between the United States and other countries, only about one in 10 report involvement or participation with organizations concerned with international affairs.

Ethnic Roots

Two-thirds of the respondents in the general population trace their ethnic roots to Western Europe—a full one-fourth have parents or grandparents who were born there.

[A Eurobarometer poll conducted in Europe during the same period contained several mirror questions to the Gallup poll; see bar chart.] €

Perception of Trading Fairness with other Countries

General Population	Western Europe Countries	Japan	Canada	South Korea
Unfair	30%	65%	11%	42%
Fair	47%	25%	72%	29%
Neither (Volunteered)	4%	2%	3%	3%
Don't know	19%	8%	14%	26%

Opinion Leaders	Western Europe Countries	Japan	Canada	South Korea
Unfair	40%	88%	16%	53%
Fair	47%	7%	75%	30%
Neither (Volunteered)	7%	3%	4%	4%
Don't know	6%	2%	5%	13%

Importance for Leaders to Pay to Attention Selected Countries

General Population	Western Europe Countries	Japan	Canada	Soviet Union
Very important	62%	65%	55%	82%
Somewhat important	31%	25%	30%	11%
Not too important	3%	5%	10%	3%
Not at all important	1%	2%	3%	1%
Don't know	3%	3%	2%	3%

Opinion Leaders	Western Europe Countries	Japan	Canada	Soviet Union
Very important	83%	88%	76%	95%
Somewhat important	16%	11%	21%	5%
Not too important	1%	1%	3%	-
Not at all important	*	*	*	*
Don't know	-	-	-	-

Comparison of American and Western European Societies

(Percentage saying statements are more true of each society.)

	1987 G.P.		1987 O.L.	
	West U.S.	Europe	West U.S.	Europe
Gives everyone an equal opportunity to succeed	77%	5%	81%	4%
Encourages individual creativity	62%	14%	78%	7%
Encourages cooperation between business management and workers	55%	18%	32%	44%
Produces world leaders in science and technology	54%	16%	66%	7%
Provides excellent education for its citizens	54%	21%	34%	33%
Is a rapidly changing society	53%	16%	57%	10%
Fosters good work attitudes in its citizens	45%	25%	32%	36%
Places a great importance on a person's family social position	43%	32%	13%	70%
Is highly respected for its art, music, theater and literature	28%	46%	13%	62%
Produces world leaders in fashion design	26%	48%	11%	61%


Source: The Gallup Organization, Inc., January 1988

MAPS OF THE EUROPEAN COMMUNITY

Get to know the European Community from its brightly colored maps. Scale: 1: 4 000 000 (1 cm = 40 km, 1 in = 63.14 mi) 40.5 x 29.5 inches, folded in plastic envelope.

The political map shows the member states, regions and administrative units of the E.C. in twelve colors. Inset on the map are 105 block diagrams giving basic information about the twelve countries and comparative statistics for the E.C., the United States and the Soviet Union.

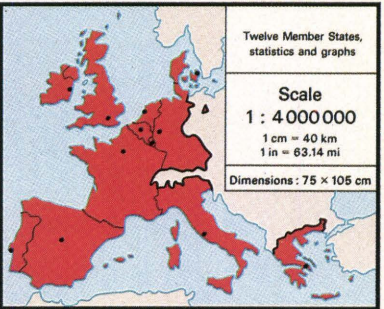
The forest map depicts the location of 124.5 million acres of forest in the E.C. Statistics for each member state on



THE EUROPEAN COMMUNITY

Political map

MEMBER STATES, REGIONS AND ADMINISTRATIVE UNITS

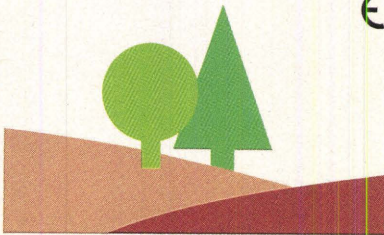


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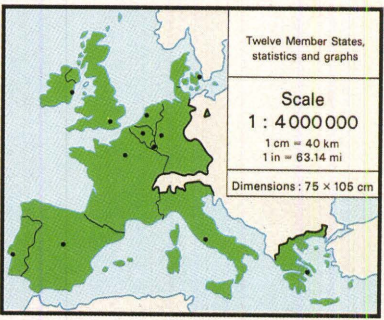
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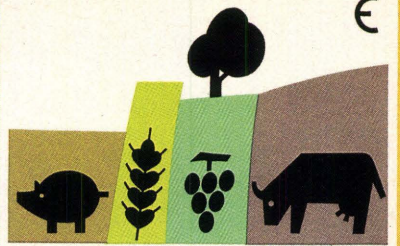
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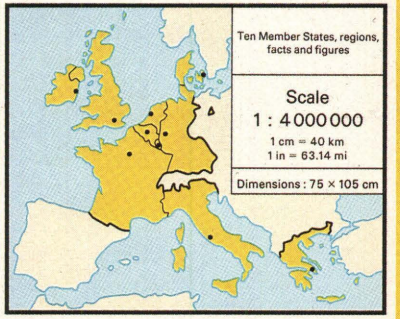
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Farming



Ten Member States, regions, facts and figures

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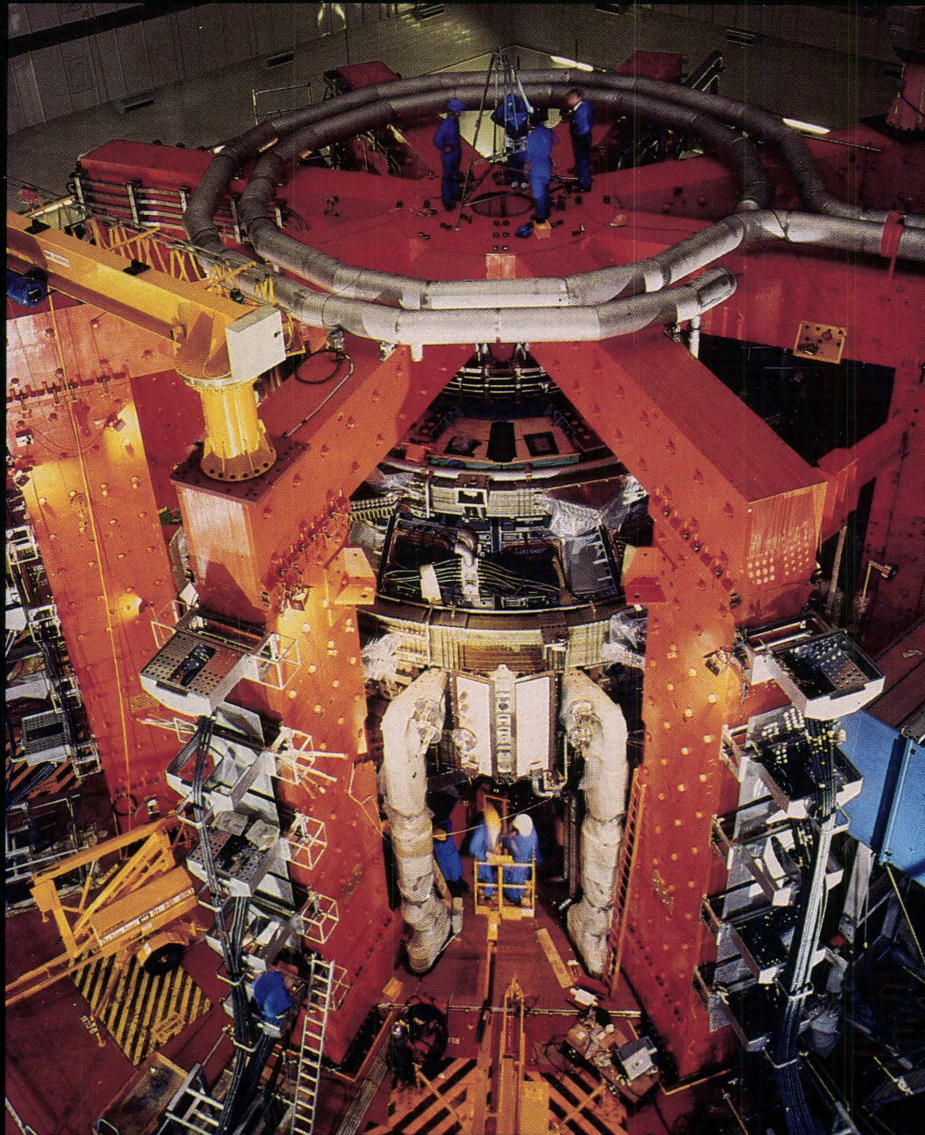
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consumption and Community aid for forestry are given in an inset.

The farming map gives a vivid picture of Europe's varied agricultural sector. It shows four basic types of farm land and the most representative crops in each region. Seventy block diagrams give basic statistics on European farming, by country, with comparisons of agriculture in the E.C., the United States and the Soviet Union.

NUCLEAR FUSION RESEARCH IN EUROPE

E.C. PROGRAM AIMS FOR CONSTRUCTION
OF DEMONSTRATION REACTORS.



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The following article summarizes the European Community's fusion research, fusion's place in the overall E.C. research and development effort, and the E.C.'s role in the international quest for fusion.

WIM VAN DEELEN

Fusion research is, along with other major research programs such as ESPRIT, BRITE and RACE, one of the specific research programs through which the E.C. implements its scientific and

The Joint European Torus (JET) is the largest tokamak in Europe.

technological strategy. This strategy is presented in the so-called Framework Program, which sets out the main orientation for research and technological development at the E.C. level for the period 1987-91. It covers a wide span of activities such as research on energy, health, the environment, information and telecommunication, raw and advanced materials, to name but a few.

