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FRANCE'S **ROCARD** STEERS CAUTIOUS PATH

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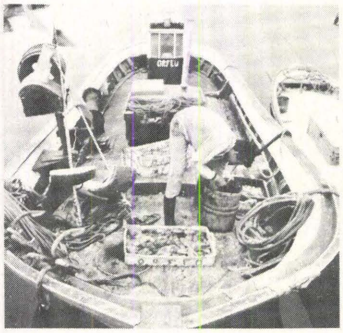

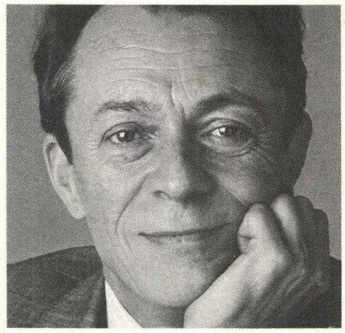

COVER: French Prime Minister Michel Rocard heads first minority Government in three decades. © Daniel Simon/Gamma Liaison.

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PUBLISHER'S LETTER

As the E.C. forges ahead with the completion of its single internal market by 1992, the project has been dominating the minds and activities of Europeans as well as the Continent's trading partners around the world.

A sound economic base within Europe, of course, is a very important component of this internal market. In this context, as our "Dossier" examines in detail this month, the E.C. Commission has been concerned with promoting favorable conditions for Europe's many small and medium-sized enterprises (SME), which, according to Commission figures, make up about 95 percent of all European industry. U.S. firms looking at start-ups, joint ventures or acquisitions in Europe to cash in on the 1992 project will want to study the financial and other assistance available through the Commission's action program on SMEs.

The E.C.'s institutions, however, cannot lay all the groundwork for European industry as 1992 draws near; it is just as important for the individual member countries to do their share. One in particular—France, the subject of our member state report this issue—has been especially enthusiastic about 1992. Its new Government is making that date a priority. A clear indication of French determination is Prime Minister Michel Rocard's choice of Edith Cresson, a dynamic politician with a clear view of France's role in the E.C. after 1992, for the post of Minister for European Affairs. In an interview with the *International Herald Tribune's* Axel Krause, Cresson says one of her priorities in preparing for 1992 is getting input from business.

Other articles in this issue look at the changes 1992 will bring to European marketing and advertising and the growing role of the European Currency Unit as it evolves from an accounting device to a significant instrument for private financial transactions.

Giancarlo Chevallard

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New Issue
July 1988

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AROUND THE CAPITALS

LISBON

Who Was Columbus?

Spain is preparing a well-publicized Seville gala to celebrate, in 1992, the 500th anniversary of its discovery of the New World. Portugal, on the other hand, whose seamen first explored the Atlantic more than 600 years ago, and whose 15th-century navigators opened new routes for Europe across the Seven Seas, is still trying to paste together a Discoveries Committee that can produce something more flattering to the national image than ever-squabbling committee members or opaquely written official tracts about Portugal's discoveries.

History is about irony, and there can be nothing more ironic than being a small country—whose discoverers are largely forgotten—that must watch its neighbor hold the limelight in celebration of a discoverer most people *do* remember: Christopher Columbus, a man some claim was probably Portuguese.

This bold theory has come from two writers, Augusto Mascarenas Barreto, author of "The Portuguese Christopher Columbus, Secret Agent of King D. João II," published recently in Portugal, and João Perestrello, who is preparing a book to be published in the United States. Both authors reject other long-held claims that the famous navigator was Italian, Catalan or French.

They maintain that he was an agent of the Portuguese crown with specific missions. First, he was to put Spain off the true route around Africa to India (so that Portugal could get there first) by misleading Spain into the Caribbean in search of a "passage to India," which Columbus knew did not exist. Secondly, in the Treaty of Tordesillas, which split the New World up between Spain and Portugal, he was to ensure Brazil for Portugal (which the latter in reality discovered 25 years before the "official" discovery in 1500).

Barreto's book is a long, lavishly illustrated review of history and dismantling of coded genealogies and secret Columbus signatures, which, the author says, reveal the man's true identity: that of an illegitimate son of the Infante D. Fernando, Duke of Beja and leader of the mystical Order of Christ founded by the legendary Prince Henry the Navigator, the force behind the 15th-century discoveries. Columbus' mother, Barreto says, was Isabel Zarco de Camara, granddaughter of the navigator Gonçales Zarco, a descendant of New Christian converts from Judaism, who discovered the Madeira Archipelago.

Perestrello's book documents a slightly different version of Columbus' parentage. Although also showing royalty and Jewish descent on his father's side, the Zarco ancestor cited on his mother's side is from a different family than Barreto's Isabel.

The theory that Columbus was Portuguese was first advanced by Portuguese historians in the 1920s—to the indignation of the Italians who had taken great pains to prove the explorer was the son of a Genovese wool dealer. This "proof," Barreto claims, was spurious and based on an error by a 16th-century Italian monk—and that is the point at which things get complicated. At the time, written Latin was still much in use, and the monk had miscopied from a letter to Queen Isabella of Spain the name "Cristoforus *Colombus,*" which in the original Latin version had said "Cristoforus *Colonus.*" The spelling of this latter name was the Latin version for the Spanish name of "Cristobal Colon"—the name by which the explorer was known in Spain.

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Two Portuguese authors are maintaining that Christopher Columbus was not French, Italian or Catalan, as has been claimed previously, but that he was Portuguese and an agent of the Portuguese crown.

New Issue
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In Barreto's view, this was the cue for enterprising Italians to unearth a Genovese Colombo, assert for themselves a more prominent place on the map of world discoveries and spend generations trying to convince history that the explorer was Italian.

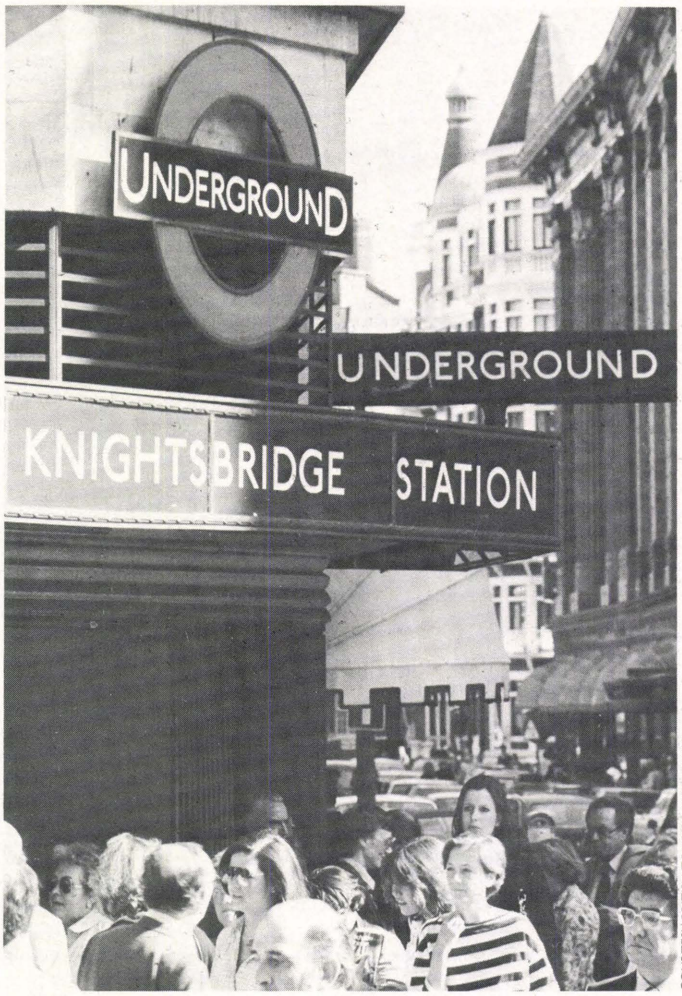
But Barreto and Perestrello insist that they were wrong, arguing that Cristoforus/Cristobal Colon/Columbus/Colonus (depending on which language or spelling mistake one goes by) was the son of a Portuguese prince willing to submerge his identity for love of King and country. He served at sea from age 14 with great navigators, with whom he secretly discovered the Caribbean Antilles—long before 1492—Newfoundland and southwest Africa. His membership in the secretive Order of Christ compelled navigators to destroy charts to hide vital information from non-initiates and set up his role as a "supermole."

While Portugal's Discoveries Committee struggles to get its act together, entrepreneurs like the Perestrellos, whose 14th-century mansion and 450 acres near the Peninsular War battle lines at Toores Vedras are now open to tourists, are working on opening a Discoveries theme park. They want to create a "Columbus World" (their famous ancestor stayed at the mansion several times and its drawing-room wall is adorned with the symbol of the Order of Christ), but the project is still stuck in a thicket of red tape.

Erudite books on the *real* origins of the famous discoverer are no match for the planned mega-exhibition in Seville in 1992, and for now it seems that Spain is ahead in the race to remind the world that from the Iberian Peninsula came navigating skills that carried Europe into other hemispheres. Portugal's diffidence robbed it of its rightful fame as the world's great discoverer; its bureaucracy is still robbing it of the chance to effectively share the 1992 limelight.—DIANA SMITH

LONDON

The Future of The "Tube"



COURTESY BRITISH TOURIST AUTHORITY

London's "Tube," the oldest and deepest subway system in the world, transported some 770 million passengers last year.

The London Underground, or the "Tube," as it is more commonly known, is in trouble. Once the greatest rapid urban transport system in the world, it was recently described by London's *Evening Standard* newspaper as "an uncomfortable, overcrowded, expensive, inefficient, filthy, tacky and worst of all, dangerous disgrace."

It took the deaths last November of 31 passengers, trapped by fire on underground platforms and escalators in the King's Cross station, to focus attention on the deterioration of a system that was once admired and imitated abroad. The results of a four-month inquiry into the causes of the fire and the inexcusable deaths of innocent commuters are due to be published this fall.

Much of the evidence from the 150 witnesses pointed to cutbacks in public funding as a primary cause of the decay of the system. Roger Henderson, a counsel to the inquiry, said the disaster had revealed "an endemic and long-standing under-investment in the technology that is presently available to operate an underground railway with increasing degrees of safety."

The London Underground is the oldest and deepest of the world's major subway systems and, with 522 miles of track, still one of the biggest. But being 124 years old has brought problems. The apogee of a system originally designed for the Edwardian Age came in the 1920s and 1930s when, as part of a massive program of capital expenditure, lifts were replaced by banks of escalators and Tube lines were united by rebuilt stations at intersections.

A steady decline in passengers began after World War II. Then, in the late 1970s and early 1980s, the network suffered badly from cuts in state subsidies, with real capital expenditure falling by half between 1975 and 1982. Sir Keith Bright, appointed in 1982 as chairman and chief executive officer of London Regional Transport, which operates the Underground, recalls that his first objective was "to get the passengers back." And indeed, since that low point traffic has risen by more than 50 percent, and increased "unprecedented in urban transport in the world," he says.

Travelers were lured back by a wide range of "season tickets" and cut-price passes, and the number of passengers rose from 498 million in 1982 to 770 million last year. This certainly boosted revenue, and the system that had lost $40 million in 1982 reported a surplus of $120 million in 1987. Now, however, the Underground has become a victim of its own success and is so packed with passengers that it is breaking down.

The Tube once had a very good safety record. The only serious accidents on the Underground happened in 1953 at Stratford when 12 people died, and in 1975 at Moorgate, when 43 were killed in a crash. In recent years, however, there have been several fires underground that have trapped hundreds of passengers on trains or platforms. Large areas of the Oxford Circus station were gutted by fire in 1984. None of these led to any fatalities, however, until November's lethal blaze at King's Cross.

It is not just the safety aspects on which criticism has been focusing, however. As the *Financial Times* editorialized, "Journeys to work have become increasingly unpleasant—in some cases unhealthy. The overcrowding during rush hours on some routes has reached disturbing levels." For, while the number of passengers has grown dramatically, there has been a cutback in the number of subway cars on the network, and the total staff available to cope with the extra passengers has been reduced by more than 3,000 employees.

In the meantime, 2.5 million travelers continue to risk their lives daily on the Tube. They appear to be prepared to put up with the occasional disaster, but seem increasingly fed up with the long waits for trains, overcrowded platforms, stifling cars and a growing feeling that nobody in the impersonal system cares. While many commuters would like to switch to the red double decker buses that are such a unique part of the London scenery, traffic congestion in the city has grown to the point where even a miserable and disspiriting journey on the Tube is preferable to spending double the amount of traveling time on a bus locked into an interminable traffic jam.

London Transport is examining schemes for alleviating the situation, but the key question is from where the $5 billion, estimated as needed over the next 15 years to unblock the hardening traffic arteries, will come.—DAVID LENNON

BRUSSELS

Toward Autonomy

Slowly but surely, Belgium is moving toward a situation in which it will have to be considered not as one, but as three countries. The division of Belgium into French-speaking and Dutch-speaking communities—Wallonia and Flanders—with the city of Brussels standing between them as a separate polylingual region, is a familiar one, although their distinctions have until now been obscured by the central government's overall authority in such matters as taxation, defense and foreign policy.

The last two areas will remain under central control. And although there is no suggestion that the communities should have independent external policies, the handling of economic and fiscal matters is something else: Already, over a third of all taxes in Belgium are levied by the communities rather than by the central government, and within 10 years it is predicted that the communities will become self-financing.

The present Belgian Government is a blend of the center-right and Socialist parties and the militant Flemish nationalist party, the *Volksunie*. It is, on paper, an unlikely mix of partners that would seem to allow for no very daring economic initiatives. But it has the merit of combining groups that seek a major devolution of power away from central government to the regions and one that commands the necessary two-thirds parliamentary majority to carry the necessary legislative changes through. Its first achievement in this context has been to pass laws giving responsibility in education to the community authorities. This is to be followed up by a bill giving the regions control over public investment and then the right to collect and spend taxes independently of Brussels.

But the coalition is not having everything its own way. It has encountered resistance from its Dutch-speaking members in Flanders over plans to allow French-speaking communities in the Brussels region greater autonomy, but observers do not regard this as serious. It is generally agreed that the Dutch-speaking community of Flanders has far more to gain from the devolution of taxation authority than French-speaking Wallonia, and the Flemish are therefore unlikely to threaten the survival of the central Government over strictly local matters.

To many observers, the wonder of Belgium, divided not just by language, but by all manner of historic, cultural and philosphical influences, is that it has triumphed as a single nation in spite of the differences between the two main communities, divided not just by language, but by all manner of historic, cultural and philosophical influences. The borders of what today is Belgium were drawn up in 1830 by England, France, the Netherlands and the other European powers of the time. It was purely a mathematical calculation, designed to satisfy political ambitions and leading to the creation of a new independent country whose territory had originally half "belonged" to each France and Holland.

The two sides never prop-

ROME

An Industrial "Marriage"

A terse, five-line press release made it official: After five months of stalled negotiations and more than 20 years of a draining war, the fight for supremacy in the Italian chemical industry was finally over. And the news was of interest not only to Italians. Now, for the first time, an Italian company will appear on the list of the world's 10 biggest chemical groups—thanks to this "peace pact."

The new company, Enimont, a 50-50 venture of Enichem (the chemicals arm of the state energy group, ENI), and the huge, privately owned Montedison group, will probably come seventh in the world ranking. Exact turnover figures showing its place on the list will come with the next balance sheets. What is already clear, however, is that the balance of power among the industry leaders will change.

The Enichem-Montedison match is certainly a distinguished one. Franco Reviglio, chairman of ENI, was not exaggerating when he called it "the most important piece of industrial policy carried out in decades." And it is not just a case of the merger mania endemic in the business world, especially in the United States. The key factor behind the agreement was the Government's firm desire to finally put in order a sector as important as chemicals, in order to allow Italy to compete with international leaders. Furthermore, there was the chemical industry's foreign trade deficit (up to a record of $5 billion in 1987, and growing) that needed a push in the right direction.

The decision was not easy, and two factors made it even more complicated: the state sector's current poor image, and the fact that Montedison has been in a phase of reorganization since it was taken over by Ferruzzi, the agri-food group, directed by Raul Giardini, one of the richest men in Italy.

Enimont, with $10 billion contributed almost equally by the two parties, will be Europe's biggest group and at the very top internationally on several fronts: basic and first refining, fibers, synthetic rubbers, agri-chemicals and three major plastic sectors (PVC, polyethylene and polystyrene). A golden opportunity, in short, that is not surprisingly given the pressure applied by the Italian Government, headed by Christian Democrat Ciriaco De Mita, to overcome the polemics and misunderstandings that marked the long months of negotiations.

The Government also offered maximum cooperation. The creation of a united front in chemicals (Enimont will be launched officially on January 1, 1989) will make redundant 7,000 employees in the Italian chemicals sector. That, however, is not a problem: Backed by the unions and the political parties, the Government has accepted the task of absorbing these employees. De Mita also has intervened to satisfy Gardini, who was loath to part with some of Montedison's most profitable companies, preferring to keep them in his personal portfolio. To get Enimont off the ground, the Government agreed. It was all so friendly that when the "wedding" was announced, a newspaper cartoon appeared showing Reviglio and Gardini as bride and groom, with De Mita as priest, sealing the ceremony.—NICCOLO D'AQUINO erly merged. Throughout the 19th century, the French speakers were considered the elite, and they dominated business, politics and culture. This mentality persisted until the end of World War II, when economic factors took over and reversed the balance of power and influence. Since 1945, Flanders has prospered through new industries and investment, while the traditional heavy industries of Wallonia, such as steel production, coal mining, textiles and shipbuilding, have been in almost continuous decline.

Thus, while the populations of the two regions are roughly equal in number, it is estimated that Flanders now has about twice the income of Wallonia. A major factor in the Flemish drive for self-government is the resentment felt by many Dutch-speakers at the way "their" taxes are being used to prop up declining industry in the southern half of the country.

By giving the communities autonomous powers over taxation, the central government is clearly risking an even sharper divide between the regions and raising the prospect that Wallonia could become the "Mezzogiorno of Belgium," according to an opposition Liberal member of parliament. This, however, is looking very far ahead. The guessing in Brussels is that the leaching of power away from the central government toward the regions will continue on a piecemeal basis, but will not really affect the character of the country much before the end of the century.—ALAN OSBORN

BONN

Collectors' Museums

Where can you see an original plank from Lord Nelson's flagship *Victory?* Or perhaps an antique hairdryer? Whatever your private passion for hoarding might be, chances are that you will find kindred collectors somewhere in Germany with their own treasure troves—if not museums.

In Schleswig-Holstein, for example, visitors can see the art of hairdressing, displayed through the ages, including rococo coiffures that required their creators to work from ladders. All over Germany one can find private collections of clocks, radios, ovens, locks, brooms, chamber pots, dolls, even foods. Strange as they may be, these collections all share one thing: They are the result of some collector's craze, and are all interesting, informative and entertaining.

Take, for example, Bad Homburg's hat museum. It was in this town in 1880 that the Prince of Wales' eye was caught by a marksman's hat. The Prince subsequently ordered a copy to be made and soon his new creation—that soft-felted, narrow-brimmed hat with dented crown, subsequently known as the Homburg—became the latest rage and was worn by gentlemen all over the world. It induced a native Bad Homburg teacher to add a hat collection to his already standing museum on house and home, acquiring historical hats piece by piece, each of them with their own history.

That is the way things seem to go for many collectors. The Museum for Mechanical Instruments in Schloss Bruchsal, for example, owes its existence to Jan Brauers of Baden-Baden. He seriously started his collection in 1974 when somebody asked him whether he had any use for paper rolls for a mechanical piano. Brauers certainly did; the only problem was that he did not have a mechanical piano. "I was infected by the collector's bug," Brauers sighed, "and there was nothing I could do."

Today, Brauers' collection consists of 300 objects of precious mechanical pianos, pipe organs and orchestrions that play piano, saxophone, mandolin and drums and are decorated with dancing dolls. His collection even has the famous *Titanic* organ that, fortunately, escaped the disaster because it was not ready in time. There also is a music box, the "Sublime Harmony Tremolo Zither," which was made in Geneva in 1862 for Queen Victoria. Last but not least, the museum boasts the largest record player in the world with discs of no less than 3 feet in diameter.

The museum documents fully the development of mechanical instruments from the first mechanism without a clock to a silent film organ that could imitate, among other things, the roaring sound of marching troops. Brauers says that it has never been his ambition to have the world's largest collection of mechanical instruments. "It was more important for me to have a perfect cross-section of the entire development of mechanical musical instruments."

What cheese is for the French, is bread for the Germans. Highlighting the country's bounteous 1,000 types of *Brot,* there are two bread museums, one of them in Ulm. Once again, it was a private initiative that now enables the visitor to learn the fascinating history of breadmaking, which goes back thousands of years—starting with the Egyptians who invented the fermenting dough (leaven), and the Greeks and Romans who refined the art of making bread—down to modern times. The exhibition displays thousands of objects related to the art of breadmaking, various types of historical breads, ancient tools, utensils, and documents of old bread customs. There also are ample documents of hard times, misery

The treasure troves of many private collectors, containing everything from hats to musical instruments and even mousetraps, make for many unusual and lively museums in Germany.

COURTESY GERMAN INFORMATION CENTER

and hunger, such as "hunger coins" and ration cards. Last but not least, the visitor can watch the ancient art of bread making and taste the fresh and crisp bread baked in historical ovens.

"Private museums," says Oskar Foltyn, who runs the German Wine Growing and Mousetrap Museum all under one roof, "must be more inventive than state museums. It must live to attract visitors." Which was one of the reasons why he added a section on mousetraps to his Wine Growing Museum. In two showcases with some 280 mousetraps from all over the world, Foltyn gives a survey of mousetraps from the Bronze Age to modern times. "It is a very beautiful exhibition," he says, "because it shows that the human being is very inventive in every field of technology, including mousetraps."

His wine museum should not be overlooked, either, presenting a complete development of wine growing and the problems of winegrowers. The visitor learns about the close cooperation of scientists in the United States, France, Italy and Germany in their effort to fight the vine louse, which existed already in the 19th century. "There was more international cooperation and exchange going on than nowadays," says Foltyn. The museum also has a section on notorious drunkards in history: Roman Emperor Trax holds the record, reportedly being able to drink 23 liters of wine daily. "Every collection has a history and every collector has a reason for his collection," concludes Foltyn.

Other collections can be as fastidious. Take the Tobacco and Cigar Museum at Bunde. At the entrance the visitor is offered a cigar, which can be enjoyed on the famous students' smoking chair. A special room is devoted to cigar making and a showcase displays the world's biggest and probably oldest cigar—more than 50 years old, 5.25 feet long, 24 inches thick and weighing 20 pounds. A gallery of portraits of famous cigar smokers includes the composer Bach, Prussian field marshal Blücher, Wilhelm Busch, Friedrich Schiller, Duke Pückler and, of course, Winston Churchill.

Strange museums are of such fascination for Germans that Ernst Roloff put a whole book together on these unbelievable curiosities. Unfortunately, the book is now out of print. But not to worry: It, too, sources tell us, has subsequently become a collector's item.—WANDA MENKE-GLÜCKERT

ATHENS

Marine Archeology

Back in the early 19th century, when Greek revolutionaries started a long drawn-out struggle for independence from Ottoman rule, one particular incident turned the tide of international opinion in favor of Greece: The Turkish incursion against the wealthiest island in the Aegean in 1822, which became known as the "Massacre of Chios," was condemned in West European capitals and immortalized in a painting by Ferdinand Victor Eugène Delacroix.

There are no figures to indicate how many islanders died, but surviving Ottoman customs records show that 40,000 Chiots were captured and sold as slaves. Homes, warehouses and monasteries were looted in systematic raids staged from the Turkish coast, only six miles distant from the island's capital. Ottoman ships lay off Chios' harbor that summer, loaded down with booty.

Then the Greeks staged a daring counter-attack and sank the Turkish flagship, the *Bourloz Seimaz,* with almost 1,000 people aboard—including some 400 Greek captives. Every Greek school child learns the story in history class as one of the heroic moments in the war of independence.

Now a Greek salvage expert has located the wreck of the *Bourlot Seimaz* off Chios in what Culture Ministry officials say is the most remarkable underwater discovery to be made in Greece for years. The expert, Peter Nicolaides, started looking for the Turkish vessel while teaching an E.C.-funded course in marine archaeology last winter to out-of-work divers on the island.

Asked where their nets snagged on underwater obstacles—an often productive method for locating historic wrecks—local fishermen pointed to a spot around half a mile from the harbor. On test dives, Nicolaides found objects strewn across a wide area of seabed that all were consistent with a large ship dating from the early 19th century.

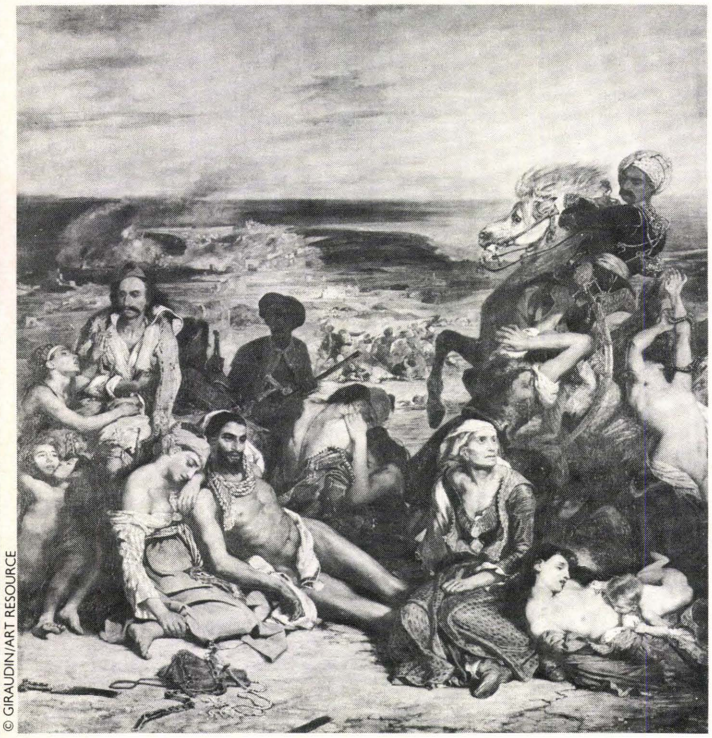
On the muddy bottom, the divers saw burned ship timbers sticking up and found copper panels that originally had sheathed its hull. The vessel was at least 300 feet long, according to initial estimates, and was identified as an Ottoman warship on the basis of Islamic kitchenware and the numerous cannonballs found among the wreckage. Culture Ministry experts who checked the historical records of the *Bourlot Seimaz* sinking confirmed that it was the Turkish flagship.

The divers also found what appeared to be booty from Chios, including European-style candlesticks and a chalice from a church. They also spotted human bones, suggesting the wreck had lain undisturbed since it sank.

The *Bourlot Seimaz* went down in flames after a fireship attack staged by Greek admiral Constantine, who sailed to Chios from the nearby island of Psara. His ship was towing a fishing boat crammed with explosives. Under cover of darkness, the Greeks jammed its bowsprit into the mouth of a cannon on the Turkish vessel and lit a long fuse. The *Bourlot Seimaz* was blown apart, killing the Turkish admiral aboard, Kara Ali.

In recent years, Greek underwater archaeologists have confined their activities to surveying seabed antiquities rather than full-scale excavations. Although the *Bourlot Seimaz* lies at the depth of 150 meters, which is close to the limit for marine archaeologists to work in safety, its historical significance is such that Greek authorities say they are determined to go ahead with its excavation.—KERIN HOPE

The Turkish incursion against the Greek island of Chios in 1822 was captured in this painting by Delacroix, the "Massacre of Chios."



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MADRID

"Hello, Are You There?"

Spain has undergone some dizzying changes over the last dozen years. Since General Franco's death in 1975, the country has gone from relative diplomatic and economic isolation to membership in the North Atlantic Treaty Organization and the European Community. Its once sluggish economy grew 5.2 percent last year and the fiscally centrist Socialist Government has phased out Franco-era state protectionism, thereby opening up the domestic market to outside competition and encouraging privatization.

But rapid growth has its paradoxes, and nowhere are they clearer than at Telefónica, the state-controlled telecommunications monopoly, which has come under fire for botching basic services even as earnings soar.

Telefónica, Spain's only true multinational, is 34 percent state-owned, and listed on stock markets in New York, London, Tokyo, Frankfurt and Madrid. Its before-tax profits for the first half of this year topped $338 million, up 20 percent over the same period the year before. Furthermore, Telefónica has embarked on projects abroad, such as in the Soviet Union, where it is designing rural telephone systems and co-manufacturing telephones, and in Argentina, where it has reached a tentative agreement to buy 40 percent of ENTEL, the national telecommunications monopoly. At home, a joint venture between ATT and Telefónica, Microelectrónica de Espana, of which Telefónica owns 20 percent, has begun to manufacture computer chips at its new plant near Madrid.

The demand for telephones in Spain has shot up along with the standard of living. The company will install an estimated 1.2 million telephone lines this year, up from 1.1 million in 1987. Next year's installations are expected to top 2.5 million and, with only 40 telephones for every 100 Spaniards—compared with 95 per 100 Americans and 68 per 100 West Europeans—there is plenty of room for domestic expansion.

The increased demand, however, has bred its share of problems. Some 400,000 people are still awaiting the installation of telephone lines and will wait an average of six months and up to two years for their telephones. Getting through to Madrid or Barcelona on a weekday morning is often impossible due to overburdened or outdated central switchboards. Line quality and routing can be arbitrary: A Madrid-to-Madrid caller—if he reaches the correct party—may suspect he has rung the inside of someone's bathtub, while international communications can be clean and clear.

Telefónica's own monthly scoreboards—which measure factors such as signal strength, interference, failed connections and billing errors—found quality had dropped sharply over the past two years, according to an article in the Spanish weekly, *El Globo.* The December 1985 in-house report gave Telefónica 87 out of 100 points, a score that put it on a par with systems in France and the Federal Republic of Germany. By September 1987, however, Telefónica's service rated a low 45 points.

"In a little more than a year, Telefónica has achieved something that seemed impossible," *El Globo* marveled, "namely, that a network, considered one of the best in Europe, offers the level of quality of an underdeveloped country." Telefónica has become a favorite target of the national press, the subject of biting editorials in publications across the political spectrum.

Telefónica executives say that they are working to remedy the problems, but warn not to expect improvements until 1990. The company plans to pour 330 billion pesetas (about $2.6 billion) back into its operation this year and half a trillion pesetas next year—hikes of 30 percent and 50 percent over 1987. The investments will total 1.7 trillion pesetas over the next five years, which should bring equipment up to date and finance new projects. That is small comfort for today's users, whose only recourse is patience, a sense of humor and strong dialing fingers.—RICHARD LORANT

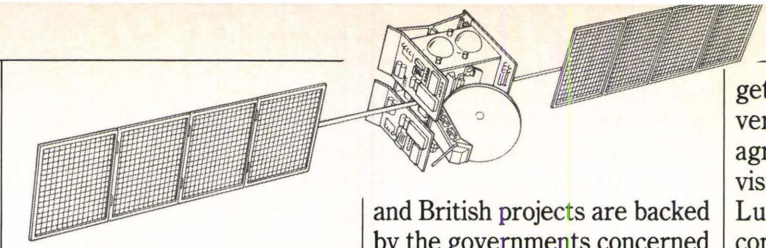
LUXEMBOURG

Breaking Into TV

On November 4, an Ariane rocket is scheduled to lift off from Kourou in French Guyana, carrying with it the hardware for a revolution in television viewing in Britain, and the ambitions of Luxembourg to seize the leadership in European satellite broadcasting. On board will be the Astra satellite owned by the Luxembourg Société Européenne des Satellites (SES), equipped to transmit 16 channels of television programs across Europe from Oslo to Athens. The enterprise amounts to one of the boldest gambles ever undertaken in European broadcasting, both technically and commercially.

The business side of the venture looks like it will be a success, thanks to a deal between SES and Rupert Murdoch, the Australian-born newspaper owner, that calls for the lease of up to four of the Astra channels for beaming commercial stations to the British market. The expectation is that other British broadcasters will move swiftly to take six more of the Astra channels, thus ensuring the viability of the launch on commercial grounds. "Our only worry now is getting Astra into orbit," says an SES official. "No one will be praying for a successful launch more than us."