The Framework Program also defines the relative priorities in terms of financial support between these actions. Energy research accounts for 22 percent of the resources for new program decisions during the period 1987-91. Within energy, 52 percent is earmarked for fusion, 38 percent for fission (primarily nuclear safety) and 10 percent for non-nuclear energy. At 11 percent of the total for the new funding decisions during the period 1987-91, the fusion program is, after ESPRIT, the second largest E.C. research and development program.

In absolute terms, overall expenditure for fusion research in the E.C. during the period 1987-91 is expected to be about 2.3 billion European Currency Units (ECU), or, on the average, about \$580 million per year at current exchange rates. The E.C.'s contribution to this amount will be about 42 percent; the remainder will be supplied by national organizations in the member states, as well as in Sweden and Switzerland, two non-member countries that have joined the E.C.'s fusion effort.

Basis, development and long-term goals of the program

The following decision of the Council of Ministers illustrates the solid basis of the E.C.'s fusion program: "The Community fusion program is a long-term cooperative project embracing all the work carried out in the member states in the field of controlled thermonuclear fusion. It is designed to lead in due course to the joint construction of prototype reactors with a view to their industrial production and marketing."

This commitment has provided for a unique collective effort, which over the past decades has resulted in some major accomplishments, such as Joint European Torus (JET), and has placed Europe in the first rank of fusion research.

In the early 1960s, work focused primarily on the problems of magnetic confinement and on plasma heating. Avoiding duplication and stimulating exchange of information between the participating laboratories were prime tasks of the Commission. Later, in response to the success of the Soviet tokamak, the E.C. stepped up its effort and funding.

In the 1970s, several machines of the tokamak type were constructed in the E.C., and in 1977 construction started on the JET, an experimental fusion facility located in the United Kingdom. The E.C. covered 80 percent of the costs of JET, which has been in operation since 1983 and is the world's largest tokamak.

The objective of JET is to establish scientific feasibility of nuclear fusion. The next step will be to address technical feasibility of fusion in the Next European

E.C., U.S. ARE CO-LEADERS IN EFFORT TO STRENGTHEN INTERNATIONAL COOPERATION.

Torus (NET), an intermediate machine of the tokamak type. Depending on scientific and technological progress, construction of NET may start in the first half of the next decade. After NET, the final step in the E.C. program will be the construction of a demonstration reactor, DEMO, to address economic feasibility of nuclear fusion. DEMO should produce electricity in a safe and reliable way.

Current activities

Main objectives of the fusion program (1985-89) are:

- Establishment of the scientific and technological basis for the detailed design of NET;
- Start of the detailed design of NET;
- Exploration of the potential of certain alternative routes.

The scientific basis for NET is primarily provided by the exploitation of JET and other European tokamaks. Parallel to the scientific effort, a technological basis is being developed, largely for NET, but also for longer-term goals. Work is being carried out on superconductive magnets, tritium technology, blanket materials, structural materials and on safety and environmental issues. For the design of NET, a team has been established in Garching, in the Federal Republic of Germany. The European industry is very much involved in the program; in fact, excluding large computers, 96 percent of the high-technology equipment purchased over the past 10 years was provided by European industry.

A new program, basically a continuation of the current one, has been proposed for the period 1987-91 and awaits approval by the Council of Ministers. Responding to a request from the European Parliament, the Commission also has issued a statement on environmental impact and economic prospects. This statement notes that "The vast and well-established reserves of fuel and the

inherent safety of fusion reactors, together with the envisaged environmental advantages and economic competitiveness, make fusion a desirable objective as a major source of safe energy for future generations."

International cooperation

From the beginning of the E.C.'s involvement in fusion, it was recognized that cooperation is a major key to making fusion energy a reality. The success of the

European initiative aimed at this goal is illustrative. The advantages of cooperation on fusion research also have been recognized on a world scale: The E.C. is, with the United States, co-leader in an effort to strengthen international cooperation, by virtue of measures agreed at the 1982 Western economic summit in Versailles.

In international cooperation, the E.C. fusion program presents itself as a single body in relation with other fusion programs. In other words, all agreements on international cooperation have been and will be concluded by the Community. The current network of international cooperation on fusion research, in which the E.C. is a participant, includes:

- Bilateral framework agreements with the United States and Canada; an agreement with Japan is in preparation;
- Participation in several multinational implementing agreements in the framework of the International Energy Agency;
- Participation, with Japan, the United States and the Soviet Union, in a design study called the International Tokamak Reactor (INTOR) Workshop in the framework of the International Atomic Energy Agency (IAEA), completed end 1987.

In 1986, the U.S. Government proposed a collaborative conceptual design activity for an International Thermonuclear Experimental Reactor (ITER), under the auspices of the IAEA, involving the four large fusion programs of the world: those of the E.C., Japan, the United States and the Soviet Union. The work, consisting of producing by the end of 1990 a conceptual design of an ITER and of coordinating supportive research and development activities, could start early this year with joint design work performed in Garching. ☾

Wim Van Deelen is counselor for science and technology at the E.C. Commission's Delegation in Washington, D.C.

NORWAY LEADS NEIGHBORS IN PUSH FOR CLOSER E.C. TIES

THINGS HAVE CHANGED SINCE THE 1972 REFERENDUM REJECTING MEMBERSHIP.

AXEL KRAUSE

After narrowly rejecting Common Market membership nearly 16 years ago, Norway is again out in front among a handful of European countries seeking to expand ties with the European Community. More surprising, Norway also is moving faster than any of its neighbors in edging toward full-fledged membership—until recently a taboo subject in Norway.

"It may not be very perceptible to the outside, but there is a new European breeze blowing here," commented the head of one of Norway's largest industrial companies during a recent conversation in Oslo. "And it is blowing us to E.C. membership—and I mean sooner rather than later."

When the dust settled and the ballots were counted following the controversial September 25, 1972 referendum, 46.5 percent of Norwegians supported membership; 53.5 percent were opposed. Since then, hostility to membership has eroded, particularly among youth, following the embittered debate over the referendum that split the nation, and even individual families. Opposition from Norwegian farmers, fishermen and rural religious groups, who vociferously opposed membership, has eased, and substantially, because of the E.C.'s continuing, strong commitment to agricultural subsidies. And there is widespread disappointment in Norwegian political circles with what a recent government report called the "Americanization" of U.S. foreign policy.

"The truth is, 1972 was a long time ago, and while the scars remain sensitive, voting-age youth feels strongly pro-European, and above all, we are not a neutral country, such as Austria and Sweden . . . our Atlantic connection is a lifeline," said a senior government strategist in Oslo. A banker added that new pressures for E.C. membership also have been fueled by a realization that Norway's eco-

nomics links with the E.C. have expanded dramatically: Nearly 70 percent of Norway's exports go to the Community. "For many reasons, we are closer to the Common Market today than we were in 1972—that is a powerful factor in our thinking."

Norway's membership in the North Atlantic Treaty Organization (NATO) and its close historic ties with Denmark, which voted to join the E.C. in 1972, also are repeatedly cited as reasons why Norway is better positioned to pursue membership than other European countries. Some observers are still convinced that had Denmark voted first that year, Norway would have followed, although everyone agrees that this is pure speculation. The two countries go back a long way—history buffs remember that in 1536, Norway was proclaimed a Danish province; that in 1905, Prince Charles of Denmark became Norway's King under the name of Haakon II; and that both countries joined NATO in 1949 and the European Free Trade Association (EFTA) a decade later.

Some political observers, diplomats and several leading Norwegian business executives believe that E.C. membership will be on the platform of either the Conservative or the Labor parties, possibly both, in the next parliamentary elections scheduled for September 1989. "We came close once before, but in contrast to what is happening in other EFTA countries, notably in all the Nordic countries and Austria, we are getting plenty of encouragement to move toward a new plunge," commented the chairman of one of Norway's leading companies. "Our political parties and leaders will, I expect, respond in the months ahead, with clear positions."

So far they have not. Fearful of triggering new political turmoil at home, and determined to avoid breaking ranks with other members of the six-nation EFTA—notably neighboring Sweden and Finland,

as well as Austria, Switzerland and Iceland—Oslo has focused on actively urging closer links between EFTA and the Community.

Gro Harlem Brundtland, the Prime Minister, said at the inauguration of the E.C.'s Delegation in Oslo last November: "It is my Government's firm desire to cooperate actively with the Community to the full extent that is practically possible," but she added that Norway also must "adapt to changes in Europe to an increasing extent to avoid new obstacles to trade." That reference was to a growing sense of concern in Norway and other EFTA countries that only full-fledged membership will ensure reaping the benefits of the integrated E.C. market due to come into being at the end of 1992.

Brundtland, whose Labor Party recommended E.C. membership in 1972, has not gone much beyond her speech of last November, however. "Our feeling is that the present Government could only move [on reviving the bid] if there was broad consensus, but we have not reached that stage yet," an adviser said. "This is designed to get things started," he added, flipping through the pages of a 148-page report published last year by the Ministry of Foreign Affairs for the *Storting*, Norway's Parliament, and titled "On Norway, the E.C. and European Cooperation." The report, which is expected to become the center of a national debate within several months, draws no conclusions about membership, but its message is clear, reflected in these observations:

- "Today, Norway is more closely tied, both economically and politically, to the E.C. than was the case in 1972."
- "The foreign policy views arrived at by the E.C. countries together are of great significance for Norway. Our chances of influencing these views will, however, be limited by our [current] form of association with the E.C."
- "It will be essential for Norway to be able to take advantage of the opportunities available for participation in Western European cooperation on research and technology."
- "Security policy cooperation between the E.C. countries could develop in various directions. Should such cooperation continue to be anchored exclusively in NATO? As a member of NATO, but not of the E.C., the choice of direction will be significant for Norway."

Whatever their implications, the statements reflect questions and not answers, and their publication coincided with widespread expressions of frustration with recent E.C.-EFTA talks in Brussels by Nor-

wegian business leaders, who have actively supported E.C. membership since the negotiations with Brussels began in 1970; the talks were, of course, dropped, following the referendum. "We were in favor of membership then, and we are again now," commented the president of one of Norway's largest industrial firms.

"Most of us simply do not want to get ahead of the politicians, so we remain discreet and do not shout the message from the roof-tops, but our message to the Government is clear: Adjustments to E.C. standards and norms, and the 1992 program, assuming they work, simply is not enough. Nothing is wrong with EFTA, but its role has diminished. We must seek membership."

Several Norwegian business leaders are out front already. For example, J. Gerhard Heiberg, president of Aker Norcem AS, Norway's largest privately owned industrial company, is fond of telling visitors how he spends an increasing amount of time lecturing around the country, appearing on radio and television programs, urging that Norway join the E.C., citing investments being made in the E.C. by his company.

Similarly, Arne Langeland, president of Norway's influential Export Council, has warned that the accelerating drive for establishment of an integrated 12-member market by 1992 could trigger protec-

tionist policies in the E.C., harmful to Norwegian exports and, for that matter, to others outside the E.C., a view echoed by top officials in the Federation of Norwegian Industries, which also backed membership in 1972.

Norsk Hydro AS, whose president Torvild Aakvaag is a member of the Roundtable of European Industrialists, a loose, 29-member group lobbying governments for European integration, has also pushed his company into major E.C. investments, including a fertilizer plant near Bordeaux. Many similar Norwegian companies have invested substantially in nearby Denmark.

But happenings in neighboring Sweden also have fueled the pressures and riveted Norwegian attention on large industrial groups there, notably Sweden's \$50-billion Wallenberg group, which directly or indirectly controls such giants as ASEA, Electrolux, L.M. Ericsson, Saab-Scania and Swedish Match. Many of these companies have forged new links with other European companies, while Scandinavian Airlines System in which both Norway and Sweden have strong interests, is still seeking a partner after its failure to obtain control of British Caledonian.

No recent statement touched off more confusion and speculation throughout Europe, however, than Peter Wallenberg's recent speech about Sweden's member-

ship in the Community. Wallenberg, who is vice-chairman of Skandinaviska Enskilda Banken, Scandinavia's largest bank, and chairman of the Swedish Industrial Federation, suggested that the Social Democratic Government reconsider its long-established policy of opposing E.C. membership. The Government immediately rejected any change in its approach, which stems from a 1971 decision to oppose E.C. membership on the grounds that it would threaten Sweden's neutrality and non-alignment. "Wallenberg did not, as some quoted him as saying, call for E.C. membership," a senior official at the bank said in Stockholm, adding that federation has long urged membership.

Despite the rebuff, many executives in the Wallenberg group feel strongly that Norway, and possibly Austria, will be among the first of the EFTA countries to actively seek membership, which would not only represent a damaging blow to the organization, but to Sweden's policy. Indeed, the thinking behind Wallenberg's speech, aides say, was to prepare Sweden for a breaking of ranks within EFTA, which would leave Sweden isolated—a view Norwegians believe confirms their conviction that they are heading in the right direction. €

Axel Krause is corporate editor of the *International Herald Tribune*.



Norway's Prime Minister Gro Harlem Brundtland has said that it is her Government's "firm desire to cooperate actively" with the E.C.

COURTESY OF THE EMBASSY OF NORWAY

E.C. SUMMIT SCORES DRAMATIC SUCCESS

LAST-MINUTE ACCORD IS THE MOST
RADICAL OVERHAUL OF E.C. FINANCES IN
ITS HISTORY.

SIMON ALTERMAN

A dramatic summit agreement has propelled the European Community from penury to plenty, but cash alone will not ensure a smooth ride to its next major goal—total economic integration by 1992. The accord, sealed in the early hours of the morning on February 13 by leaders of the 12 E.C. member states, is the most radical overhaul of E.C. finances in the Community's 30-year history. The hope is that a big injection of extra money, especially for deprived regions, and strict controls on runaway farm spending, will end the perpetual budget rows that have tarnished the E.C.'s image among its own citizens and on the world stage.



Jacques Delors, architect of the breakthrough agreement.

"The achievement in Brussels propels Europe forward," West German Chancellor Helmut Kohl said after chairing 28 hours of summit bargaining spread over two days and much of two nights. "Community finances are put on a solid basis until 1992... this is very important for the achievement of a true internal market, and for the reduction of unemployment and the strengthening of economically deprived regions," he added.

The "internal market" is the E.C. jargon for the campaign to create a Community without frontiers by 1992 with freedom of movement for people, goods, capital and services. So far, the E.C. has adopted only 67 of some 300 measures needed to scrap internal barriers within the Community.



Participants in the European Council at the start of the marathon meeting.

© REUTERS/BETT MANN NEWS PHOTOS

A quick financial deal was essential to stop the backlog from increasing further, especially since fierce political battles are forecast over plans to free capital controls or bring value-added taxes and duties on tobacco and alcohol closer together. Some officials have cautioned that reaction to the Brussels deal has been too euphoric. But most diplomats agreed that after two summit failures, most recently in Copenhagen last December, Brussels produced a genuine compromise with something for all the major players.

Jacques Delors, the President of the E.C. Commission, was the architect of the reform package that he described as the final stage of a rocket re-launching the European ideal. Diplomats said the achievement of forcing through the package in under a year could help him if he sought another two-year term as Commission president next year.

For Kohl, the summit was a personal triumph at a time of friction with his allies in the North Atlantic Treaty Organization over arms control and with the United States over the Federal Republic's cautious economic policy. A master of political maneuvering at home, he spent most of the final day of the summit in one-to-one meetings with his key partners, finally persuading Britain's Prime Minister, Margaret Thatcher, to give ground.

He risked the wrath of West Germany's powerful farmers ahead of two important state elections in the spring by agreeing to automatic price cuts to curb output, but won backing for his scheme to pay farmers to take land out of production, too. And he accepted that the Federal Republic, already by far the biggest contributor to E.C. coffers, would come up with even more.

Thatcher conceded that she won less stringent curbs on the farm subsidies than she would have liked. But a few years ago, the very notion of cutting prices to control surpluses was a heresy. Farm spending should now drop to nearer half of total E.C. payments in 1992 from two-thirds at present.

"We have achieved some of our main objectives, control over agriculture and Community spending. We need this control now, not at some uncertain time in the future," Thatcher said. In another crucial issue, she also held on to a special budget rebate system that has saved Britain more than \$5 billion since 1984 because it does so badly out of the E.C.'s Common Agricultural Policy (CAP). By compromising over farm curbs, she escaped blame for another summit collapse, but, with her opponents back home im-

mediately accusing her of capitulation, diplomats said Britain had yet to shed its image as a reluctant European.

The Brussels summit produced a genuine compromise with something for all the players.

French Prime Minister Jacques Chirac was her main adversary throughout. Diplomats said that with an eye on April's

presidential election, he was determined to be seen defending the interests of the E.C.'s most powerful farmers, the French. "We have guaranteed the financing of the CAP," was his assessment of the agreement, which included the 160-million-ton ceiling on cereals output he had demanded rather than the 155 million tons sought by Thatcher.

E.C. farm officials pointed out that the row was largely symbolic in the short term, since next year's harvest is likely to be nearer 170 million tons and a price cut of around 5 percent seems likely. Chirac's likely rival in April, President François Mitterrand, maintained the lofty stance on which his image as a statesman is built. He broke his summit silence occasionally to appeal for compromise and even found time to drive to the old main square of Brussels for a stroll on Friday afternoon. "The principal objective here was to serve Europe," he said. ☛

KOHL HAILS SUMMIT RESULT

The following are excerpts from a press statement made by German Chancellor Helmut Kohl at the conclusion of the summit.

The way is now open for tackling necessary Community reforms. We, the German presidency, together with the E.C. Commission, will be very intensively involved in preparing the actual German E.C. summit, scheduled for June in Hanover. This is very important with a view to the time left for achieving an internal market.

We have placed the financing of the Community up to 1992 on a solid basis. Greater account is being taken of the relative wealth of the member states. The offset mechanism for Britain is being continued. By doubling the budget for the structural fund in real terms by 1993 and by concentrating it on the less wealthy regions [of the Community], we want to strengthen the economic and social cohesion and, as such, the future of the Community. It is my firm belief that this is one of the prerequisites for the realization of an internal market.

With the decision on a Common Agricultural Policy we are giving our farmers an orientation and prospects for the future. We have the bigger task of correcting mistakes made in the past. We are determined to stop and reduce the trend toward overproduction.

As such, the way is now open for establishment of the internal market.

This area without internal frontiers for 320 million people is an indispensable basis if the Community economy is to be able to survive in the face of global competition.

I am fully aware of the fact that in the period up to 1992 we are going to have to overcome many difficulties at home in the context of national affairs. But I feel we need to face this challenge. There is no alternative—I repeat—there is no alternative to European unification. It is my hope that we Germans will be able to contribute toward this end at the next summit in Hanover. . . .

Permit me to make a brief remark from the viewpoint of the German Chancellor, from the viewpoint of the situation in my country. As I have said, European integration is important for our economic survival. I would like to underscore something that is sometimes forgotten here in Brussels in the course of discussions such as those of the past two days, namely, the fact that economic integration leads to social integration. This, in turn, is the prerequisite for political integration.

We Germans do not want a "fancy" free-trade zone. We want a Europe that is able to raise its voice and to speak with one voice, a Europe that does justice to its responsibility in the world and makes its contribution toward overcoming problems on the old Continent and elsewhere in the world. . . .