Luxembourg won the race for commercial radio broadcasting back in the immediate postwar years. Its seductive blend of pop music and com-



mercials, sent out on the famous 208-meter wavelength, won audiences in Britain decades before commercial broadcasting became a reality. Can the Luxembourgers do the same in television? The programs lined up for transmission on the Murdoch-Astra service are regarded as a real threat to the British Broadcasting Corporation and the existing advertisement-sponsored stations in Britain. To receive them, viewers will have to buy a satellite dish antenna costing about $300. It is a price that British viewers will "pay willingly" to get four more stations on existing sets, says an SES official. With a further six channels promised, they should certainly do so.

SES is in no doubt about the enterprise. Following the Murdoch deal, it has placed orders for another 16-channel satellite to be launched in 1990, giving it the potential of 32 stations across Europe. The company is taking another heavy gamble on the British market. "We believe that, having the taste for three or maybe four more stations on top of the four at present, the British viewing public will be eager to accept twice as many again," says an official of Murdoch's company. He notes that in parts of the United States people have 50 or more channels to select from, adding that "viewers in Britain and the rest of Europe will sooner or later have the same choice."

Two important obstacles remain in the path of Luxembourg's ambition to command commercial television broadcasting in Europe. First is the competition from the French TDF-1 satellite and the British BSB enterprise, both of which will employ more advanced, though as yet unproven, technical devices aimed at giving the viewer far better reception as well as a wider choice of programming. Both the French and British projects are backed by the governments concerned and will provide for commercially sponsored broadcasts, though not on the same scale as those foreseen by SES.

The other headache for the Luxembourgers is the likelihood that the E.C. countries will agree on a broadcasting regime that will severely limit the extent and nature of advertising. The Community's plan is to have a single market for broadcasting by 1992. At present, some member countries bar advertising altogether, and others limit it severely. The guessing is that an agreed package on future television will fall well short of the Luxembourgers' hopes for complete freedom for commercial broadcasting.

Neither of these matters dismays SES, which is a private company but has the support of the Luxembourg Government. Its position is that "the viewing public will decide," according to a spokesman. "If we show, as I believe we will, that British viewers, and those in other countries, will turn to our programs, then public opinion will be on our side if there is a move to control broadcasting."—ALAN OSBORN

DUBLIN

Figuring Out The Economy

After experiencing several years of severe economic recession, Irish people are wondering if things are finally getting better, as the Government tells them, or worse, as the record levels of unemployment and emigration seem to indicate. The Government's public-awareness campaign for the challenge of the E.C.'s internal market by 1992 puts the emphasis on the opportunities for Irish exporters, but the pessimists wonder how the economy can stand up to the increased competition. Even experts are baffled by the unpredictable behavior of the economy in recent times: Last year, growth was to be zero percent or 2 percent, depending to whom one listened. It ended up at a healthy 5 percent.

This year, the central bank has cautiously advised its zero-growth forecast of last May up to half a percent, but Ireland's Prime Minister Charles Haughey, on a recent visit to Australia, was bullishly talking about 2 percent to 3 percent. He also spelled out to the Dail, the Irish Lower House of Parliament, how successfully the Government's Program for National Recovery was keeping on course.

The figures certainly look impressive: The ratio of national debt to gross national product, which had been threatening to turn the country over to the tender mercies of the World Bank and the gnomes of Zurich, is heading for stabilization. Interest rates have fallen by over 6 percent in the last 15 months, and inflation at less than 2 percent is half that of big neighbor Great Britain.

Irish exports continue to grow, leading to the first balance-of-payments surplus in 20 years. The Irish Industrial Development Authority reports a new climate of confidence and that it is on course to achieve its objective of supporting the creation of 37,000 new industrial jobs in the years to 1990. Particularly encouraging was the growth in small industry this year, which helped to correct the unhealthy over-dependence on overseas firms to create employment.

After two bad years, the agricultural sector had a very good year in 1987, when farm incomes rose by one-third, and another good year is expected in 1988, thanks to increased E.C. aid measures, falling interest rates and buoyant prices. Tourism is increasing, according to official figures, although this is disputed by hoteliers. The national airline made a record profit of over $50 million and paid a dividend to its state owner for the first time in its history.

The catalogue of good news on the economic front goes on and on, but the man and woman in the street are far from convinced that good times are around the corner. Consumer spending stays sluggish and government cutbacks in all departments has reduced public spending, on which many vital areas, such as the building industry, depend. The cutbacks also have meant that the state, instead of providing thousands of jobs for school leavers each year in the public sector, is laying off thousands through early retirement schemes and not so golden handshakes. Emigration, which has periodically stripped the country of its most vigorous sons and daughters, and was believed conquered in the 1970s, has returned in a more virulent form as those who now leave are better educated and qualified, and so a greater loss to the Irish economy.

It is a chastening fact that, after 15 years of E.C. membership, there are fewer people employed in the manufacturing industry, unemployment has almost quadrupled and emigration has reached 30,000 people a year out of a population of just over three million. Even for those who have jobs, income-tax rates of up to 60 percent on modest salaries and expensive education costs make daily living a joyless act with bank overdrafts.

The healthy growth figures are not translating into expanding job creation and vigorous consumer spending. Inflation is minimal, exports are booming, the young population is better educated and skilled than at any time in the country's history, but work is scarcer than ever. While Haughey's state of the nation address acknowledged disappointment in this area, he insisted that a turnaround in the unemployment and emigration figures was beginning to show. People would love to believe it.—JOE CARROLL

AMSTERDAM

"Euroregions"

Spurred by the growing southern European market and the prospect of the completion of the E.C.'s internal market in 1992, "Euroregions" are being formed all along the Netherlands' eastern border, from southernmost Maastricht in the Limburg province to the northernmost province of Groningen.

"Euroregions" have been developing in several of the frontier regions in Europe, and are concerned with cooperation and contact in many areas, ranging from economic and social affairs to transportation coordination efforts in the multinational area making up the region. A very active example of such a "Euroregion" is the triangle between Maastricht in the Netherlands, Liège in Belgium and Aachen in the Federal Republic of Germany, a geographical area strategically located between three European countries. Maastricht, for example, is home to the European Institute for Public Administration, where officials from the 12 E.C. member states and the E.C. Commission are trained for tasks in European administration.

The Groningen province in the north of the Netherlands is now also looking east and westward in an effort to form a

COPENHAGEN

Economically Divided

Economically speaking, Denmark is rapidly becoming two countries. Although some will claim that this is hardly possible in such a small country, the island of Zealand—containing the capital of Copenhagen—and the remainder of Denmark—principally the peninsula of Jutland—are developing distinct economic personalities. Copenhagen is the hub of financial, government and service industries, and Jutland is the industrial and agricultural environment.

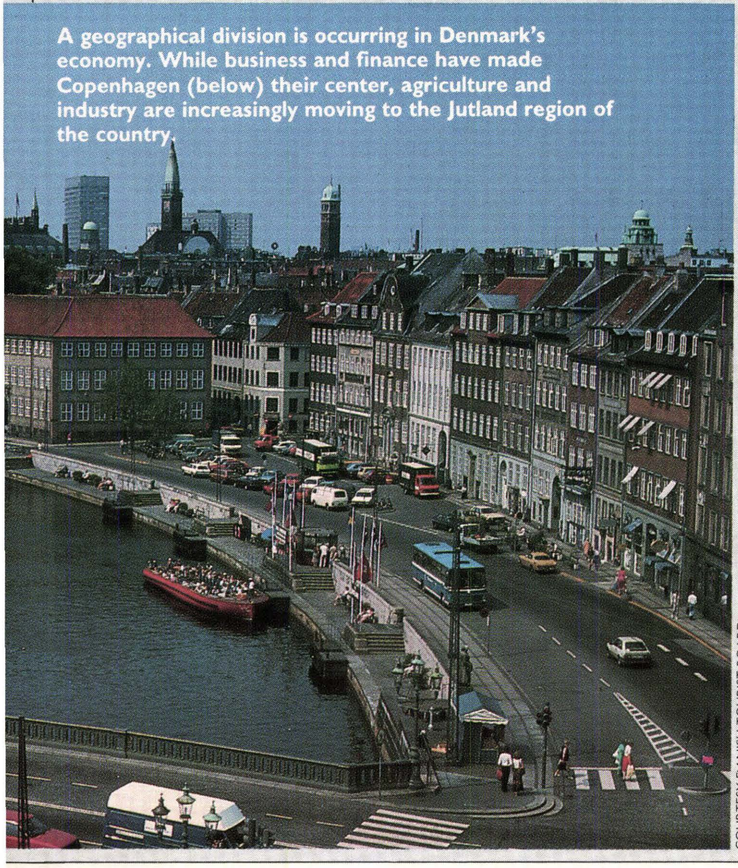
Separated by the Great Belt, the international waterway to the Baltic, the process of concentration of activities in the two areas seems to be accelerating in response to both the present and the anticipated strongly competitive climate. Copenhagen has the only major international Danish airport, and is geographically well suited to be at least a regional financial center. The University of Copenhagen and the Co-

penhagen Business School provide graduates for both the government and financial services, and although production has moved westward, many corporate headquarters remain in the capital's area.

Almost two-thirds of all Danish industrial production is now located in Jutland, versus only 45 percent 20 years ago. A study just published by the Danish Ministry of Labor predicts that the growth in the labor force will be twice as high in Jutland as on the islands in the years between 1988-91. Although it is official policy that more government institutions should move from Copenhagen to the provinces, there is a notable lack of enthusiasm and effect in implementing these policies. Government employees claim that while moving might safeguard their own jobs, this is very often at the expense of the partner's job, a particular problem for Danish women, who have one of the highest participation rates in the work force anywhere in the world.

Economists disagree on whether entrepreneurs are actually moving from east to west, or whether the business climate in the west of Denmark is simply more conducive to starting one's own business. Most Danish businesses are very small by international standards, and most Danes would agree that there is a difference in mentality between the big city of Copenhagen and the west of the country: Western Danes in general value their financial and job security more highly, and they tend to work harder and longer hours, but psychological generalizations are always difficult to substantiate.

Among the perhaps more potent economic factors are much lower prices for land, easier access to the European freeway infrastructure and a much easier relationship with local authorities. Environmental demands—especially pollution standards—are escalating everywhere, but some critics claim, and not entirely without justification, that doing anything but shuffling paper is illegal within the city limits of Copenhagen. This may be an exaggeration, but an accurate description of the only growth industry in the area.—Leif Beck Fallesen



A geographical division is occurring in Denmark's economy. While business and finance have made Copenhagen (below) their center, agriculture and industry are increasingly moving to the Jutland region of the country.

COURTESY DANISH TOURIST BOARD

"Euroregion" itself. The province sprang up some 1,000 years ago as a trading settlement for clay and sand at a point of open access to the North Sea from which navigators were able to trade with the Baltic regions. In the Middle Ages, the Groningen settlement, an independent state with its own army, mint and jurisdiction over the whole area, was a member of the Hanseatic League and conquered large tracts of land in the North.

The region will have one especially attractive asset to offer a possible future "Euroregion," for it will soon have in operation its second North Sea port at Eemshaven, which will then be the northernmost port on the Dutch coast. While it will not be a competitor for the world's largest port of Rotterdam, or for Amsterdam's sea port, Eemshaven will be a most useful addition to the nearby port of Delfzijl just south of Eemshaven. Its access to the North Sea is direct and open, without locks, bridges or canals. The harbor is fully controlled by radar, enabling ships of up to 40,000 tons for now, and up to 80,000 tons in future, to enter or leave the port safely and in all weather conditions. Channel depth at the harbor entrance is 11 meters and depth at the quay 14 meters.

Eemshaven has a multi-purpose terminal and will provide good distribution facilities for Scandinavia, the United Kingdom, Ireland and East European countries. On a visit to the port, for example, a Soviet ship was unloading squid caught off the coast of the Falkland Islands, which was then packed in one of the port's refrigerated warehouses to be shipped in Dutch trucks to Rome.

There are three major terminals at the port. An Anglo-Dutch venture group has built a port terminal to handle bulk sugar, providing the most modern storage facilities available to European sugar producers and traders at any port this size. A silo with room for 100,000 tons of sugar will be operational by October. Cold storage facilities have been completed, with a Swedish line to Hong Kong and Japan. A third terminal—for tropical and subtropical goods—in particular bananas, which are very popular in Eastern Europe, is nearing completion.

Although it is sometimes felt that Groningen province is too far away from the urban conglomerations in the east of the country, the region does have a variety of attractions to offer a prospective Euroregion: Aside from its open access to the North Sea and the new port at Eemshaven, Groningen has much open space, clean air, undisturbed lakes, beaches, woods and so on. Most important of all, however, is the region's underground wealth—a vast supply of natural gas, one of the largest in the world.—Nel Slis €

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POLICY COORDINATION: LIMITS AND PROSPECTS

WORLD TRADE IMBALANCE CONTINUES, WITH LITTLE HOPE OF IMPROVEMENT UNTIL AFTER U.S. ELECTIONS.

NARIMAN BEHRAVESH

If the stock market crash was supposed to jolt policy makers into taking bold action to reduce the imbalances in the world economy, it did not. Instead, most of the world seems to have shrugged off this event and world growth is returning to familiar patterns. Unfortunately, the tensions and imbalances in the world economy are no better than before the crash. Therefore, a strong argument can be made in favor of a coordinated policy effort to reduce these pressures. This article explores the need for and constraints on policy coordination.

World growth: back to familiar patterns

As the memory of the tumultuous events of last autumn has faded with time, the world economy has returned to familiar patterns of growth. In retrospect, the sharp correction in the world's stock markets has had only a modest impact on the prospects for world growth, which is expected to remain in the 2.5-percent to 3.5-percent range over the next five years. The anticipated deflationary impact of the shock did, however, lower the patch of interest rates and inflation. It also triggered a rapid drop in the value of the dollar vis-à-vis other key currencies, only part of which has been reversed since January.

These changes have had a differential effect across the world, sustaining U.S. growth but hurting developing nations, especially in Latin America and Asia, and also lowering growth prospects for those developed nations that have not boosted their domestic demand. Growth in the United States remains quite durable—roughly 2.5 percent this year and next. Exports will account for almost half of this growth. Domestic demand, especially fixed investment, is also quite strong. Surprisingly, the stock market crash has had a very small impact on consumer spending. The sustainability of U.S. growth in the next few years will depend in large part on only slow rises in inflation and interest rates and further declines in the value of the dollar.

Among the developed nations, Japan has weathered the storm best. A surge in consumer spending and fixed investment has more than offset declines in exports and brisk growth in imports, especially from the Asian newly industrializing countries (NICs). Total growth in Japan will average about 3.2 percent in the next five years. While Japan's re-orientation away from export-led growth to domestic-led growth originated in the public sector, the private sector is now the primary force behind this restructuring.

Growth in Europe will remain well below the world average—about 2 percent annually over the next five years. The principal reason for this sluggish growth is the unwillingness and, arguably, the inability of Germany to boost its domestic demand more than it already has. Given the dominant role of Germany in the European Monetary System (EMS), this means that most of the other European countries cannot boost their economies without running into balance-of-payments problems.

Among the larger economies, France is most affected by Germany's slow growth. Italy has shown more resilience and independence and is growing faster than many of the other EMS countries. The United Kingdom, has the brightest growth prospects, at least in the near term. These growth disparities are likely to remain a part of the European economic scene. Prospects for Europe are a lot brighter at the end of the next five years because of the proposed trade liberalization in 1992.

The events of the last six months have accentuated some of the regional disparities around the world. Growth in the developing nations will remain below world growth in the next year but will pick up steam after that. In the near term, prospects for Latin America remain very bleak. Slowing growth in the United States and weakness in commodity markets, especially in oil markets, are the principal reasons for this sluggishness. Austerity programs in many of these countries also have pulled down growth. Among the major economies of the region, the outlook for Mexico has worsened considerably, while Brazil's prospects look a little brighter. Weal oil prices also are delaying the recovery in the Middle East. However, the absence of a large external debt, coupled with the anticipated recovery of petroleum prices next year, means brighter prospects for the region starting in 1989.

The financial turmoil at the end of last year has done nothing to slow the rapid growth of the Pacific Rim basin countries. This region has been, and will remain, the fastest growing in the world. Not only has domestic demand in the region been strong, but exports have soared. These trends will be maintained over the next five years. The export-led growth prospects of the Asian NICs remain bright, in large part, because Japan is taking on the locomotive role in the area.