E.C. TREATY REFORM GIVES NEW POWER TO PARLIAMENT

EXTRA READING ALLOWS MEMBERS
TO AMEND LEGISLATION.



TIM DICKSON

“They’re just sucking up to the European Parliament,” one senior European Community official thundered recently after reading a report by colleagues that he clearly considered a waste of both money and time. His was an extreme view, no doubt—and a jaundiced one perhaps—but few in Brussels these days would deny that decisions are taken and proposals formulated by the E.C. Commission with an increasingly anxious glance down the road toward the European Parliament.

Since the introduction last July of the Single European Act, there is growing evidence that the apparently modest new powers conferred on the Parliament by this important revision to the Community’s founding charter, the Treaty of Rome, are enabling Members of the European Parliament (MEPs) to play a much more influential role in E.C. affairs.

The main significance of this new “cooperation procedure” is that it covers measures designed to bring into effect a single European market by 1992.



Previously, the Parliament's authority had extended to having a limited say in the setting of the E.C.'s annual budget and the apparently brutal, but in practical terms largely unusable power of dismissing the entire Commission. On detailed day-to-day legislation, it was only consulted.

Under the new rules of the Single Act, some legislation now goes through two readings, with Parliament enjoying the right the second time around to put forward detailed alterations and amendments that, if accepted by the Commission, can only be rejected by the member states in the Council of Ministers through a unanimous vote. The main significance of this new "cooperation procedure," as it is called, is that it covers measures designed to bring into effect a unified European market and could thus be a crucial political element in the run-up to the 1992 deadline.

The other major power in the Single Act is the assent procedure, which gives Parliament an effective veto over the accession of new member states to the E.C. as well as over new trade agreements with non-E.C. states. This sanction already has been used to considerable effect in the last couple of months to hold up trade deals with Turkey and Israel, in both cases on blatantly political grounds, and is made the more potent by the fact that the assembly constitutionally has to muster an absolute majority of its members (260 votes) to reach such decisions.

Over the last eight months, MEPs have flexed their muscles on several other significant issues, but while figures show that more than four-fifths of their ideas have been accepted by the Commission, none have so far made it through the

extent the member states) are feeding the European Parliament into their calculations.

- In the recently agreed vehicle-emissions package Parliament backed Denmark's call for tougher proposals than those favored by the Commission and backed by a majority of member states. The Commission refused to accept the amendments, pointing out that the E.C.'s car industry had already geared up for the new standards and that the Council therefore would not accept the stricter requirements. Half a loaf, it was argued, was better than none.

- On food radiation standards after the Chernobyl disaster, the Parliament wanted to change the legal basis of the proposal so that it would fall within the scope of the cooperation procedure. Again the Commission refused, but as with the car emissions case, much time and trouble were taken to explain its point of view.

- The question of the RACE research program into broad-band telecommunications was even more complex, touching on the deeply sensitive issue of whether the Council or Commission should have ultimate control over where and how the money is spent. The Parliament backed the Commission, but its amendment was unanimously defeated by the Council.

Notwithstanding these failures, there is a new and positive awareness that without close collaboration between the three institutions of the E.C. it is possible that Parliament-amended legislation could get permanently stuck, unable to get the qualified majority of Government votes needed for approval, equally unable to get the unanimity needed for rejection.

The transformation in Parliament's relative position, it must be stressed, is far from complete. The ultimate extent of its influence remains uncertain, while the case for giving more powers to an institution too often discredited for posturing and polemics cannot yet be said to be proven. There is still a temptation to indulge in what the British conservative MEP, Christopher Prout, calls "gesture politics" that can distract members from the serious and responsible use of their new powers.


To be fair, however, it is still early days and few doubt that the assembly will gradually gain in experience and overcome some of its inherent disabilities. One is the lack of a single majority party and the new need to form cross-party alliances if a proposal is to gain the necessary number of votes. Besides the left-right split, MEPs inevitably line up on some issues on a largely nationalistic basis and, to complicate things further, there are additional regional groupings where, say, industrial programs are at stake. But the signs are of more open cooperation between the Socialist and Christian Democratic groups, and—separately—between the Christian Democratic, conservative, liberal and Gaullist parties.

One of the biggest problems is the disorder caused by the lack of a single headquarters. The assembly holds committee meetings in Brussels and plenary sessions in Strasbourg, but most of its 2,800 staff are based in Luxembourg, where the Parliament no longer meets. "There is no question that this is the single most damaging thing for the Parliament," says a Brussels observer. If the Parliament ever moved its entire operation to the Belgian capital, he adds, "it would change the whole politics of the Community."

That might be something of an exaggeration, and with staunch French and Luxembourg opposition to any exodus from their cities, the prospect of one center still remains a distant dream.

Perhaps the biggest difficulty for the Parliament is that its new powers under the Single European Act are predominantly negative—pressuring the Commission to withdraw proposals or effectively rejecting them outright. With the new cooperation procedures likely to slow down the dash for the 1992 internal market, balancing power and responsibility is likely to be a major challenge of the next five years. €

Tim Dickson reports from Brussels for the *London Financial Times*.



Another new power is the assent procedure which gives the Parliament effective veto power over new trade agreements.

The last point is significant since there are signs that some of the smaller countries of the Community have been looking to the Parliament as a useful new ally to fight certain battles.

Council of Ministers. Several, however, are pending and observers say it is only a matter of time before Parliament's imprint is clearly visible on E.C. legislation.

Three recent clashes illustrate the way that the Commission (and to a lesser

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A DIRECTORY TO THE LAST TWO YEARS
OF EUROPE MAGAZINE.

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LUXEMBOURG

O.E.C.D. RATES
GRAND DUCHY
BEST IN
THE E.C. ON
INFLATION AND
UNEMPLOYMENT.

ALAN OSBORN

The smallest economy in Europe has once again proved itself the most resourceful. The claim is a bold one, but it comes from an impeccable source: The report on Luxembourg's economic performance by the Organization for Economic Cooperation and Development (OECD) in February praised a "highly satisfactory" record that has placed the Grand Duchy at the top of the European Community league for tackling inflation and unemployment and given it a well-above-average growth rate throughout the 1980s.

While it is true that the management of an economy not much bigger than that of many American cities is less arduous than the challenges posed to more exposed countries, it should also be remembered that Luxembourg has had to grapple with a potential destabilizing reliance on the steel industry in recent years, where the recession has taken a relatively grim toll. To have sustained an average annual growth rate of 3.4 percent for the past 15 years, rising to 3.9 percent since 1984, is remarkable given that the steel industry, which once furnished 40 percent of the jobs in Luxembourg, has been more or less halved in size. In such circumstances, many Governments might have lost sight of inflation objectives in their search for ex-

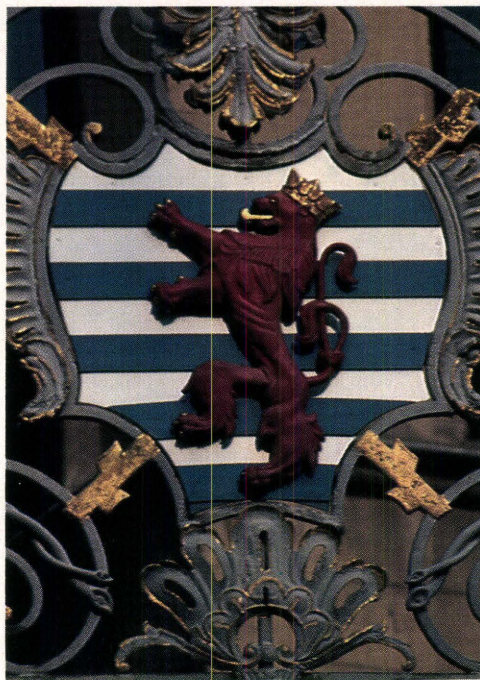
pansion. In Luxembourg, by contrast, the consumer price index actually declined throughout most of 1987 and is expected to rise by no more than 1 percent to 2 percent this year.

Nevertheless, Wall Street's "Black Monday" has cast its shadow here as well. A country that switches its main economic activity from steel production to the financial sector as successfully as Luxembourg can rightfully claim pundits. But in the search for new growth areas, and in particular the solicitation of "private banking" business, might not the Luxembourgers have led themselves into a trap? The OECD is certainly a little uneasy about the matter. It makes no real forecasts, but wonders whether the stock-market crash might not have consequences for Luxembourg. Taken together with the

probable continued decline in the steel industry and the slowdown in foreign investment worldwide, the OECD has downgraded its estimate of this year's growth to around 1 percent.

Since the early 1970s, Luxembourg has switched economic priorities. Whereas about 60 percent of gross national product was then represented by industry, the figure has fallen today to about a third or less. Correspondingly, the services sector, almost wholly banking, has risen from

Early in the 1980s, Luxembourg banks decided to switch into "retail banking."



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syndications, club deals and direct lendings,

treasury dealings: foreign exchange and money market

40 percent to 60 percent. This has been the principal source of Luxembourg's successes in recent years.

Even within the financial sector, there has been a noteworthy shift of priorities. For much of the late 1970s, Luxembourg's rise was based on its expertise in the Euro-dollar business. This recondite art was based on the recycling of "petrocurrencies" and it served West German and Scandinavian banks very well to locate their practices in Luxembourg.

The decline of business was inevitable as the source of oil money ran dry and other banking centers got in on the act.

banker. "They have put money into bonds, gilt-edged securities and the longer maturities, and there is no doubt that these have proved better than equities. But I think that there is still something to prove in the longer run. And I do wonder if the E.C.'s proposed liberalization of the banking market might not ultimately be to Luxembourg's disadvantage."

The concern here is acknowledged in Luxembourg. The drive by the E.C. Commission to open up the market so that every citizen has the right to open a bank account in any member state seems al-

while Strasbourg is the site of the Parliament's monthly formal sittings and Brussels is the location for most of the committee and political party meetings, Luxembourg is still the home of the 2,000-strong Secretariat. The split between the three cities of the Parliament's work is costly and inconvenient and there is a *de facto* move to end it through the gradual drift of personnel to Brussels. The members themselves (except for the French and Luxembourg deputies) all strongly favor this.

The Luxembourg authorities do not like it at all. There is great prestige attached to playing host to the European Parliament. There are also useful financial gains to be made. An unofficial estimate has it that some 10 percent of all retail spending in the city of Luxembourg comes from the Eurocrats and their families. The loss of the Parliament staff could mean a drop in property values, according to some commentators. It would hit restaurant and bar business. Whether or not the Parliament formally decides to move to a new building in Brussels, as is widely speculated, it seems hardly likely to increase its presence in Luxembourg.

Other E.C. institutions, including the rapidly growing European Court of Justice, the European Investment Bank and the computer and statistical services of the Commission, remain firmly rooted in the Grand Duchy, however. And no matter how much officials and journalists complain, there seems no likelihood that the 12 E.C. Governments, through the E.C. Council of Ministers, will give up meeting in Luxembourg for three months of the year.

It is a commonplace that Luxembourg has faced and surmounted three major challenges in the past 15 to 20 years: the decline of the steel industry, the end of the Euro-dollar boom and the loss of the plenary sittings of the European Parliament. It could be that a fourth problem is in the making with the stock market collapse and the spread of distrust in financial institutions. But there are no statistics yet to suggest it, nor is there any sense that the country's bankers have become unnerved. As always in Luxembourg, one is impressed with the composure and solidity of its leaders and citizens. It is a country with no real social unrest, no serious economic or political problems and little cause for concern about its future save that of a falling birth rate and aging population. ☾

Alan Osborn is the Brussels bureau chief of *The Daily Telegraph*.



Luxembourg is a country with no real social unrest, no serious economic or political problems and little cause for concern save a falling birth rate and an aging population.

Early in the 1980s, the Luxembourg banks took a major decision to switch into "retail banking." It seemed to be delivering a challenge to both Switzerland and London, the traditional centers for this kind of activity. Many wondered whether Luxembourg, for all its accomplishments, would be able to recruit the necessary talent for private portfolio management. Certainly it had the necessary basic banking infrastructure. It had the right communications and it enjoyed a tolerant national Government where banking practices were concerned.

"You must bear in mind that Luxembourg is not out to start a "secret account" business," a leading banker said recently. "We have in mind the 'middle' investors, who have perhaps \$100,000 and upward to invest—and there are very many of them throughout Europe."

The remarkable growth of over 40 percent in bank deposits in Luxembourg is one answer to the skeptics. But they have not been entirely silenced. "It is true that the more conservative approach to investment taken by the Luxembourg banks has probably served their clients well in the market crisis," says a London

most certain to be accompanied by rules to harmonize banking practices.

But there is an off-setting factor that could play to Luxembourg's advantage. If the E.C. member countries are sincere in their drive to establish complete liberalization of capital movements throughout the Community, and if the corollary of this is the setting up of a single monetary authority for the Twelve, then a number of factors suggest that this should be in Luxembourg. The professional claim of the Grand Duchy is undoubted. The moral claim is not much less so. There is considerable irritation in Luxembourg at the way the European Parliament has slid away from its grasp over the years. While Luxembourg retains a legal claim to be the formal seat of the Parliament—and is pursuing it with some tenacity in the courts—the Parliament has not sat in Luxembourg for several years.

The latest blow has been the decision to move the English-speaking press service of the Parliament to Brussels, which, while it involves only a handful of people, has nevertheless put a deepening shadow over Luxembourg because of what it implies about other operations. At present,

NEWS OF THE E.C.

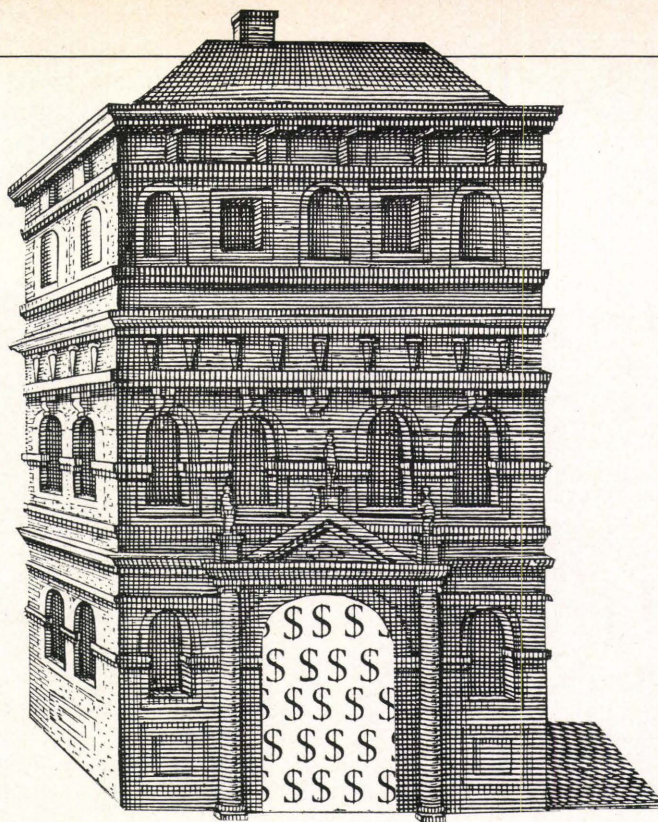
BUSINESS & ECONOMICS

COMMISSION PROPOSES SINGLE BANKING LICENCE

The E.C. Commission proposed on January 13 a directive on opening up banking throughout the Community, calling for a "Single Community Licence" for banks that will allow any bank authorized to operate in its home country to do business in the rest of Europe as well. Under the plan, the home country will be solely responsible for the prudential control of branches established in other E.C. member states.

Once the plan is approved, the new single licence will be valid on a number of activities, including trading in securities, portfolio management and advice, and leasing. Any activity allowed by the licence in the home country will be fully and automatically permitted elsewhere in the Community—even if the other country does not allow its own banks to engage in the same activity.

The Commission noted in a statement that the proposed system (which must still be approved by the Council of Ministers before coming into law) has been made possible by the high degree of harmonization of prudential rules achieved under the first banking directive of 1977, and the 1983 directive on Supervision on a Consolidated Basis. The new directive also deals with the conditions under which banks from non-E.C. countries can be granted the single banking licence and establish themselves in the Community.



BELGIUM TOLD TO END TELECOM MONOPOLY

In a move aimed at breaking up the remaining telecommunications monopolies in Europe, the Commission called on Belgium in late December to stop giving exclusive rights to its Posts and Telecommunications Authority to import and supply low-speed modems and first telex terminals. The markets for terminal equipment for connection to the public telecommunications networks are expanding strongly and it is important, the Commission believes, that users be able to benefit from the technological developments in the sector and to choose the equipment that best suits their needs.

The present monopoly in Belgium denies suppliers of these types of equipment from other E.C. member states direct access to the Belgian market, thus constituting a restraint on trade, the Commission said in a statement. It has in the recent past taken similar action against Germany, and has obtained assurances from Italy and the Netherlands that they will soon abolish the exclusive rights they have granted in this sector.

EUROPEAN INSURERS WELCOME E.C. COMPETITION MOVE

European Community plans to demolish barriers set up in member states to protect domestic insurance industries should open up significant new markets, insurance company officials say. The E.C. has agreed in principle to allow more companies to seek non-life insurance outside their own countries. Some smaller E.C. members have expressed concern about the prospect of facing stiffer foreign competition, but larger countries have generally welcomed the chance to penetrate deeper into European markets, especially that of Germany.

"The accord . . . is an historic milestone in the development of the European Community," said Peter Miller, a former chairman of Lloyds of London. Insurance analysts say that Lloyds is likely to be one of the main beneficiaries of the move. They say British, Belgian and Dutch firms—whose home markets are already open to competition—should be the other major gainers.

The December outline

agreement between the E.C.'s 12 trade and industry ministers was a big step toward the ideal of open trade envisioned in the Treaty of Rome which set up the Community, insurance analysts and company officials said. "They've been talking about this for 30 years, so it is a welcome move," said Cornelius van Keken, a senior executive at the largest Dutch insurer Nationale Nederlanden. "Europe is opening up," agreed a spokesman for Commercial Union Assurance Co. PLC in London. "We're emphasizing it more and more as an area."

Lloyds has long complained of the difficulties in breaking through national barriers in Europe, getting less than 10 percent of its business from the E.C. and regarding the Community as being very underinsured. "There is an enormous, untapped market in Europe and this accord has opened the door to it. Now it is up to Lloyds brokers and underwriters to go through," said a Lloyds spokesman.

Some E.C. nations, however, see their insurance firms as a strategic industry, and they have set up barriers to protect them. Usually, they have left out big-ticket items like ships and aircraft, many of which are insured through the international market that Lloyds operates. But medium-sized businesses seeking property or product liability from foreign insurance firms have not been able to do so. Insurance analysts say they will be the main target of foreign insurance firms once the barriers come down. Since Germany's barriers are the highest, the opportunities for growth will be greatest there, they said.

But Joern Badenhop, director for international affairs at the West German Insurance Association, told Reuters the industry there is solvent, secure and ready for competition. "The West German fire and product liability insurance market is one of the most competitive in Europe, and I wonder if foreign companies will try and step in," he said. Any foreign competitor would also have to

overcome a tightly knit system in which each German company has close ties with its insurer, unlike the case in Britain, for example, where business is done through brokers, he added.