World inflation will rise modestly. Demand pressures will be modest, and while commodity prices will stop declining, they also will not rise much relative to the overall level of world inflation. However, there is a risk that the U.S. economy, the Japanese economy and the British economy may begin to show some signs of overheating.

Paralleling the rise in inflation will be a slow rise in interest rates led by the United States. After the U.S. elections in November, the Federal Reserve will tighten monetary policy considerably. Moreover, monetary authorities in Japan and in Europe are likely to take a more restrictive stance later this year. The dollar is likely to depreciate more over the next two years before stabilizing. The downward pressures exerted by the continued large U.S. current-account deficit suggests that the dollar will drop at least 10 percent in the next two years on a trade-weighted basis.

The *status quo ante* of the world growth outlook also means that the adjustment in the world's trade imbalances will proceed at a snail's pace. The U.S. current-account deficit will barely be lower as improvement in primary goods and manufacturing trade flows will be offset by a worsening in the energy balance and large debt service payments. The current-account surplus in Europe will decline slightly while the one for Asia will rise a little. Also, the Latin American deficit will not improve. On the other hand, the Mideast will see its current account swing from deficit to surplus. The largest adjustment will come in Japan, where the current-account surplus will drop substantially, leaving it nonetheless still high by most standards.

Tensions and imbalances

This rather bland view of the world economy masks some fundamental problems that could jeopardize growth prospects.

- ***The U.S. twin deficits.*** The U.S. public-sector borrowing needs far exceed the surplus of private savings over private investment. This had led to record international borrowing by the United States.
- ***The emphasis on export-led growth in Asia.*** This emphasis by countries that can no longer claim to be poor or developing has fueled the fires of protectionism in the United States and Europe.
- ***Eurosclerosis.*** Eurosclerosis has manifested itself most obviously in the very high unemployment rates now found in many parts of the European economies. Many in Europe and in the United States feel that countries like Germany can grow faster through a combination of supply-side and demand-side policies.
- ***Exchange-rate volatility.*** Since the early 1980s, the exchange rates of the largest industrialized nations have been on a roller coaster ride. It is hard for businesses to plan for and adjust to an environment in which exchange rates move quickly and by large amounts. In the early 1980s, many U.S. businesses were hurt by the rapid rise in the value of the dollar. More recently, Japanese and European businesses have been hurt by the rapid rise in the value of their currencies. One reason that many U.S. businesses are now reluctant to add to capacity is concern about another run-up in the value of the dollar.
- ***The LDC debt problem.*** Since 1982, Third world debt has been a source of tension between the developed and the developing countries. Austerity programs in debt-burdened countries have cut into world trade growth.
- ***Fiscal misalignment.*** During the 1980s, there has been a large imbalance in the fiscal positions of the G-7 countries. The United States has taken a very expansionary fiscal stance, while in contrast the European countries and Japan have been more restrictive. A reversal of these trends is in place. However, the changes necessary to bring fiscal policies around the world into better balance have not been completed yet. In the United States, the ratio of overall government net lending to gross national product (GNP) is quite low relative to many other countries. However, since private savings in the United States are also quite low, the U.S. Government needs to make substantially more progress in reducing its public borrowing. Japanese and German fiscal policies have become somewhat more stimulative in recent years; however, there is more scope for stimulus from both of these countries.
- ***Protectionism.*** While the fires of protectionism seem to have cooled down somewhat in the United States, persistence of the large trade deficits means that the risk of protectionism will remain large for some time to come.

Risks

As a result of these tensions in the world economy, the risks to the outlook detailed above are quite large and quite pervasive.

- ***Boom-bust in the United States.*** There is a sizable risk that growth in the United States this year will be quite strong, fueling inflationary pressures that would then set the stage for recession in late 1989 or early 1990. Such a recession could be quite deep, given the very heavy debt burdens in the United States, both in the consumer and business sector.
- ***U.S. policy shock.*** It is very likely that the Federal Reserve will wait until after the U.S. elections to tighten monetary policy. This could mean that the Federal Reserve will be tightening too late and as a consequence will have to step on the brakes too hard. The risk of a fiscal policy

shock is not insignificant. Whoever is in the White House in 1989 may have to raise taxes substantially either that year or in 1990.

• *Petering-out of the Japanese expansion.* The Japanese expansion could come to a halt for any number of reasons. Japanese monetary policy is likely to become tighter after the U.S. elections. There is some doubt as to how expansionary Japanese fiscal policy really is and some speculation that it may be actually tightening in the next two years. Moreover, there is a lot of concern about the sustainability of the rise in Japanese stock and real estate prices. A burst in this kind of speculative bubble could create severe problems for Japan the world economy.

• *European implosion.* There is a risk that continued slow growth in Germany will pull the rest of Europe down. In a worse case scenario, this could result in a downward spiral for all of Europe. While this is still a risk, it is not as large a risk as it was a year ago.

• *The Latin American debt crisis.* The persistence of this problem poses risks not only to the debtor nations who have constraints on how fast they can grow, but it also poses risks to developed countries' banks, who are highly exposed in this area. Thus, the situation could either trigger or exacerbate a financial crisis that started elsewhere in the world financial system.

• *More financial conclusions.* The stock market crash of 1987 gave everyone a taste of how volatile financial markets can be. Because interest rates are projected to rise, the likelihood of another large crash in the stock markets around the world cannot be ruled out.

• *A dollar freefall.* Given the continued large U.S. trade deficits, the risk of a series of sharp declines in the dollar is significant. If the monthly U.S. trade statistics worsen in any measurable way over the next few months, we could indeed see a run on the dollar.

• *Escalating protectionism.* While the risks of overtly protectionism in the United States have diminished with the landmark trade bill recently signed by President Ronald Reagan, there is a strong undercurrent that could surface later on.

• *Leadership vacuum.* There is a leadership vacuum in the world today. The United States has a lame-duck president and a deeply divided Congress. The German Government seems much more preoccupied with internal considerations than external ones. Japan also seems quite reluctant to exert its political leadership commensurate with its financial leadership in the world today. Thus, if another crisis were to hit, it is not clear which of the major industrialized nations would provide the leadership to avert such a crisis.

Policy coordination

The persistence of the world's trade imbalances has fueled the debate over the need and efficiency of policy coordination. The success of policy coordination over the past few years has been quite mixed. Nonetheless, the alternatives would have been even less appealing.

The need for policy coordination can be motivated in many ways. First, a coordinated and concerted effort to reduce tensions in the world economy is more effective than a piecemeal or independent approach. Second, policy coordination ensures that policy goals in various countries are compatible. Third, a united approach makes it possible for governments to take action on politically painful policies.

In the same vein, however, there are a few limits to policy coordination. To begin, there may be disagreement among governments over objectives. For example, Europeans and Japanese would like the United States to take bold steps to reduce its deficit. In turn, the Americans do not understand why the Europeans tolerate such high unemployment rates. There also can be disagreement over how the economies work and the economic outlook. Many are genuinely puzzled by the reasons for which the German Government is so preoccupied with inflation while it is so low. Policy coordination also can be bogged down by disputes over the distribution of gains. The debate over who will be the world's next locomotive is a case in point. Moreover, domestic politics can get in the way. Currently there is a hiatus in meaningful policy coordination while everyone waits for the next U.S. President to take office.

There also are financial limits to policy coordination. For example, central banks have only limited amounts of reserves to use for intervention. Finally, there are constraints on how much volatility can be reduced on a worldwide basis. Some have argued that in 1987, by reducing the volatility in the exchange rates, the Central Banks simply pushed that volatility into the bond and stock markets.

Over the past few years, the many tensions in the world economy have prompted calls for policy coordination. Only some of these efforts have borne fruit.

• *Exchange-rate volatility.* Arguably, policy coordination has been most successful here, although there have been some spectacular failures as well. Attempts to reduce the volatility of exchange rates have brought about very close cooperation among monetary authorities. At its best, this has manifested itself through simultaneous intervention in foreign exchange markets and coordinated interest-rate cuts. This kind of policy coordination is likely to continue.

• *Fiscal policy misalignment.* Success here has been very elusive. The United States has not cut its deficit enough to put any kind of a dent in its external borrowing needs. Germany has done nothing to boost its lackluster economy. The one exception is Japan, which has completely reversed course and is embarked on a path of fiscal expansion. Slow progress on fiscal realignment will likely continue until 1990, when the German tax cuts take effect and when the next U.S. President raises taxes.

• *Protectionism.* While protectionism has not worsened in the past few years, it has not improved, either. The emphasis on export-led growth elsewhere in the world continues to irritate the Americans. Presently, the U.S. Administration is pursuing a bilateral approach to trade. While this is advantageous to the Americans, it poses difficulties in efforts to reinforce and expand existing multilateral agreements.

• *LDC debt.* Progress on this front has been very disappointing. While outright default has been avoided, no lasting solution has been found. In addition, the prospects for significant lending to LDCs also are dim. American banks are trying to reduce their exposure to such lending, because of the U.S. net debtor position and the fact that the surplus nations have so far not stepped in to fill the void.

• *European coordination.* European coordination in the form of the EMS and the Common Market have been largely successful and could become the models for broader based cooperation.

Conclusions

Few would argue against the need for policy coordination, especially in the current world environment. However, the success of such coordination has been limited. Political constraints and other limits have reduced the scope and effectiveness of such cooperation. Before the U.S. presidential elections this year, the prospects for more ambitious attempts at coordination are remote in the absence of a major crisis. Next year, however, the prospects are a little brighter, especially with regard to more action on the U.S. budget deficit, which is arguably the root cause of the imbalanced state of the world today. €

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Banque Européenne d'Investissement

1.500.000.000 de Francs Français
Obligations 8,75 % 1988-1995

Date de jouissance : 12 juillet 1988
Intérêt payable : 12 juillet de chaque année
Prix d'émission : 101 5/8 % du montant nominal

Société Générale

Banque Bruxelles Lambert S.A.
BNP Capital Markets Limited
Crédit Lyonnais
Deutsche Bank Capital Markets Limited
Generale Bank
Merrill Lynch International & Co.

Algemene Bank Nederland N.V.
Amsterdam-Rotterdam Bank N.V.
Banca Commerciale Italiana
Banco de Bilbao, S.A.
Bankers Trust International Limited
Bank of Tokyo Capital Markets Group
Banque Générale du Luxembourg S.A.
Banque Indosuez
Banque Internationale à Luxembourg S.A.
Banque Paribas Capital Markets Limited
Barclays De Zoete Wedd Limited
Baring Brothers & Co., Limited
Caisse des Dépôts et Consignations
Chase Investment Bank
Commerzbank Aktiengesellschaft
Crédit Agricole
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Credit Suisse First Boston Limited
Daiwa Europe Limited
DG Bank Deutsche Genossenschaftbank
Dresdner Bank Aktiengesellschaft
Genossenschaftliche Zentralbank AG Vienna
Hambros Bank Limited
IBJ International Limited
Istituto Bancario San Paolo di Torino
Kleinwort Benson Limited
LTCB International Limited
The Nikko Securities Co., (Europe) Ltd.
Nomura International Limited
Norddeutsche Landesbank Girozentrale
Pallas Equation
Salomon Brothers International Limited
SBCI Swiss Bank Corporation Investment banking
Shearson Lehman Hutton International
Union Bank of Switzerland (Securities) Limited
S.G. Warburg Securities
Westdeutsche Landesbank Girozentrale
Yamaichi International (Europe) Limited

Juillet 1988

SOCIÉTÉ GÉNÉRALE

1992 EUROPE WITHOUT FRONTIERS

EUROPEAN ADVERTISERS PREPARE FOR 1992

MULTINATIONAL MARKETERS AND AGENCIES RUSH TO ADJUST.

COURTESY SOUTHLAND CORPORATION

KEVIN COTE

Multinational marketers and advertising agencies are scrambling to stay in step with a four-year timetable to revolutionize the selling of products and services in Europe. The plan—generally referred to as "1992," the target date for implementation—is actually an array of directives designed to remove physical, fiscal and technical barriers to trade among the 12 members of the European Community.

The E.C. has estimated marketers could save more than $200 billion over the years through the removal of these barriers. Now, for example, Kellogg Co. in Europe must prepare several versions of the television commercial for Kellogg's Corn Flakes to comply with different national broadcast regulations governing advertising. Part of the 1992 plan envisions uniform standards for television commercials, which would make it possible for Kellogg to use the same spot across Europe. Though the spots would carry different voice-overs, the savings in production costs would be huge.

Officials at E.C. headquarters in Brussels believe 1992 will create a single European market of 320 million consumers, rivaling the United States and Japan in world trade power. The hope is that people, products and services will be able to move among E.C. nations with the same ease as they cross U.S. state borders. Health, safety and other technical requirements will be standardized, making it possible for a product approved for sale in one E.C. country to be accepted in another automatically.

"The whole idea of 1992, if it works, will make marketing a lot easier for many products," said Alastair Tempest, secretary of the European Advertising Tripartite, an industry lobbying group in Brussels. Impetus for the 1992 reforms originated in the business sector. N.V. Philips has been especially vocal about the need for uniform technical standards for consumer electronics in Europe.

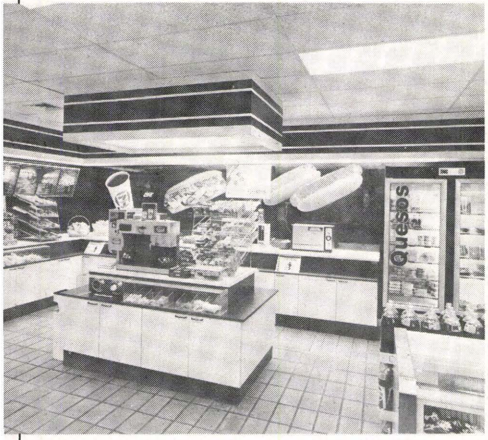
The momentum behind 1992 is so great that few members of the business community doubt the concept will transform Europe. There are, however, plenty of advertising experts who believe the vast majority of consumer products will still be marketed on a national basis, taking into account cultural perspectives and tastes. Marketers in London generally admit they do not know how 1992 will affect the competitiveness of their brands: The Management Centre Europe's "Marketing Toward 1992" conference in June was completely booked a month in advance.

Recently there has been a rush of activity among multinational marketers and advertising agencies. The developments reflect rapid restructuring by clients and the related responses by the advertising agencies:

- Johnson & Johnson's $35-million rollout this year of Silhouettes feminine hygiene products is the first time the company has approached Europe as single market, rather than a collection of distinct countries. Saatchi & Saatchi Advertising is coordinating the advertising effort.
- When Backer Spielvogel Bates Worldwide (BSBW) announced the merger of its Ted Bates Ltd. and Dorland offices in London, BSBW chairman and chief executive officer Carl Spielvogel said it was to strengthen Bates' European network through having a heavyweight office there.
- United Pictures International, the export marketing organization for U.S. studios Paramount, Universal and MGM/UA, has fired a grab bag of ad agencies in national European markets and appointed Young & Rubicam in London to manage $30 million worth of film promotion—mostly in Europe.
- Johnson Wax also has realigned most of

its household and personal-care products, which get about $60 million in spending, with DDB Needham Worldwide, Belier and Foote, Cone & Belding, as Johnson prepares to implement pan-European brand strategies.

- MasterCard International has taken a 15-percent share of its European partner, EuroCard, which will give the U.S. credit-card organization more control over strategic marketing plans in Europe.
- WCRS Group in London has bought a 50-percent share in Société GGMD, an important media-buying organization with headquarters in Paris. WCRS believes media ad spending is about to surge in Europe as a result of the changes stemming from the 1992 plan.



COURTESY SOUTHLAND CORPORATION

In Spain, Campsa, the marketing organization of the state oil and gasoline monopoly, has concluded a deal with the Southland Corporation to open 7-Eleven minimarkets at up to 200 Campsa service stations nationwide.

- The alliance of Foote, Cone & Belding and Publicis this spring was FCB's bid to position itself with a strong European partner.

Agencies are gearing up because multinational clients are increasingly assigning budgets for specific brands on a pan-European basis. 3M Europe is breaking ties with some 50 agencies and would like to appoint only two to four in all of Europe. "It's fascinating for an outsider to see how the idea of a united Europe is slowly being accepted," said Brian Bergin, vice-president of Colgate-Palmolive Co.'s European operations. Bergin said some brands, such as Colgate toothpaste, will be adapted into a single formula for sale across the region. Now, the same brand sells in different price categories in various parts of Europe.