Small European companies are worried about more competition, however. In Belgium, after the company Assubel Vie announced in December it was discussing closer cooperation with the French firm Assurances Generale de France, insurance executives are worried that the French will move in. "It is highly likely given the linguistic ties that the French companies will target Belgium," one analyst said. "It is understandable that the Belgian companies feel vulnerable"

The E.C. moved to open up the insurance market in response to a December 1986 ruling by the European Court of Justice in Luxembourg which effectively decided that larger firms should be free to place their insurance with foreign companies. Doing so can bring advantages like cheaper premiums but can also take the firm out of the protective circle of a tight, officially guaranteed domestic industry. "The Court effectively decided that some companies are big enough to fend for themselves in the brave new world of international competition," said one industry source. "The only question was how to decide which ones."—*Reuters*

EIB PLEDGES HELP TO SINGLE EUROPEAN MARKET

The European Investment Bank (EIB) pledged in late January to assist the development of a single European common market by lending to the poorer regions and supporting transport projects in the European Community. The Bank, the second-biggest institutional borrower and lender after the World Bank, said in its annual review that it would work closely with other E.C. institutions to achieve the Communi-

ty's aim to set up a genuine common market with free movement of goods, capital and people by 1992.

The EIB doubled loans to new E.C. members Spain and Portugal as part of efforts to reduce imbalances between the Community's poorer southern members and the generally richer ones in the north. It also agreed a landmark loan of 1.4 billion European Currency Units (ECU), or about \$1.7 billion, to help finance the Channel Tunnel rail project that will connect Britain and France.

"The Bank's loans for investment in Community infrastructure improve the cost-effective movement of goods, persons and information within the internal market, and investment in regional development contributes to economic and social cohesion," EIB President Ernst-Guenther Broeder told a news conference. Altogether EIB lending both inside and outside the E.C. rose some 4 percent, to 7.84 billion ECU (about \$9.7 billion) in 1987.

Italy received the biggest amount of loans, followed by Spain and Portugal. Funds were also channelled to regions in Greece, Ireland and Northern Ireland where there was high unemployment and average incomes were below the E.C. average.

The EIB, which is based in Luxembourg, operates more or less independently of the European Community. It works by borrowing funds through bond

issues on international capital markets and relending the funds to projects inside the Community and to countries with financial or trade agreements with the European Community. As one of the world's biggest and most respected borrowers it is able to raise money at much lower rates of interest than the rates which backers of individual projects would pay.—*Reuters*

EUROPEAN POLITICS

COMMISSION PUBLISHES 1988 WORK PROGRAM

The Commission published its work program for 1988 early this year, focusing its attention on economic growth, developing the Community's role in the world, completing the single internal market, improving existing policies (especially in agriculture), and pushing forward initiatives toward a "People's Europe." Among the Commission's specific goals:

Single European Act:

- Increased economic and social cohesion.
- Common actions for scientific and technological development, to help E.C. industry maintain and improve its "cutting edge."
- Further development of the European Monetary System.

- Coordinated action to improve the environment.

External Relations:

- Active progression on negotiations in the Uruguay Round of multilateral trade negotiations under the GATT.
- Wider economic cooperation with the countries of the European Free Trade Association (EFTA).
- Normalization of relations with the European members of Comecon, the Soviet-led economic bloc.
- Launching of talks with the African, Caribbean and Pacific (ACP) countries on a new Lomé Convention for aid and development.
- Consolidation of relations between the E.C. and the People's Republic of China.

Internal Market:

- Coordinated development of computerized customs procedures.
 - The abolition of border transport controls.
 - Publishing of a study on the costs of barriers to internal European trade.
 - Adoption of a directive on a free market for machinery.
 - The liberalization of capital movements in Europe.
 - A free market in life insurance and third party motor vehicle insurance.
 - Recognition of professional qualifications throughout the Community.
 - Adoption of the Youth Exchange Scheme (YES) for education.
 - Introduction of a Community trademark.
 - Protection of intellectual property, with the presentation of a Green Paper on copyright.
 - Agreement on bringing significant company mergers within a single set of Community rules.
- #### Other Areas:
- New programs to support regional development or industrial conversion.
 - Implementation of all 31 Integrated Mediterranean Programs (IMP) and the preparation of new ones.
 - A report on the future of the countryside, in light of changes underway in agricultural policy.
 - Intensified efforts to involve



The Commission will work this year toward abolishing all border transport controls in the European Community.

both management and labor in economic and social policy.

- An action program to provide for the reintegration of the long-term unemployed will be introduced.

- New proposals on health and safety at work.

- Action to improve the working conditions of women.

- Measures to improve the legal environment for small businesses.

- Expansion of E.C. research and development, especially in the areas of preventive medicine, the environment, new transport technologies, new technologies in manufacturing, new materials, nonnuclear energy, marine science, telecommunications and other fields.

- Proposals on consumer safety.
- Improved access to Europe's cultural resources.

- Establishment of a European cinema and audiovisual arts academy and the production of programs compatible with the European technical specifications for high-definition television.

- Preparation for the European Community Games, which will cover 24 disciplines and be staged in 24 towns in 1989.

- Action on health education and medical research.

- Publication of a comprehensive guide to rescue facilities, warning systems and emergency plans in all member states of the Community.

AIRBUS WANTS U.S. ASSEMBLY LINE

Airbus Industrie, the European aircraft consortium that captured nearly 25 percent of the world market for new jetliners in 1986, wants to set up an assembly line in the United States with an American aerospace company as a partner, a senior Airbus executive said in January. Adam Brown, vice president for group strategy, said in an interview in Chicago that Airbus needed to increase production because of a backlog of orders for its A320 jet, which has been bought by several United States carriers.



Airbus, a consortium of aerospace companies in France, Germany, Britain and Spain, thinks component manufacturing and final assembly in the United States would help to reduce its members' risk from the declining dollar, the currency in which worldwide aircraft sales are priced. This is the first time Airbus has said it wants its jets assembled on United States soil, although American firms already produce some components for Airbus planes.

"We're looking at more than just a subcontractor, a tin bender. We're looking at some kind of partnership for final assembly," Brown said. He added that Airbus wants to exploit the winding down of production on assembly lines that make U.S. military aircraft. For example, Lockheed is reportedly seeking work for its C-5 assembly line in Georgia, and Airbus could take advantage of the available jet assembly capacity there. Final assembly might also spur more sales to U.S. airlines. American companies have already placed 129 firm orders and options for the A-320.

Brown was in Chicago to address local business leaders as part of a U.S. tour aimed at telling Airbus' side of the story regarding subsidies from its member states. The U.S. has had a long-simmering trade dispute with the European nations that finance Airbus, contending that massive European government subsidies to the consortium's four member firms permit it to sell planes at low prices that unfairly rob sales from world leader Boeing and McDonnell Douglas. Brown said the two American companies also get indirect subsidies through military contracts from the Pentagon, and added that without Airbus, airlines could only buy from American firms, which could distort prices.—*Reuters*

EUROPE MUST INTEGRATE OR FACE DECLINE, SAYS KOHL

The European Community must integrate its trade and fiscal policy or go into the next century as a second-class region, German Chancellor Helmut Kohl said in January. In wide-ranging remarks at a press lunch, Kohl also called for intensified defense cooperation in Western Europe and urged the superpowers not to allow sticking points over verification to jeopardize negotiations to ban chemical weapons. Kohl, whose government took over the six-month rotating presidency of the European Community on January 1, said the 12-nation trading bloc was "approaching the hour of truth."

"There are twelve years until the end of the century," he said. "We must use those twelve years profitably if we are not to enter the next century as a second-class region."

The next half-year, he said, would be crucial to E.C. plans to dismantle all internal barriers to trade by 1992. "It is quite clear to me that if we are talking about a timetable," he said, "once the internal market has been achieved in 1992 then the next step must be the harmonization of fiscal policy." An internal market could not properly function, he added, with diverse tax systems throughout the Community.

On defense, the Chancellor said Germany was not trying to undermine the United States' leading role in the North Atlantic Treaty Organization by pushing for closer integration with France, Germany's former arch-foe. "Cooperation with France is directed toward a sensible European future. It does not replace the U.S. presence," he said. "Perhaps others will follow us, perhaps even overtake us, but we cannot stand still."

He dismissed suggestions aired by Britain that a Paris-Bonn axis would exclude other countries. Germany, he said,

wanted the superpowers to reach accords to halve strategic nuclear weapons arsenals and to ban chemical weapons. NATO would then have to rectify Soviet bloc superiority in conventional forces and short-range nuclear missiles, he said. These missiles have a range of less than 300 miles and are targeted mainly on East and West Germany.

"The short-range missiles are a fundamental problem for us but cannot be isolated from other questions," Kohl said. Eliminating one nuclear system without dealing with imbalances in others would only hinder security, he said, adding, "I think that there will be no denuclearized Europe in the foreseeable future."

Kohl endorsed recent remarks by Foreign Minister Hans-Dietrich Genscher implicitly criticizing Bonn's Western allies for hesitating over a chemical weapons ban. "I have no understanding for the argument that chemical weapons cannot be scrapped because of verification problems. What is possible for biological weapons is also possible for chemical weapons," the Chancellor said.

Kohl, who has led his center-right coalition for more than five years, said Germany would also seek the Community presidency to seek greater contacts with the rest of Europe, especially the Warsaw Pact. He said arms control was only one element in improving East-West relations. "Weapons are not either good or bad, it depends on the spirit prevailing at the time. A lasting improvement in relations can only come about through a fundamental foundation of trust," he said.—*Reuters*

BRITISH LABOUR OPPOSITION WARMS TO EUROPEAN COMMUNITY

Britain's opposition Labour Party leader, Neil Kinnock, has signalled that his party will for

the first time take a pro-E.C. line to try to win seats in the 1989 elections to the European Parliament. In a letter to Enrique Baron, the Spanish Socialist member of the European Parliament who chairs a committee that drafts the Socialist manifesto for the elections, Kinnock said that wanted Labour to use the same manifesto as the Confederation of European Socialist Parties. Labour, whose policy is for Britain to pull out of the Community, has in the past drawn up its own manifesto for the European Parliament elections.