Other companies have told their product development teams to create only those products that can be sold in many parts of Europe from the very start. Gillette Co.'s personal-care division has begun selling a natural deodorant called Naturel Plus in the United Kingdom, the Netherlands, Spain and parts of Scandinavia. Saatchi & Saatchi Advertising, London, handles the account. Few business sectors will be untouched by directives coming fast and furious out of Brussels.

"The thing about 1992 is that it includes legislation that has an impact on just about every industry," said Deirdre Deady, independent consultant on E.C. affairs in Brussels. European airlines are increasingly marketing-driven as monopolistic practices, such as fare pooling, are being restricted. West German national carrier Lufthansa has even appointed "route managers" to function as brand managers on some of its vital routes.

Also in the Federal Republic of Germany, brewers are waiting for the inevitable arrival of foreign competitors in the once protected marketplace. E.C. courts ruled last year that Germany's ancient beer purity law was an illegal obstacle to trade for European brewers that do not adhere to the strict ingredient requirements. Bass Ale from the United Kingdom has appointed the B.W. Bessere agency in Dusseldorf to handle its introduction in Germany.

In Spain, Campsa, the marketing organization of the state oil and gasoline monopoly, has concluded a deal with the Southland Corporation to open 7-Eleven minimarkets at up to 200 Campsa service stations nationwide. Campsa fears the arrival of international fuel brands will cut deeply into revenues and sees the 7-Eleven deal as a way to add income and enhance the profile of Campsa stations.

Communicating the 1992 plan's serious consequences for European business has generated ad budgets in its own right. D'Arcy Masius Benton & Bowles, London, has been given a budget of nearly $9 million by the United Kingdom's Department of Trade and Industry to promote the significance of 1992 for domestic companies. Similar government-financed promotions are scheduled in other countries.

Experts say the 1992 initiative becomes significant for marketing companies when viewed in conjunction with the deregulation of Europe's state broadcasting monopolies. Competition from advertising-funded, pan-European satellite channels is forcing European governments to allow new privately owned broadcast channels. Availability of precious ad time, still rationed in many parts of Europe, could increase dramatically.

Many marketers view 1992 with trepidation. "Some of these new arrangements will make it very difficult to maintain control over building brands within the [E.C.]," said the European director of a writing instruments company. The concern is that in a Europe without trade barriers, goods sold in a country at a lower price could more easily find their way into another country where the pricing structure for the same product is higher.

Badedas shower gel, for example, is priced in the middle of the market in the Federal Republic of Germany by its marketer, Lingner & Fischer. In the United Kingdom, Beecham positions Badedas as a high-price product. Occasionally, such parallel imports arrive at U.K. retailers from West Germany. Incidents like this will increase under the 1992 program, which is why most marketers are scrutinizing their pricing policies, sources say. Though not illegal, parallel importing has been held at bay in Europe because of complicated customs and shipping procedures. When the trade barriers fall, experts expect parallel importing by strong retail chains to start to flourish.

The efforts by multinationals may pave the way for easier marketing by small companies, which have so far confined sales to local markets. Greek yogurt is typically a product only eaten by the Greeks. But now the product is being introduced as a niche product in several countries, in part because regular yogurt has been made more palatable to mass-market taste through marketers General Mills with Yoplait and Gervais Danone with Dannon.

Some brands, however, may disappear. Because of acquisitions, Nestle in West Germany now sells yogurt under three brand names, Chambourcy, Lünebest and Elita. Two years ago, Nestle added the Nestle name to the Chambourcy and Elita products in an evolutionary plan that will eventually drop the Chambourcy and Elita names, and allow an ad campaign under the one name. However, in other countries, such as the United Kingdom, the Chambourcy name is likely to remain.

Large European marketers, such as Philips, Nestle and Unilever, have survived in Europe's snarl of trading regulations by nurturing strong, independent national companies. When the barriers come down, smaller companies previously not organized for complex export trade will be able to move products across borders with the same ease as multinationals. That means previously unknown brands will suddenly be competing with established market leaders. €

Kevin Cote edits *Advertising Age's Euromarketing* newsletter. This article is reprinted with permission from the July 11 issue of *Advertising Age*. © Crain Communications Inc., 1988.

THE ECU'S GROWING ROLE IN PRIVATE TRANSACTIONS

EUROPEAN CURRENCY UNIT IS GAINING ACCEPTANCE.

"A monetary system built around three poles: the dollar, the yen and the European Currency Unit."
French President François Mitterrand

RALPH J. MEHNERT

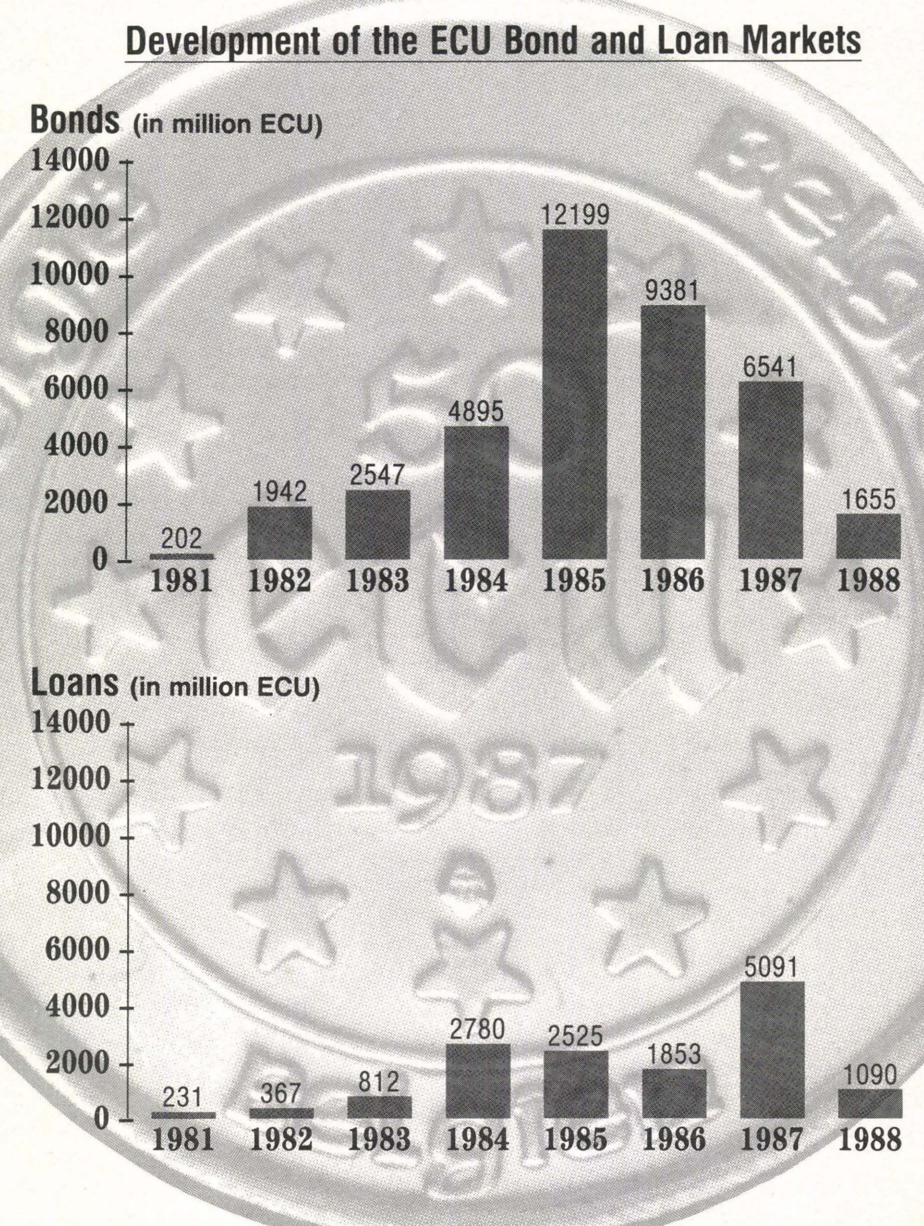
This vision of an international monetary system based on the dollar, the yen and the European Currency Unit (ECU) acknowledges an unprecedented development in the monetary community: the evolution of the ECU from an abstract unit of account into a private currency for financial transactions and investment.

The ECU was created as the common denominator and official unit of account for the institutions of the European Community in 1979. It is a basket of the individual currencies of 10 E.C. member states (Spain and Portugal are not included). Each currency makes up a fixed percentage of the basket, ranging from 0.33 percent for the Luxembourg franc to 34.93 percent for the German mark. The ECU is the monetary unit for the European Monetary System (EMS), which combines an assortment of intervention and other mechanisms to ensure exchange-rate stability among its members.

While initially limited to its accounting function for E.C. institutions, the ECU has since found much wider use in the private market. Two factors essentially made the private ECU feasible. First, the E.C. institutions, which use the ECU in their private transactions, made deposits with their respective banks. Second, following these initial deposits, some banks granted loans and accepted deposits in ECU from a limited and geographically concentrated number of private customers.

This initial limitation was quickly, and unexpectedly, overcome by an explosion in the use of the private ECU for deposits and on the Eurobond and international loan markets. The demand for ECU is presently so strong that banks lend more than they receive in deposits. To meet that demand, the banks deposit fixed amounts of the component national currencies to create additional ECU. This development from a one-way deposit to a two-way, short-term deposit and loan market took place entirely within the banking system. There is, contrary to European tradition, no central supervising authority, governmental or institutional.

The ECU has certain advantages over



COURTESY EMBASSY OF BELGIUM

other currencies, namely its inherent stability, resulting from EMS interventions and the performance of the currencies involved. Decreasing hedging costs and facilitated business transactions in multiple European currencies further contribute to the ECU's popularity.

Howver, there are also disadvantages. For instance, the ECU is not legal tender. There is no obligation to accept payments in ECU, and there is no central bank to issue coins or notes and serve as lender of last resort. Although both the United States and the World Bank have recognized the ECU as a unit of account, neither accepts it as a full currency (nor, for that matter, does Germany's Bundesbank).

Admittedly, the ECU sometimes is still mistaken for a rare Australian bird or a famous Belgian soccer player. But despite its unusual character as a "quasi-currency" or "non-currency currency," a great array of financial and non-financial instruments is available in ECU all over the world. The lack of physical notes and coins in no way hindered the ECU's growing international status.

Bonds denominated in ECU are one example. A total amount of over 40.78 billion ECU had been issued as of April 1988. These bonds are distinguished from other bonds by the special clauses in the offering prospectus. First, the last official quotation of the ECU would determine the value of the bonds if the EMS were to be dissolved. Second, individual bondholders must select a specific currency for payments of interest and capital. The bond markets profit in particular from swap transactions in which two parties gain from each others' relative advantages in different markets.

Investors with high national interest rates benefit from the relatively low borrowing costs of ECU bonds, whereas investors with low national rates obtain higher interest revenue. The attractiveness of ECU bonds is enhanced by their increasing liquidity on secondary markets. All bonds are listed and traded on some stock exchange somewhere. Most business in ECU bonds, however, takes place via telecommunication between the leading international market makers.

Several types of ECU bonds currently are available:

• **Fixed rate bonds** with average maturities between three and 15 years and comparable interest rates. They account for about 88 percent of the total market.

• **Adjustable rate bonds** with interest adjustments every three to six years at the investor's or issuer's option or according to bilateral agreement.

• **Zero coupon bonds** with fixed interest payments at maturity.

• **Floating rate notes** issued mainly by state-guaranteed banks and sovereign states, with interest-rate adjustments every three to six months to reflect market movements.

• **Partly paid bonds** and **"Saint Gobain Titres Participatifs."** A part of the latter's yield is linked to the issuer's profits.

• **Convertible bonds** that permit conversion into bonds or shares. These are well suited to counterbalance exchange-rate risks.

• **Cum warrant issues** that entitle the holder to purchase additional bonds ("debt warrants") or the issuer's shares ("equity warrants").

• ECU-**Treasury bonds** issued by the Italian Government are the latest novelty, with interest rates between 7.63 percent and 9.20 percent and maturities of slightly over a year. The United Kingdom also will begin offering these bonds this fall.

In October 1987, the E.C. Commission introduced ECU-**Schuldscheine**, a German form of investment. Schuldscheine are privately placed, negotiable bank credits with a circulation similar to that of bonds. The first 500-million-ECU issue bore an 8.6-percent interest rate and a maturity of five years.

The amount of private loans denominated in ECU, meanwhile, also has been increasing—reaching 5.1 billion ECU in 1987 and 1.1 billion ECU in the first quarter of 1988. A grand total of 14.15 billion ECU has been issued so far. A similar acceptance of the public debt market, on the other hand, has been delayed by the lack of liquidity in maturities between one and five years—representing the end of the interbank and the beginning of the bond markets.

Naturally, the United States led the trade in ECU **futures** and **options.** Following the introduction of the first ECU-dollar option on the European Options Exchange in Amsterdam in 1985, similar contracts were admitted at the FINEX in New York, the Chicago Mercantile Exchange (CME) and the Philadelphia Stock Exchange. Significant trade developed only at the FINEX, where a daily average of 147 contracts of 100,000 ECU each were traded for a 1987 total of 37,263 contracts. In 1988, 18,884 contracts had changed hands by June. Futures contracts in ECU-dollar and ECU-yen will be available at the Marché à Terme des Instruments Financiers (MATIF) in Paris later in 1988. Negotiations are being held between MATIF, CME and SIMEX in Singapore to ensure 24-hour trading possibilities. The London International Financial Futures Exchange is pursuing similar plans. Approximately 10 billion ECU are traded daily on the European foreign exchange markets. The ECU is officially quoted in most member states and on foreign exchanges. It currently trades at around $1.15.

Many ECU **funds** were established during the past four years. These funds, predominantly created by large commercial banks in Europe and the United States, are composed of bonds, money market and other financial instruments denominated in ECU. The investment in ECU funds now exceeds 1.3 billion ECU.

In addition, ECU are used on a much more practical basis. The services offered by a growing number of financial institutions include **travelers' checks, credit cards** and **giro, time** and **savings accounts,** as well as **certificates of deposit.** Even Germany's powerful Bundesbank had to surrender to internal and external pressures and now permits German citizens to hold accounts and loans denominated in ECU. The international use of the ECU is of particular advantage to the private customer. The alternative, known in its full extent to every Europe traveler, is a diverse and sobering assortment of travelers' checks and bank notes in at least a dozen denominations.

In a successful demonstration of the ECU's importance, Belgium minted the first ECU coins last year. This step represents a significant advancement of the ECU's prospects as legal tender in the European Community and underscores the fact that a growing number of countries, as well as individuals, are willing and ready to accept the ECU as day-to-day currency.

The European Currency Unit represents more than an abstract compilation of different currencies. It is backed by the wealth and prosperity of over 320 million Europeans and, from 1992 onward, by the largest unified economic bloc in the world. The private ECU developed on a free market, supported by strong forces visualizing that its intrinsic stability would predetermine success in the financial world. Although neither planned nor anticipated initially, the ECU has proven its potential as a major international currency, equal to the dollar, mark and yen, and as the worthy national transfer for the future United States of Europe.

"The international stature of a currency cannot be decreed, it must be merited." E.C. Commission President Jacques Delors €

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E.C. POLICY ON SMALL AND MEDIUM-SIZED COMPANIES

ACTION PROGRAM MAKES FINANCIAL ASSISTANCE AVAILABLE TO BUSINESS.

Each country has its own definition of a small or medium-sized enterprise (SME), generally based on the maximum number of employees, the number ranging from 50 to 500. It is clear, however, that too rigid an application of the criterion of employee numbers can result in misleading evaluations: A company of 500 employees may stand out as a major enterprise in a less developed region while the reverse may be the case in a highly industrialized zone.

The E.C. Commission and the European Investment Bank (EIB) generally use the following definition: An SME is any firm with a work force not exceeding 500, with net fixed assets of less than 75 million European Currency Units (ECU), currently about $86 million, and with not more than one-third of its capital held by a larger company—these three conditions being cumulative. The Commission has undertaken to improve statistics relating to SMEs, while taking account of variations in their economic importance according to sector, country or region. In any event, if the maximum work force is fixed at 500, SMEs account for more than 95 percent of companies within the E.C. and provide more than two-thirds of total employment—approximately 60 percent in industry and in excess of 75 percent in services.

The Commission is interested in all kinds of SMEs, whatever their type of activity (companies engaged in growth sectors or traditional workshops, independent operators or subcontractors and so on) or legal structure. It is therefore examining possibilities of improving conditions for cooperatives involved in production and services.

As a result of their size, SMEs enjoy important advantages in today's economy: dynamism, flexibility and a readiness to innovate, which enables them to adapt more easily to new market conditions. They therefore constitute an important source of employment creation and a means of regenerating the industrial fabric. In addition, they make a significant contribution to regional activity.

Nevertheless, there also are disadvantages associated with the size of SMEs: keeping track of legislative developments, administrative and fiscal procedures, tariff barriers, problems regarding technical standardization—all are proportionately more costly for SMEs than for large firms. Their interest in exporting, as well as their openness to the use of new technology and modern administrative methods remain on the whole insufficient. Their access to risk capital, to public procurement contracts and to the major research and development programs is still too weak. SMEs must be helped to overcome these difficulties while maintaining their autonomy—which is often the very source of their dynamism.

Conscious of the importance of SMEs, the Commission set up an independent task force in June 1986. Concurrently, a full action program was unanimously adopted by the E.C. Council of Ministers in November 1986. The task force has a dual function: internal coordination (overseeing the interests of SMEs in programs developed by other services) and the setting up of projects within the framework of a general strategy to improve the environment in which firms operate.

The challenge of 1992

The entire E.C. is currently mobilized to complete the internal European market between now and 1992. This represents both an opportunity and a risk for SMEs. It is an opportunity because the full elimination of barriers to intra-E.C. trade and access to a large market of 320 million consumers represents, for every entrepreneur, a powerful stimulant. It is a risk because, with the abolition of long-standing systems of protection, the disadvantages relating to company size may be multiplied and the reaction may be to retreat, particularly in peripheral zones and less favored regions. In other words, it is important to ensure that measures to be taken as a result of the "White Paper" on the completion of the internal European market should be favorable to SMEs, by preparing them for the 1992 deadline.

This is why one of the fundamental themes of the SME action program is to improve the environment in which firms operate. On several occasions, the highest E.C. authorities have underlined the need to reduce administrative formalities and to apply regulations only within the limits of strict necessity. When agreeing on the action program, the E.C. Council of Ministers also adopted a declaration specifically along those lines. This policy must result in legislative and administrative action, both at E.C. and member state levels.

On February 26, 1986, the Commission decided that every proposal for legislative or regulatory measures to be submitted by the Commission to the Council should be evaluated with regard to its impact on firms and employment creation. This evaluation is carried out in a systematic manner in the Commission services; the task force ensures control *a posteriori*. Thus, a proposal that would result in a noticeable increase in costs for SMEs can be blocked or modified before its adoption by the Commission.

The exercise has required the Commission services to consider more rigorously the economic consequences of their projects. In addition, the Commission undertook a careful study of the impact of E.C. legislation on SMEs. This inquiry highlighted several possibilities for simplifying matters. By codifying E.C. law and circulating the legal texts more widely, sector by sector, the Commission helps firms to grasp more clearly the legal context within which they operate.

At the national level, numerous initiatives have been taken to lighten and simplify the laws and the administrative procedures that concern SMEs. The task force has undertaken a systematic exchange of experiences in this regard between member states.

The reduction of border formalities and the elimination of physical and technical barriers to trade, which are central to the objective to be achieved by 1992, represent for those SMEs engaged in exporting an essential aspect of this policy of simplification. For example, the single customs document replaces some 70 different forms now in use at customs posts.

The tax environment for SMEs also is of great importance. As regards direct taxation, the Commission has undertaken a study of specific measures taken by member states in favor of SMEs. In the short term, the Commission has decided to emphasize the harmonization of indirect taxation.

As regards the social and cultural environment for SMEs, there is much scope for action by the public authorities. The social role of the self-employed worker must be respected. In addition, an "SME mentality" must be encouraged from school age, as too many young people still do not consider up their own businesses. The action program encourages a spirit of enterprise in schools and taking account of the SME dimension in training programs.

Concrete measures are required to enable SMEs to compete on equal terms in the new markets. The E.C. is engaged in long-term action to open up public-procurement contracts. SMEs should have real opportunities to win such contracts, at the local and national level, and, gradually, throughout the entire Community. This implies wide distribution of notices for tenders published in the *Official Journal,* including at local level. The task force is assessing national experiences in this matter, including those of Japan and the United States, which directly or indirectly favor SMEs in public-procurement policy.

The Commission also is anxious to respect competition within the Community. When examining state aid for SMEs, particularly in less favored regions, it takes favorable account of the needs of small and medium-sized enterprises and their economic and social role. By using simplified procedures, the Commission has been able to accelerate approval for assistance of limited impact.

"Euro-Info Centers" Network

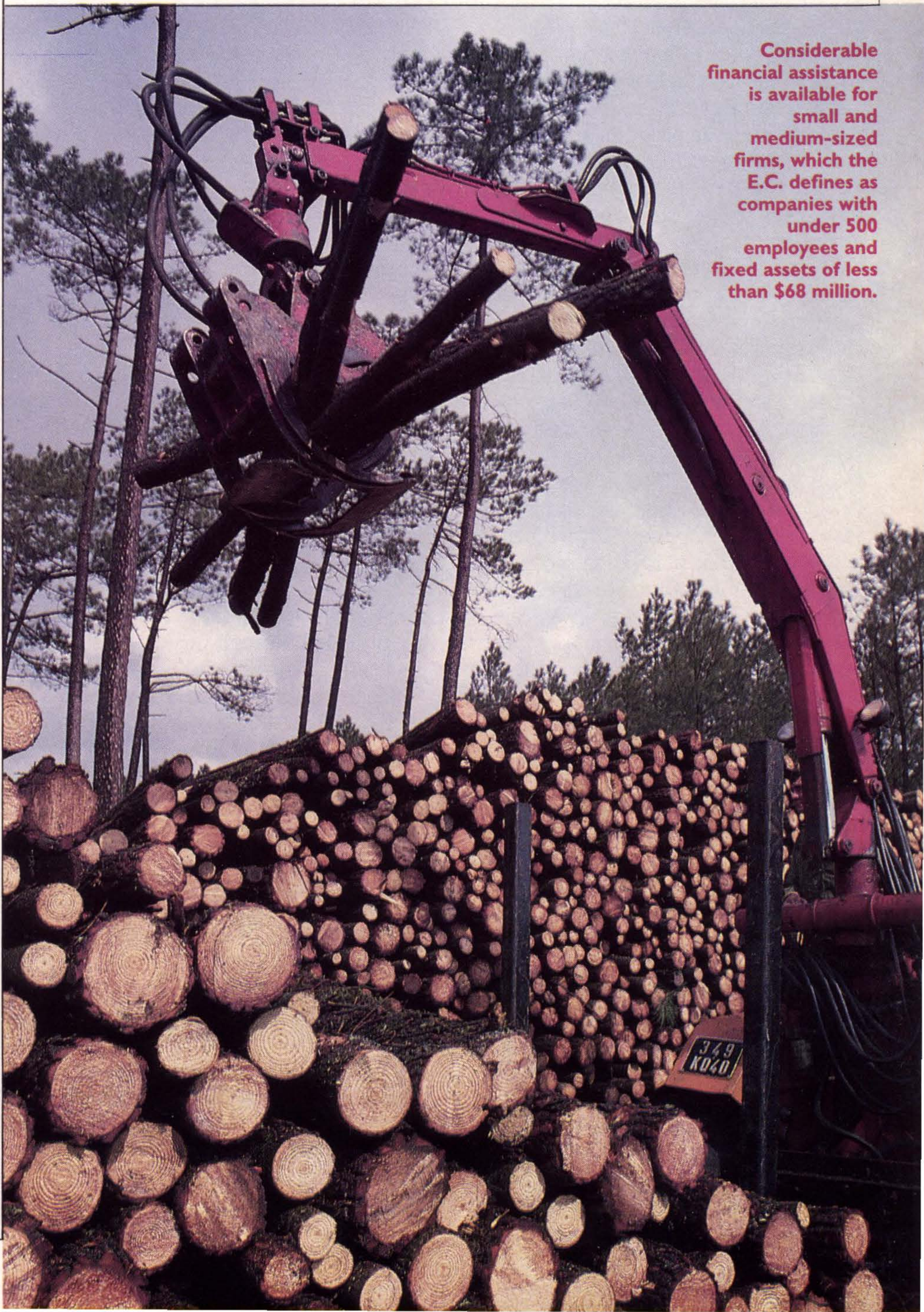
In a world of perpetual change, in a Europe under construction, often in a quite complex way, information has become more and more important for firms. Very often, SMEs are not in a position to keep track of amendments to legislation nor aware of possible opportunities open to them.

After studying the experiments already launched in certain member states, the Commission decided to establish European information centers for firms, called "Euro-Info Centers." These are multi-purpose information offices, situated in specified areas and intended to assist the SMEs of these areas. The offices are linked to a central task force team that has access to E.C. data banks, and they manage two-way flows of information. This way, the task force provides logistical support to existing structures (chambers of commerce, business consultants, administrative centers) selected for this purpose as part of a pilot phase. It is intended to have 39 centers distributed throughout the Community. The first centers were inaugurated in October 1987 and all are now operational.

Each Euro-Info Center provides E.C. information (legislation, aids, loans, research programs, internal market, third-country markets and so forth). In addition, when required, the centers also provide advice (for example, concerning submissions in answer to calls for tenders), and act as an internal market early warning system (complaints about barriers to trade, competition problems and so on).

Besides the centers, the Commission continues to deploy other means for providing information:

- In 1983, the Commission published a practical handbook on "the operations of the E.C. concerning small and medium-sized enterprises." This was widely circulated and has been updated several times.
- Since December 1985, the Commission has published a monthly bulletin called *Euro-Info,* with a circulation of 35,000, providing the business community with information on E.C. initiatives that might affect SMEs.
- In 1986, the Commission, with the technical support of specialized firms, launched a major information campaign on all E.C. activities concerning SMEs.
- The Commission also has implemented



Considerable financial assistance is available for small and medium-sized firms, which the E.C. defines as companies with under 500 employees and fixed assets of less than $68 million.

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the Euronet-Diane system, which makes more than 300 computerized data bases accessible to firms.

Cooperation Between Firms

Completion of the internal market in 1992 poses a challenge for the E.C.'s business community. In the face of such a challenge, the strengthening of cooperation between firms seems to be one way of enabling European SMEs to exploit the E.C. dimension. Their productivity and competitiveness would be stimulated by a fuller integration of their activities into the European industrial structure.

The E.C. has a significant role to play in promoting cooperation between firms in different member countries. The Commission helps to further this objective in the following fields:

- *Research:* The ESPRIT and BRITE programs have positive consequences for industrial cooperation, in particular for SMEs. In addition, in November 1986, the Commission defined the connection between the Eureka program and the European Technological Community.
- *Competition:* The Commission has always recognized the considerable role played by SMEs in the creation of an economic environment of sound competition. This is why it takes account of the specific character of SMEs in authorizing derogations from Treaty rules in favor of *de minimis* agreements, sub-contracting agreements and agreements on the transfer of technology and research and development.
- *Innovation and technology transfer:* Promoting cross-border cooperation among SME advisory services with regard to technology and innovation is one of the priority schemes of the Sprint program.
- *Training:* The Comett program aims to develop cross-border training in order to assist firms whose industrial and technological development requires skills adapted to the European context.

in addition, the Business Cooperation Center (BCC), now integrated into the SME task force, aims to provide a European dimension to the search for firms, particularly SMEs, for business partners to engage in technical, commercial, financial or sub-contracting cooperation. In 1987, the BCC equipped itself with a new tool: the Business Cooperation Network (BC-NET), which became operational in 1988.

The BC-NET is a computerized network for furthering cooperation between firms. It provides a link-up between business advisers (approximately 250 during the pilot phase) and functions in the following manner. When a company seeks a business partner in another region or in another country of the E.C., it approaches one of the advisers who are network members. The adviser introduces the company's request into the system using a common language called "company profile." The BC-NET system automatically compares the request with its existing stock of offers. If the search is positive, both the requesting company and the company offering cooperation are immediately informed of the joint interest in cooperation. If the BC-NET stock of offers provides a negative response, the request is automatically distributed, in the form of a "flash profile," to business advisers located in the specified geographical area. Such advisers then have a limited time in which to consult their portfolio and reply to the BC-NETsystem.

By rapidly circulating information and by its usefulness for linking up business advisers, the BC-NET system:

- ensures a fuller participation of SMEs in E.C. research and development programs;
- facilitates cooperative activities among firms, particularly in connection with regional adaptation and development activities;
- extends industrial cooperation to third countries;
- contributes to the success of pilot actions aimed at testing systems of cooperation between firms;
- determines at first hand the nature and the importance of obstacles to cooperation among firms in different member countries.

Financial instruments

In the area of finance, the share made available to SMEs has continued to increase since 1980.

E.C. loans. The EIB reserves the major share of its global loans for SMEs. They are provided through the intermediary of financial institutions. For example, in 1986, the opening of credit for SMEs was approved for a total amount of 595 million ECU, about $580 million. This compares with 54 million ECU in 1977.

The E.C. also allocates other types of global loans: European Coal and Steel Community loans, which aim to redevelop the coal and steel regions and which significantly help SMEs; New Community Financial Instrument loans (NCI), for which SMEs have been able to apply since 1982.

Between 1982 and 1984, the total volume of E.C. loans to SMEs doubled, to represent approximately one-quarter of total E.C. loans. Such a striking increase demonstrates how assisting the financing of SMEs is one of the pillars of E.C. SME policy. This approach was further strengthened by the Council decision of March 9, 1987, which specified that the NCI-IV, amounting to 750 million ECU, would be exclusively allocated to SMEs, with priority for small firms. In addition, the EIB is to make available an equivalent amount for SMEs under the same conditions. For the first time, loans can be given in respect of certain types of intangible assets, such as patents, licenses know-how, research and development costs—and to facilitate capital contributions.

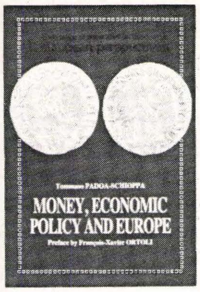
Grants. Since its establishment, the European Regional Development Fund (ERDF) has supported numerous projects of less than 10 million ECU. The action program envisages an increasing orientation of the ERDF toward recognition for "internally generated development" in the regions involved, and in particular toward SMEs. This especially involves helping the establishment or strengthening of services that assist local businesses or that facilitate their access to risk capital. In addition, since 1986 the Integrated Mediterranean Programs take account of the economic role played by small and medium-sized enterprises.

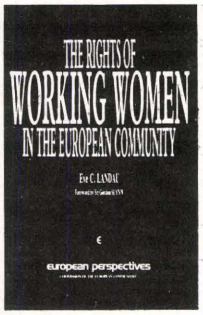
Access to capital markets. The action program envisages promoting risk capital and secondary markets for SMEs. With this in mind, the Commission participated, with the European Venture Capital Association, in launching a pilot project known as "Venture consort." The aim is to increase financing available to SMEs involved in new technologies at the first stage of capital formation. The Commission allocates funds (in general, to a maximum of 200,000 ECU), on a case-by-case basis, having regard to the innovative character and the supranational dimension of the particular investment project. The Commission also participates in the distribution of profits.

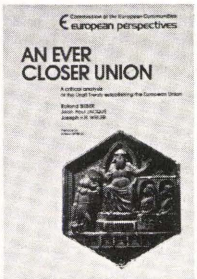
Commission services are currently drawing up other projects aimed at stimulating the establishment of SMEs, particularly as regards overcoming problems associated with start-up capital and with the assessment of project feasibility.