The joint manifesto is likely to reflect the European Socialist Parties' support for internal reforms to the European Community, as well as their strong commitment to it.

Kinnock's letter said, in part, "We must project realistic objectives for the European Community until the mid-1990s, when the next European Parliament will dissolve. We must be seen as the force of progress and change." He said that the joint manifesto should devote its first section to policies for a competitive and productive Europe, in which the opportunities presented by a single internal market should "be subject to social control and geared to social objectives."—*Reuters*

EXTERNAL TRADE

U.S. SOYBEAN GROUP FILES TRADE COMPLAINT AGAINST E.C.

The U.S. Administration agreed in January to investigate a complaint filed by the American Soybean Association against the E.C.'s oilseed and protein crop subsidies. The soybean group charged that E.C. subsidies discriminate against imports of U.S. soybeans and soybean meal, saying those imports have fallen by 40 percent since 1982.

The Community said that it

regretted the Administration decision, noting that it is the U.S. soybean farmer's best customer. The E.C. regularly takes between 45 and 50 percent of all U.S. soybeans and approximately the same percentage of soymeal. In fact, it imported 14 percent more beans and 21 percent more meal from the United States in fiscal 1987 than in the previous year.

While E.C. soybean imports from the United States have fallen since 1982, over the longer term imports from all sources have increased substantially. Community of Ten (Spain and Portugal excluded) imports of soybeans and meal increased by 68.6 percent between 1974 and 1986—from 10.5 million metric tons to 17.7 million metric tons. However, the United States supplied only 48 percent of the Community's soybean meal needs in 1986, compared with 76 percent in 1974. The change has been due to increased competition from other suppliers. Brazil's exports of these products to the Community, for example, have almost doubled since 1982, while those of Argentina have tripled.

It should be recalled that 1982 was a record year for U.S. soybean production. It is normal that exports, including those to the Community, have decreased since then. Furthermore, consumption of protein foodstuffs in the Community is falling because of steps taken to reduce both milk and beef production, and this could affect future U.S. exports.

Partly because of the 1973 U.S. embargo on soybean exports, the Community has developed its production of protein crops. However, its degree of self-sufficiency in 1987 for these crops was still only 19 percent, and for soybeans and soymeal only 6.5 percent.

The American decision comes more than 20 years after the E.C. implemented a support system for oilseeds and protein crops, and after the Community had already introduced mechanisms for limiting production in this sector. The Community plans to promote further discipline through restrictive prices,



Simone Veil, President of European Cinema and Television Year 1988.

limitations on government purchases and penalties for overproduction. The filing and acceptance of the American Soybean Association petition, however, will make this task more difficult, the Commission believes.

other runners-up announced in Brussels by Carlo Ripa di Meana, the E.C. Commissioner for culture, and former European Parliament President Simone Veil.—*Reuters*

PARLIAMENT CALLS FOR EUROPEAN TV

The European Parliament voted on January 20 to back plans for a European "television without frontiers" which could allow people to watch broadcasts from all 12 Community countries. The plans would end national barriers which limit the ability of networks to broadcast into other E.C. countries. They would, however, also set new standards (such as insisting that up to 60 percent of the programs are produced in Europe) to prevent viewers being swamped by American imports.

"It is the only means to prevent our screens being invaded by American materials," French deputy Simone Veil told the Parliament. The E.P. agreed by 328 votes to 11 to back the plans. It has, however, no power to enforce its decision and many E.C. member states are reluctant to relinquish national control over broadcasting.

To promote the concept of Euro-television, the Commission is also sponsoring a European Television Day on March 21, when television stations throughout the European Community will present special programming.—*Reuters* €

SOCIAL ISSUES

FELLINI FILM WINS BEST OF EUROPE AWARD

Italian director Federico Fellini's 1963 film "8 1/2" was voted the best European film of the last three decades by a jury of leading figures in European cinema and television.

The panel, asked to pick the best twelve films of the European Community's 30-year existence, selected Frenchman Jean-Luc Godard's "A bout du Souffle" ("Breathless") in second place. A second Fellini film, "Amarcord," was placed third in the European "Top Twelve" announced in mid-January to coincide with the Brussels International Film Festival and the launch of the European Year of Cinema and Television.

"8 1/2" stars Marcello Mastroianni, and has been described as a film about a film, a dazzling and sometimes disconcerting sequence of images and ideas interspersed with sometimes crude flashes of humour. Italian Luchino Visconti's "Death in Venice" and Swede Ingmar Bergman's "Fanny and Alexander" were among the

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.

Crisis in the International Steel Industry. Charles Owen Verrill, Jr., Conference Chairman. International Law Institute, Washington, DC, 1986. 143 pp. \$30.00.

Proceedings from a conference sponsored by the International Law Institute at the Bellagio Study and Conference Center in Como, Italy, August 5-8 1984.

European Marketing Data and Statistics 1987/88. Euromonitor Publications Limited. Gale Research Co., Detroit, 1987. 353 pp. \$180.00.

Included is a pan-European profile with statistics on population, employment, industrial and agricultural production, living standards, consumer expenditures, and other information pertinent to market research.

International Marketing Data and Statistics 1987/88. Euromonitor Publications Limited. Gale Research Co., Detroit, 1987. 376 pp. \$180.00.

Within each of the twelve major sections of this volume, comparative statistical data is presented for specific factors. Production statistics, for example, include separate tables for land use, livestock, forestry products, fuel reduction, motor vehicles, and more. In contrast, the countries are arranged by continent and region, rather than in a single alphabetical sequence, within in each section.

Biography and Genealogy Master Index 1988. Edited by Barbara McNeil. Gale Research Co., Detroit, 1987. 1,105 pp. \$220.00.

Sources indexed by *BGMI* cover both living and deceased persons from every

field of activity from all areas of the world. Among the sources included are general works, both current and past. Also included are sources in special subject areas such as literature, science and medicine, government and politics, business, art, economics, geography, music, religion, and theatre and film.

Greek Connections: Essays on Culture and Diplomacy. Edited by John T.A. Koumoulides. University of Notre Dame Press, Notre Dame, IN, 1987. 128 pp.

This series of essays illustrates the impact of Greek civilization beyond its geographical frontiers. The ideological, political, architectural, artistic and literary values of Greece have long been the admiration of other cultures and societies around the world. These essays persuasively demonstrate our extraordinary debt to the world of Hellas and to the Hellenes.

Economic Impact of Generalized Tariff Preferences. By Rolf J. Laughhammer and Andre Sapin. Trade Policy Research Centre, London, 1987. 90 pp.

The authors argue that there is not enough evidence that the GSP established by the EC and the United States is effective in stimulating the exports of developing countries. On the other hand, it is argued that the way in which the preferences are administered reflects an overall protectionist tendency in developed countries' trade policies, especially discrimination against the exports of successful developing countries.

Issues in World Trade Policy: GATT at the Crossroads. Edited by R.H. Snape. St. Martin's Press, New York, 1986. 297 pp.

This book contains a collection of papers presented at a Conference on International Trade Problems and Policies in 1984, at which different questions about the future of the world's trading system were discussed. The authors focus on different kinds of protection within the GATT system and examine basic GATT principles, such as the MFN. They also discuss the interplay of politics, law and economics in trade policy, particularly in the US, and the effects of the trade policies of developed countries.

The New Thrust of the Common Agricultural Policy. European News Agency, Brussels, 1985. 336 pp.

This study reviews the state of the main agricultural markets both within and outside of the Community: dairy products, meat, cereals, and Mediterranean products, while examining the effect of the decisions made in 1983 and 1984 by the EC's institutions. It also analyses the reform of the structural directives examined by EC's Agricultural Ministers. Last but not least, the study attempts to give as accurate a picture as possible of the historic path taken by the CAP in 1984, and looks beyond the horizon to try to determine in which direction the CAP is heading.

The GATT Negotiations and US Trade Policy. The Congress of the United States' Congressional Budget Office. Washington, DC, 1987. 135 pp.

This report provides an overview of the trade talks of the Uruguay Round and examines how they might affect four sec-

tors of the US economy: high-technology goods, agriculture, mature industries, and services.

Yearbook of European Law 1986. Vol. 6. Edited by F.G. Jacobs. Clarendon Press, Oxford, 1987. 492 pp. \$98.00.

This yearbook contains a collection of recent articles from a variety of areas related to European Law, especially the law of the European Community and the Council of Europe. It gives surveys of areas of particular interest, including the European Community's external relations, EC Competition law, legal developments in the Council of Europe, and the European Convention on Human Rights.

Trade Routes to Sustained Economic Growth. Amnuay Viravan, et al. MacMillan Press, London, 1987. 178 pp.

This book contains a report prepared at the Asian-Pacific symposium on Trade and Economic Recovery that was held in Tokyo in 1986. The report focuses on the difficulties in the international trading system, on their origin and nature and on what might be done about them. Its central theme is the need to restore the systematic elements of the GATT system and the proposal of institutional reforms.

Vacation Study Abroad 1988. 38th Edition. Edited by Edrice Marguerite Howard. Institute of International Education, New York, 1987. 449 pp. \$19.95.

This comprehensive guide to summer study abroad programs provides concise descriptions of programs worldwide sponsored by US and foreign universities and institutions open to US students, educators, and professionals.