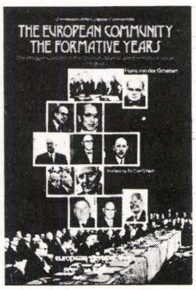
The Commission's business policy is only in its infancy. The action program has determined the principal themes for the work, but as it takes effect, new dimensions are revealed that show the problem in all its complexity and diversity. The Commission, and in particular the task force, is determined to reach outward and is available to all who would like further information. In addition, the Commission is eager to make use of suggestions to improve its business policy, in order that firms, especially small and medium-sized firms, may recognize in the Commission a means to promote their development. €

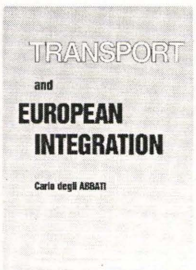
EUROPEAN PERSPECTIVES











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GREECE PRESENTS PROGRAM FOR ITS E.C. PRESIDENCY

GOVERNMENT WILL WORK TO FURTHER UNIFICATION AND STRENGTHEN EUROPE'S IDENTITY.

KAROLOS PAPOULIAS

The following text outlining internal goals for Greece's six-month term is excerpted from a speech to the European Parliament by Greece's Foreign Minister.

It is a pleasure, . . . as Greece takes up the presidency of the E.C. Council of Ministers, to present the work program that we shall endeavor to carry out over the coming six months.

The task we are undertaking is a heavy one. The Community is now at a critical stage in its development. The German presidency was extremely successful in its work toward European unification and it is now our intention to contribute actively toward creating a single economic and social area that will guarantee and foster free movement of persons, goods and services, business and capital, but without ignoring the economic imbalances and social inequalities that could stand in the way of universal enjoyment of the fruits of a genuinely high standard of living.

Our guiding aim is to make full use of the powers given us under the Single European Act and by the end of our term in office we wish to have progressed as far as possible on a number of dossiers. We shall work toward the attainment of that goal in a spirit of openness and in close cooperation with our partners and with the E.C. institutions . . .

Our efforts in the immediate future must be directed toward carrying unification further, strengthening the identity of Europe, strengthening both economic and social cohesion and cultivating and highlighting our cultural heritage; in the immediate future, there should be no discussion of, or action on, any further enlargement of the E.C.

We also must attempt to redefine Europe's international role, especially in the area of security and disarmament, in the light of the recent positive developments in relations between the two superpowers, which are opening up entirely new and promising prospects in international relations. The E.C. must make a more effective contribution to this process. The recent signing of the Joint Declaration normalizing political relations between the E.C. and the countries of the Council for Mutual Economic Assistance constitutes an important step in this direction. But our political role and voice must be strengthened and acquire their own color and identity. The E.C. also must play a more active role in dealing with the problems of the developing countries and especially problems relating to severe indebtedness.

Greece's presidency of the Council of Ministers will draw inspiration from the above ideas about the role, the aims and the future development of the Community. Over the next six months, we have resolved to work systematically and industriously both for the internal development of the E.C. and for the furtherance of its external relations and international role. As regards the internal development, we intend to attach due importance to furthering the program for the achievement of the internal market, but also to establishing the preconditions for the creation of a single social area as a necessary pre-requisite for the realization of the internal market and also as a means for further strengthening the cohesion of the E.C. Allow me to refer in somewhat greater detail to the program for the internal development of the Community.

Our primary concern is undoubtedly the adoption of the implementing decisions relating to the European Regional Development Fund, as provided for in Article 130e of the Single Act, together with the corresponding decisions relating to the European Agricultural Guidance and Guarantee Fund—and to the Social Fund. This subject constitutes the sole remaining obstacle to the implementation of the decisions of the European Council regarding the establishment of the preconditions for the successful application of the Single European Act. We hope that with the cooperation of the European Parliament we shall speedily complete this procedure so that from January 1, 1989 the new reformed regime for the structural funds can come into force.

From January 1, 1989, we also must have ready for implementation the general budget of the E.C., the first E.C. budget drawn up on the basis of the new financial rules we agreed on recently. For the preparation of this budget, the presidency will rely on constant, open and smooth cooperation with the Parliament, as the other arm of the financial authority of equal standing with the Council.

In the internal market sector, although we registered significant progress in recent months, we must nevertheless speed up our proceedings in order to meet the deadlines we set, which have created such great expectations and interest in the member states. The Greek presidency of the Council will aim, in cooperation with the Parliament as provided for in the Single Act, to speed up the work on the establishment of the internal market, especially in the following sectors:

- technical barriers (safety of machinery);
- legislation on foodstuffs and plant health and veterinary controls;
- state procurement under public contracts and controls on mergers of credit institutions including the second directive on banks;
- safety and protection of consumers and the right of residence, which will give practical content to the concept of a People's Europe.

In the area of harmonization of indirect taxation, we recognize that there are difficulties in the way of progress with the relevant proposals. We will nevertheless try to press ahead with the negotiations in order to identify the basic problems and thus enable progress to be made in this vital area.

We also will make systematic efforts to further the body of new policies provided for in the Single Act, or that have developed on the basis of the E.C. Treaties:

In the transport sector, after the recent agreement on the liberalization of road transport, we will press ahead with proposals for the harmonization of certain rules relating to transport (taxation, social, and so on), and with a series of proposals that will contribute to the further liberalization of transport. We also

Karolos Papoulias is the Greek Foreign Minister.

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Greek Foreign Minister Karolos Papoulias.

will aim, in collaboration with the Commission, to resolve the problem of transit as regards transport. We also will make particular efforts to further the new revised transport infrastructure program. We consider that the existence of an efficient transport infrastructure is a necessary condition for the normal and productive operation of the internal market, and also an integral element in the strengthening of economic and social cohesion. I should like to stress that the Greek presidency will try to further the new system of financing infrastructure works known as financial engineering.

We also must give priority to the environment sector. The Greek presidency will spare no efforts to further measures that will contribute to better protection of the environment. It also will stress the environment problems of the Mediterranean regions and the adoption of proposals on nuclear matters, reactors and waste, and so on.

In the field of research and technology, we have recently made substantial progress, but we must identify our efforts and strengthen our technological base with the adoption of various programs (STRIDE, ECLAIR, AIM, SCIENCE, SPRINT), together with the rules for the Joint Research Center and the new telecommunications rules.

Energy policy also is receiving our attention and in particular those aspects connected with the establishment of the internal market.

Some of the above measures are aimed at supporting small and medium-sized undertakings. I want to emphasize the importance of further improving the economic environment in which small and medium-sized enterprises operate so that they can adjust to the demands and realities of the internal market.

The second main element of the Greek presidency's work program is the single social area. The single social area is an initiative with political content. We shall have to give a political message to management and labor through a series of measures that will ensure that they participate in the process of establishing the internal market and also share in the advantages that this market will bring. The promotion of the single social area forms part of the wider attempt to strengthen the cohesion of the Community. Because, of course, efforts to strengthen cohesion cannot stop with the reform of the structural funds, important as that is.

As Greece has already informed the Parliament in the memorandum that was sent to the President of the Parliament, we are intending, in close cooperation with the Parliament and the Commission, to promote measures in the following spheres of activity:

- protection, safety and health of workers at the work place (application of Article 118a of the Single Act);
- strengthening of the dialogue between management and labor (application of Article 118b of the Single Act);
- unemployment among, and vocational training for, young people, which is a particularly important subject for the E.C.;
- health and social security;
- equal treatment of men and women;
- education and culture;
- demographic policy.

With regard more particularly to the application of Article 118a, we shall endeavor to make progress on the framework directive and on the specific directives on the protection of workers at the work place and also the directives on protection against harmful substances.

As regards the application of Article 118b (dialogue between management and labor, etc.), we shall attempt to make progress on the proposals on: a) information for, and consultation of, workers in undertakings; and b) employment contracts with minimum social security provisions for workers, and the strengthening of the dialogue between management and labor on the basis of strategic cooperation for economic development.

In the field of health, we shall attempt to make progress on two directives: the labeling of tobacco products and the maximum tar content of cigarettes. In the context of efforts to establish the social area, I would also mention the need:

- to renew COMETT II;
- to promote measures in the field of education and culture;
- to promote measures concerning the People's Europe;
- to promote the program for combating poverty.

In establishing the prior conditions for the single social area, it is not intended that any new obstacles should be created for the operation of enterprises. The aim is exactly the opposite. That is, to facilitate the development of undertakings through the "logic" of social consensus and justice. That justice requires more effective measures to be adopted in the social field to combat unemployment, which continues to be at an unacceptably high level, and to deal with the everyday problems facing the people of Europe. €

SPAIN AND THE E.C.

ASSESSING SPANISH ACCESSION TO THE COMMUNITY.

Last year, EUROPE Magazine sponsored an essay content with the Education Abroad program of the University of California. The winning entry follows.

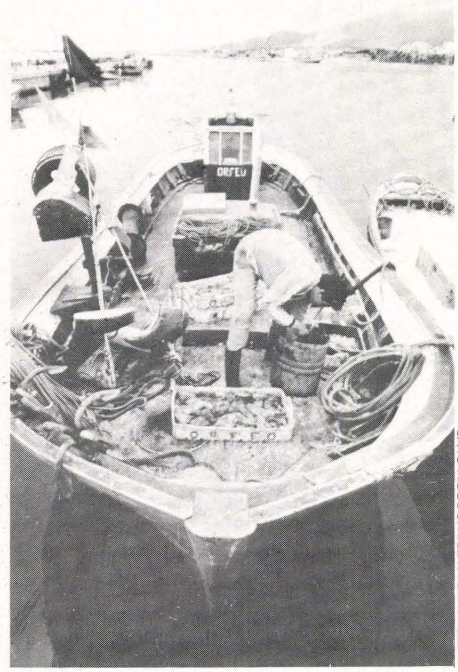
JOHN-MARSHALL KLEIN

Since the late 1950s, Spain has recognized the necessity of developing dependable trade ties. Of the many partners considered, one presents the security and room for growth that Spain needs: the European Community. In 1962, Spain made its first approach toward association with the E.C. and a trade agreement was signed in 1970. After long negotiations, Spain finally joined the E.C. as a full-fledged member on January 1, 1986.

The road to complete adhesion has not been easy. Other countries and even Spain's own provinces have quarreled over who should pay the price of integration and who should reap the benefits. Strawberry spats and fishing fracases still flare up from time to time, but with full member status in the E.C. at last, Spain's outlook seems bright.

The European option gives Spain vital economic security and room for growth. President Felipe González succinctly described the major practical reason for joining the E.C.: "Spain sells 50 percent of its total exports to the European Community."[1] The only way Spain could secure this vital market was by joining it. Otherwise, stiff tariff barriers would have made Spain's principal exports uncompetitive.

Spain also has needed to secure its burgeoning tourist industry. In 1961, income from tourism equaled 51 percent of visible exports. This figure climbed to 70 percent by 1972.[2] By the mid-1970s, 34 million tourists were visiting Spain each year, the majority of them coming from France, the United Kingdom and the Federal Republic of Germany.[2] This lucrative influx has made the Spanish Government "anxious to develop institutional links with the Common Market countries that would protect this vital source of foreign exchange."[2] In addition to importing tourists, Spain also has profited from exporting workers to the E.C. "In 1971, emigrant remittances were running at $300 million a year, more than double the value of Spanish citrus fruit exports."[2] Adhesion forestalled retaliatory measures against this flood of comparatively cheap labor.



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Spain has a large fishing industry, centered mainly in the Basque region and in Catalonia. Above: Cadaqués.

Beyond present protection, integration offers potential for future growth. With regard to agriculture, for example, Spain entered the E.C. with substantially lower prices than the set E.C. levels. Consequently, Spain possesses the ability to earn substantially more from its agricultural production. Foreign capital also became more accessible to more companies. In addition to increased private investment, the E.C. sends Spain massive amounts of aid. In 1988, Spain will receive 324 million European Currency Units (currently about $373 million) in aid from the Community.[3] In terms of money and markets the European option has had much to offer Spain.

Indeed, adhesion offers more to Spain than any other option. Autarchy certainly holds little attraction. Spain spent the first half of the century in isolated poverty. In the 1920s for example, Spain stagnated behind "the highest average tariff barrier in Europe."[2] From 1913-1950, the gross domestic product "advanced at the exceptionally slow rate of 0.6 percent annually, lower even than Greece and India."[2] Even worse, the average annual per capita income actually fell 0.3 percent over the same period.[2] The situation went from bad to worse with the Civil War. Billions of dollars went into just waging the war.[4] Recovering from the resultant devastation drained the economy even further. By 1949, Spain desperately needed foreign money in order to buy food.[4]

Feasts often come after famine. By the end of the 1950s, the Franco Government had managed to establish ties with an extremely wide assortment of countries. Franco said, for example, in 1957 that "Spain wishes to reaffirm now its traditional friendship with the Arabs;"[4] and, to this end, he feted numerous Middle Eastern notables such as Ibn Saud and the Shah of Iran.

Closer to home, France saw fit to reverse its policy of hostile aloofness. In 1957, General de Gaulle "called for the admission of Spain to [the] North Atlantic Treaty Organization."[4] A year later, Spain increased trade ties with Greece and became a member of the World Bank and the International Monetary Fund.[4] By the end of the 1950s, some diplomatic barriers remained, but Spain was no longer cut off from the world.

Unfortunately, Spain's overtures have not borne much fruit. Links with many countries have proved economically impractical. A nostalgic desire to create an economic bloc with Latin America "has been discarded."[2] The lack of political stability and industrial production in the region makes any such scheme untenable. Linkage with the Soviet bloc, the highly touted "opening to the East," while more novel, also has brought little trade. In 1975, "exports to Comecon were only 3.2 percent of Spain's total imports."[2] These percentages stand little chance of shooting upward. The Eastern bloc's desire to expend scarce hard currencies, dollars and sterling, for oranges and shoes is limited at best.[2]

Even the United States cannot significantly answer Spain's economic needs. The United States pumped over $500 million of various kinds of aid into the economy during the 1950s, but "the American aid had little significance for [Spain's] economic well-being."[4] In terms of trade, as of the mid-1970s, the United States accounted "for only 15 percent of Spain's total foreign trade, about the same percentage it accounted for in the 1950s."[2] Spain has had little choice but to go with the Community.

By 1970, Spain's visible balance of trade with the E.C. (that is, not including tourism and remittances) had declined slightly.[2] Spain pushed hard to rectify this situation, and in March 1970 moved somewhat closer to the E.C. via a preferential trade agreement. Full membership came on January 1, 1986, and has since proved quite beneficial. For example, as a full member of the "Twelve," Spain was able to take part in a grueling high-level session on aid distribution. Spain's participation paid off in a generous (from Spain's point of view) agreement that one member of the Spanish delegation called "much better than one could have hoped for."[3]

Although adhesion has helped Spain on the whole, not all regions appear to have benefited equally. A detailed study undertaken in 1966 by the University of Madrid's Economics Department indicated that "the island provinces of Spain—the Baleares and the Canaries—and the Leant regions would reap greater benefits from association than the center of Spain—Catalonia and the Basque provinces."[2] Certainly, 1986 saw a "strong betterment of the situation of these two [the Baleares and the Canaries] communities."[3] However, economic growth also was concentrated in the center of Spain, Catalonia and the Basque provinces.[3] Spain's economic growth of 3 percent in 1986 was *not* reflected in the agricultural provinces of Andalusia, Extremadura, or in the two Castiles. Asturias "suffered a recession of 0.4 percent."[3]

This development would seem to vindicate pessimists like *The Times* of London, which forecast losses in the agricultural sector as a result of adhesion.[1] Actually, however, the problem of 1986 came from "the bad harvests . . . [which] diminished the economic growth of the zones with greater agricultural populations."[3] The very next year, Spanish agriculture managed to register "its best earnings ever."[3] Different provinces in Spain have attained different levels of progress, but entry into the E.C. has not exacerbated this imbalance. Indeed, the E.C. has tried to remedy the situation by giving economic development aid to the six poorest provinces.[1]

E.C. membership gives Spain vital economic security and room for growth. Despite occasional fishing fracases and strawberry spats that still flare up, the outlook seems bright.