Foreign Trade and Investment. By Thomas F. Clasen. Callaghan & Company, Willmette, IL, 1987. 410 pp. \$34.95.

This book provides lawyers and business people with a practical overview of the most common legal issues involved in international business. It covers imports and import regulations, export transactions, the use of foreign agents and distributors, foreign subsidiaries, joint ventures, licensing and technology transfers, foreign investment in the US, international dispute resolutions and immigration laws.

Contrasting Values in Western Europe. By Stephen Harding, et al. The MacMillan Press, Ltd., London, 1986. 274 pp.

This volume reports on a major international survey into the nature of values, attitudes and beliefs in contemporary Western Europe. It describes the ways in which people from 10 European countries view important areas of their lives, such as religion, politics, marriage and the family, and work. It also seeks to uncover the pattern of values and preferences with which individuals identify, consider the social context in which these values occur, and examine how they vary within the population.

The University of the Future: The Yugoslav Experience. By Miroslav Pecujlic. Greenwood Press, New York, 1987. 197 pp. \$35.00.

This book offers an insider's view of higher education in a socialist country, as well as the opportunity to see differences and similarities in higher education in capitalist and socialist societies.

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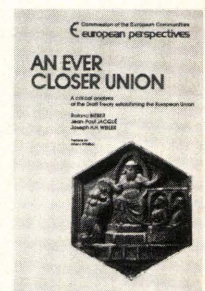
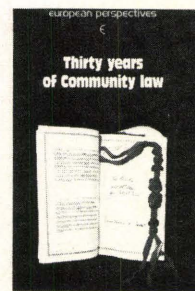
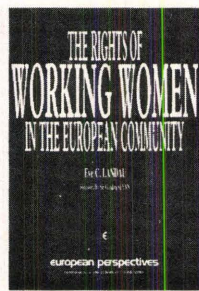
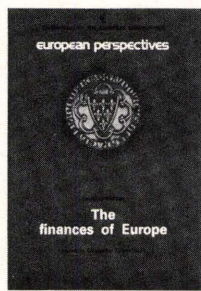
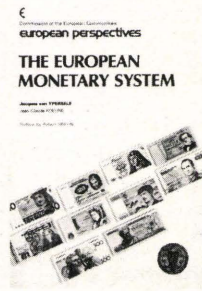
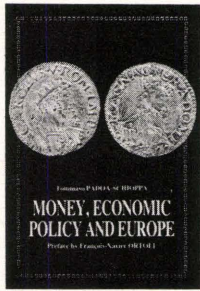
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GENSCHER

Continued from page 48.

conclusion so that official relations can be established. The mandate for negotiations of the Community's fourth Lomé Convention with the 66 associated African, Caribbean and Pacific countries must be adopted.

European cooperation in foreign affairs is also faced with fundamental tasks and challenges. The summit meeting in Washington and the treaty signed by President Ronald Reagan and General Secretary Mikhail Gorbachev on December 8 tangibly manifest the new momentum in the dialogue between the superpowers in the context of East-West relations. More than ever, the 12 E.C. countries have to muster their common potential in EPC in order to ensure that Europe's voice is heard.

The Federal Government will make every effort to bring about palpable progress in developing a common European external policy to which the Twelve expressed their commitment in the SEA. It will make dynamic use of all provisions of the Act, not least those relating to security policy. The aim is to strengthen EPC as the central instrument for safeguarding our external and security policy. Close

participation by the European Parliament is of particular importance in this connection.

The Community will be able to play its due role all the more actively the stronger the foundation formed by U.S.-European relations and the closer the rest of the free, democratic Europe is incorporated into forward-looking strategies. Close, smooth relations between Europe and America are more crucial than ever.

In East-West relations, including the Conference on Security and Cooperation in Europe (CSCE), we must resolutely make use of all rudiments of a common European policy for consolidation and cooperation and develop them further. The Twelve must assume a decisive role of their own. Special importance attaches to the Vienna CSCE follow-up meeting. Together with our partners, we also want to advance the Twelve's relations with the Soviet Union and other countries of the Warsaw Pact.

The E.C.'s responsibility for peace is not confined to Europe. The Community will continue its stabilizing, peace-promoting efforts in the world's crisis-torn regions. This applies to the Gulf and to the Arab-Israeli conflicts, to Central America, to South Africa and to Afghanistan. In the transition from a bipolar to a

multipolar world, the dialogue with Japan and China is of eminent importance. The countries of the Middle East expect the E.C. to make constructive contributions. This includes efforts to bring about an international conference for which the Arab summit in Amman laid a significant basis.

At the fourth San José Conference in Hamburg on February 29 and March 1, the Twelve continued their support for the peace process in Central America and deepened their economic cooperation with that region. The seventh meeting of the E.C. and Asian Foreign Ministers in Dusseldorf on May 2 and 3 is another illustration of the intensification of interregional relations. A major objective is the completion of the negotiations on a cooperation agreement with the members of the Gulf Cooperation Council.

The German presidency will continue the cooperation designed to respond in an ever more extensive fashion to all external challenges facing the Community, including unforeseeable ones. The Twelve must act wherever Europe has to share responsibility for the preservation of peace and human rights worldwide. Together with its partners, the Government of the Federal Republic of Germany will endeavor to meet this responsibility. €

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EUROPE AT THE CROSSROADS

The paramount goal pursued by the Government of the Federal Republic of Germany upon assuming the presidency of the E.C. Council of Ministers and of European Political Cooperation (EPC) on January 1, 1988, is to impart fresh impetus to the Community, to promote European unification and to make progress toward a European union on the basis of the Community's treaties and the Single European Act (SEA).

Democratic Europe is at a crossroads. It is up to the members of the E.C. alone whether it makes new resolute steps toward a European union or forfeits a promising future through stagnation and thus retrogression. In this era of fundamental changes and global challenges, there is a greater need than ever before for a united Community capable of acting and mastering the tasks of the future. The dynamic developments in East-West relations, enduring armed conflicts in various parts of the world, unsettled international financial markets, world economic imbalances, deep-rooted structural problems, high unemployment on the one hand, and rapid technological progress on the other, as well as the threats to our environment, call for common European efforts and responses.

The SEA has mapped out the way. Strengthening the Community's internal structures and ensuring that it is more capable of external action are imperative for safeguarding the future of all members of the Community and for Europe as a whole. The Federal Government will make every effort so that the Community gains new cohesion and lives up to its responsibility for peace in freedom and for economic stability in Europe and worldwide.

Internally, the Community recently faced a severe test. Priority had to be

Hans-Dietrich Genscher is the German Foreign Affairs Minister. Germany holds the presidency of the E.C. Council of Ministers for the first six months of 1988.

accorded to solving the problems connected with lasting and equitable financing, with reducing agricultural surpluses and supporting disadvantaged regions. The E.C. Commission presented wide-ranging proposals in this respect. The European Council summit meeting at Copenhagen on December 4 and 5 made progress toward solutions to these problems. The still unsettled issues were resolved by the European Council in Brussels last month (see page 30).

The Commission rightly chose as the motto for its proposals: "Making the SEA a

The E.C.'s responsibility for peace is not confined to Europe. The Community will continue its stabilizing, peace-promoting efforts in the world's crisis-torn regions.

success." This is also the motto of the German presidency. The main goal is to create a free internal market in Europe by 1992. This internal market is a political objective. It will improve the living conditions of people in Europe and consolidate the irreversible trend toward a European union.

An internal market means new potential for growth, huge cost reductions and prospects of technological progress. A grave problem besetting all member states for years now is that of high unemployment, especially among young peo-

ple. The Community can reverse this development. New permanent jobs must be created. For this purpose, the Community needs the free internal market comprising 320 million people. Discriminatory regulations and barriers that still impede trade and production must be removed.

A priority objective must be to strengthen and advance the European Monetary System (EMS). Europe must be a bulwark of economic and monetary stability that helps to stabilize monetary conditions worldwide. This is an opportunity that we must seize. An internal market without a monetary union would inevitably be incomplete. Moreover, the monetary developments of recent months also necessitate reflection by Europe on its monetary policy.

The German presidency attaches particular importance to good cooperation between the Community's institutions. Close contacts with the Commission serve this purpose. The Federal Government will urge that the participatory powers of the European Parliament, which will be elected in mid-1989 for the third time in free direct elections, are strengthened in practice and fully exploited.

The completion of internal reforms and economic consolidation are the prerequisites for greater scope for external action by the Community. The Community is an entity in its own right in the world economic and political affairs. Its voice is heard and heeded. This gives rise to global responsibility. Living up to this responsibility is simultaneously a decisive contribution toward safeguarding Europe's future. At the Western economic summit in Toronto, we shall strongly present the E.C.'s views and interests.

In the Community's external relations, too, important tasks will have to be tackled during the German presidency. Together with the United States and Japan, the Community must safeguard free world trade and oppose protectionism. The acid test of this is the Uruguay round of General Agreement on Tariffs and Trade (GATT) negotiations. We shall foster cooperation with the European Free Trade Association (EFTA) countries and strive for the creation of a European economic area parallel to the completion of the internal market.

The Community wants to develop further its bilateral relations with the Eastern European countries. We wish to bring the negotiations with the Council for Mutual Economic Assistance (Comecon) to a

Continued on page 46.



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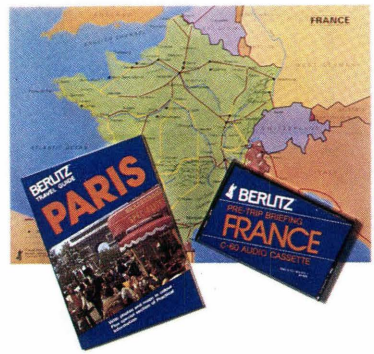
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