The Spanish people themselves believe that integration is the only way to go. Adhesion enjoys widespread popular support in Spain. The available data indicates that "mass opinion about European integration and the Common Market has remained favorably high since the late 1950s."[2] Spain has managed to avoid the bitter public debates over integration so prevalent in other countries. Entry into the E.C. has met with "the unanimous approval, without reservations, from all of the political forces represented in the Parliament."[1]

Admittedly, Spain is not overwhelmingly enthusiastic about the process. Apprehension abounds. A newspaper poll revealed that "75 percent of the Spanish people fear that with the entry into the E.C., within a few years [they] will be cooking with Dutch margarine, drinking Italian wine and importing olives."[2] Still, the great majority also agrees that "it was necessary to reach that objective [of joining the E.C.], and that there was no other alternative."[1]

The citizens of Spain have some cause for concern. Integration has not been all milk and honey. Selfishness on the part of Spain's partners has often marred the process. One major area of contention has been and continues to be Spain's success in the production of fruits and vegetables, where Spain possesses several competitive advantages. Chiefly, Spain's southerly location causes crops to ripen earlier and so gives Spain a head start into the European market.

Spain also maintains an impressive marketing network for certain products. In the case of oranges, this network dominates the European market so thoroughly that Morocco, for example, frequently has to sell its oranges to Spain in order to get them distributed. Through this network, Spain can then sell the Moroccan oranges at a hefty mark-up. Such prowess naturally arouses some resentment. "The French Government, above all, pressed by its farmers, has always carried a loud voice in the negotiations in opposition to Spanish aspirations."[1] French farmers have threatened that "while [they] cannot sell [their] crops in Spain, Spanish fruits and vegetables will continue to stain the French highways."[1] One Spanish author wrote prophetically: "The image of Spanish trucks overturned by pickets of French farmers . . . can repeat itself, despite both being members in the Common Market."[1]

In 1987, French farmers destroyed over 70 tons of Spanish strawberries after their Government failed to get the E.C. to enact a safeguard clause against the offending strawberries.[2] The president of the French strawberry producers defended these drastic measures: "They are the only means that remain to us in order to protect us against Spain's disloyal competition."[2] The breast-beating aside, France's claims reflect narrow self-interest more than anything else. "The entry of Spain into the Community has been from an agricultural point of view favorable to France."[2] A year after the treaty went into effect, French agricultural exports to Spain had grown 81 percent larger. In light of this growth, France's complaints and interference seem, at best, rather petty.

Spain has had to contend with more than just French self-interest. Among other things, practically all the coastal

Continued on page 46.

John-Marshall Klein is a student at the University of California at San Diego.

MEMBER STATE REPORT/OVERVIEW

FRANCE

AXEL KRAUSE

The Left is back in France. But is it, really? The date was June 29. Michel Rocard, France's new Socialist Premier, had just mounted the podium in the ornate Chamber of Deputies and delivered an 80-minute speech outlining the priorities of his minority Government. He urged adoption of an "everyday democracy," pragmatic schemes for improving schools and housing, and the need for tolerance and dialogue in French politics. Turning to foreign policy, Rocard, a moderate, said France's hopes were pinned, above all, on Europe. But he immediately cited "fears" and difficulties" involved in preparing France for a frontierless European Community. "We have only 1,646 days left," he warned.

In the weeks immediately following the speech, tension and what many observers termed *malaise* clouded the French political atmosphere, mainly because Rocard remained short on grand promises, ambitious reforms or detailed plans for revitalizing the sluggish French economy and fighting worsening unemployment. The agile French leader, described by some as a French Kennedy, has been forced to steer a cautious path between frustrated Socialist hard-liners and conservatives. They, too, were trying to come to grips with the future of France, somberly described by the respected news magazine *Le Point* as being in a state of "dereliction . . . devoid of projects and ideas." Suggesting that a period of domestic political turmoil was approaching, *Le Monde,* France's leading daily newspaper, described the country as a "rudderless ship." Perhaps no one caught the nation's mood better than Rocard himself, who told reporters in Metz that "France needs to find its future again."

THE FIRST MINORITY GOVERNMENT IN THREE DECADES TAKES OVER.

Determined to show that he represented more than talk, and following the formation of a new Government that included a handful of independents and centrist figures, Rocard approved restoration of a distinctly leftist plan that is expected to test his Government in October—a controversial wealth tax. The tax, if approved by Parliament, would apply to about 110,000 of France's richest citizens and raise about 4 billion French francs annually (roughly $627 million). It also would help defray costs of an expanded health insurance program for unemployed persons whose benefits had expired.

In another sweeping initiative, Rocard announced a referendum on self-determination for New Caledonia and a plan of economic development for the Pacific colony, which had been marked by growing violence and tensions between French troops and native Melanesians. Meantime, President François Mitterrand on July 14 announced that France not only welcomed Moscow's initiative on reducing conventional arms, but that he would meet Mikhail Gorbachev, the Soviet leader, before the end of this year, and that the two leaders would re-establish what Mitterrand described as "regular meetings."

Helping Rocard greatly was the combination of a strong French franc, low inflation and confidence by France's business community and its trading partners in Pierre Bérégovy, the Socialist Finance Minister, who directed Mitterrand's successful presidential campaign earlier this spring.

Not surprisingly, Rocard has not yet asked for a vote of confidence from the National Assembly. Why? In parliamentary elections on June 12, the Socialists fell 13 seats short of an absolute majority in the 577-seat Parliament. But they have been able to govern as the Parliament's largest group. To topple the Government, an absolute majority is required. That, however, would mean an alliance of Communists and conservatives, which most observers consider unlikely. As the head of the first minority Government in three decades, Rocard will occasionally need support from opposition members of Parliament, notably on such questions as the wealth tax—a proposal disliked by both the Communists and the centrists. "We will see which side the Government takes," commented centrist leader Pierre Mehaignerie, Minister of Housing and Transport in the previous conservative Government of Gaullist Jacques Chirac, who was defeated by Mitterrand in the presidential election on May 8.

Similar questions were being asked about Rocard's approach to the European Community, amid some skirmishing over which minister would have responsibility for European affairs and, specifically, positioning France for 1992. The title of Minister for European Affairs—and main responsibility—went to Edith Cresson, the former Socialist Minister of Industry and Trade. A close friend of Mitterrand, she has never been bashful about asserting her authority, nor promoting French interests and products. But Rocard in his June 29 speech called on the state planning agency, not her ministry, to help "prepare the future." The planning agency was placed under Lionel Stoléru,

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

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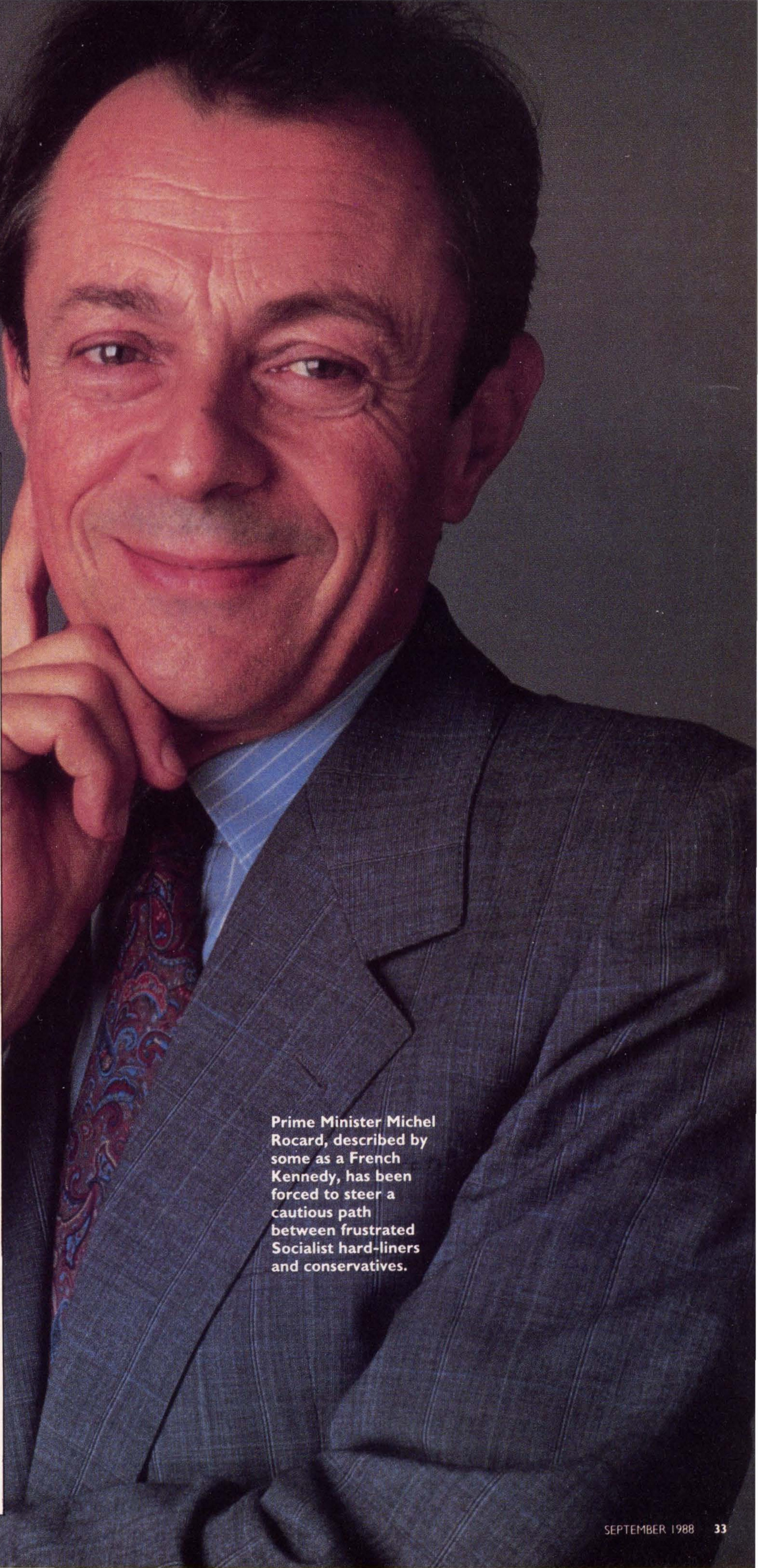
a centrist, and definitely not one of Cresson's close friends.

Specifically, Stoléru was asked by Rocard to work with industrial and service organizations with a view to drafting a national strategy plan on 1992. But Cresson was irritated with reports that she might have to share her turf with Stoléru. Other insiders played down what appeared to be a relatively minor flap, emphasizing that teamwork was the Government's only solution to Europe and, indeed, many other issues.

Outlining his general views on a unified, frontierless, Europe, Rocard blended optimism with expressions of fears, but avoided making new proposals and initiatives. "Europe is above all an opportunity and our future," he said. Many observers, notably in the Federal Republic of Germany, wondered afterward what positions France would take in the months to come on sensitive issues, such as telecommunications, airline, insurance and banking deregulation, and on E.C. plans to provide employees a greater role in the life of E.C.-based companies and banks. Emphasizing repeatedly that 1992 must be well prepared and that for every advantage there was a risk, Rocard also said the following:

- "I am worried about the harmonization of taxation, but happy about holding an E.C. passport."
- "German and Dutch competition preoccupies me, but offsetting this is the fact that since last week, my two younger sons can now study or establish themselves professionally in Genoa, Heidelberg, Salamanca or Cambridge."
- "The rate of the German mark worries me, but less than the success of Ariane, which fills me with hope and pride."
- "The Europe we build will be what we want, but we will oppose jungle-like deregulation [notably in transportation, ag-



Prime Minister Michel Rocard, described by some as a French Kennedy, has been forced to steer a cautious path between frustrated Socialist hard-liners and conservatives.

iness, insurance and telecommunica-
]."

'ith this [Stoléru] White Paper, incor-
ting our hopes and fears, we will be
to negotiate on all fronts and under
conditions."

'e need to be sure that harmonization
nity of E.C. markets go hand in hand
balanced advantages obtained from
E.C. countries."

esson gives the impression of some-
very much in charge of European
s—and with ideas of her own as to
e her priorities are, including with
rd to the United States. "Reciprocity
e basis of our policy on access to
ets and related issues, and we intend
ess for reciprocal advantages," in
ng with non-E.C. countries, such as
United States and Japan, she
in an interview, emphasizing
the approach included reinforc-
he E.C. Commission's capacity
spond to other governments.

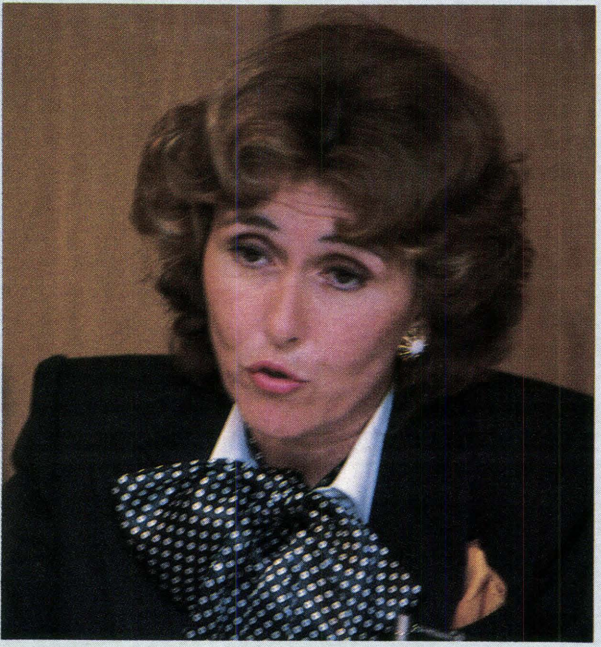
a former Agriculture Minister
1981-83, whose charm and
hness drew the admiration of
er U.S. Trade Representative
am Brock and other Reagan
inistration officials, Cresson
quick to respond to questions
t simmering trans-Atlantic is-
Is E.C. farm export compe-
unfair, as the Administration
alleged, because of its subsi-
"We are net buyers of agricul-
products... and we will re-
firm" in resisting Washington,
said. Airbus? "We do not see a
lem there. After all, Americans
buying these planes." New
etition from neighboring Eu-
an countries, such as Italy,
red by the removal of trade
ers? "It is good, a healthy phenome-
.. the goal of 1992 is to create jobs,
r interest rates and avoid waste."
t about the Federal Republic's appar-
ack of interest in the 1992 program?
s true that the Government is di-
l, but German industrialists have be-
a lot more European—since the
on October 19 last year."

key question remained unanswered
discussions about 1992: How ready
ance to deal with the pressures of
competition from its E.C. partners
what, specifically, should be done?
last autumn, France has reacted
euphoria, and much of the upbeat
l—undoubtedly the strongest in the
—continues to fuel French attitudes.
of the best assessments came from
merican Embassy in Paris, which, in
usual move, released a background
r prepared for Washington that concluded that "the French public has embraced the theme of 1992 to a remarkable extent... politically, the appeal of 1992 is more far-reaching, as it represents for France a more solid platform for projecting national influence." But the U.S. Embassy paper also contained the following warnings:

• Although large French multinationals appeared well prepared, "many business leaders and analysts question the readiness of small and medium-sized companies to meet the challenges of 1992 ... the first reaction of some of these companies has been to explore the possibilities of joint ventures" with other E.C. companies, notably in Germany, Italy and Spain.

• For the French professions, such as lawyers and insurance agents, "caught between lower fee structures in the southern E.C. member states and a tradition of greater market competition in many of the northern members, a rockier path lies ahead." Although the French legal profession had "shown itself anxious to innovate," the Embassy commented, the squeeze will probably also hit French hairdressers, instructors, travel agents and others. Why? "The expected influx of cheaper foreign labor" as licensing requirements are abolished.

• American business should wake up to what is happening, the Embassy concluded. "Small and medium-sized firms need to move quickly... U.S. companies will need to position themselves to take full advantage of the commercial opportunities that 1992 will offer," the paper said. "At the same time, the U.S. Government and American industry need to be on guard that American firms are not excluded from access to the unified market."



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Edith Cresson, Minister for European Affairs, will be seeking advice from French and European businessmen to help France prepare for 1992.

The U.S. warning surfaced just as leading French business leaders were beginning to develop—and go public—with the reciprocity theme mentioned by Cresson and E.C. officials, notably Willy De Clercq, the E.C. Commissioner responsible for external relations. Jacques Stern, chairman of Groupe Bull, France's largest and state-owned computer company, told the *International Herald Tribune* in a seven-part series on 1992 the paper has been publishing this year, that subsidiaries of U.S. companies should not be considered "European." Stern said that "even if they have some production capacity in Europe, their centers of decision are outside Europe. The European market is one of the most open in the world. But we cannot be naive."

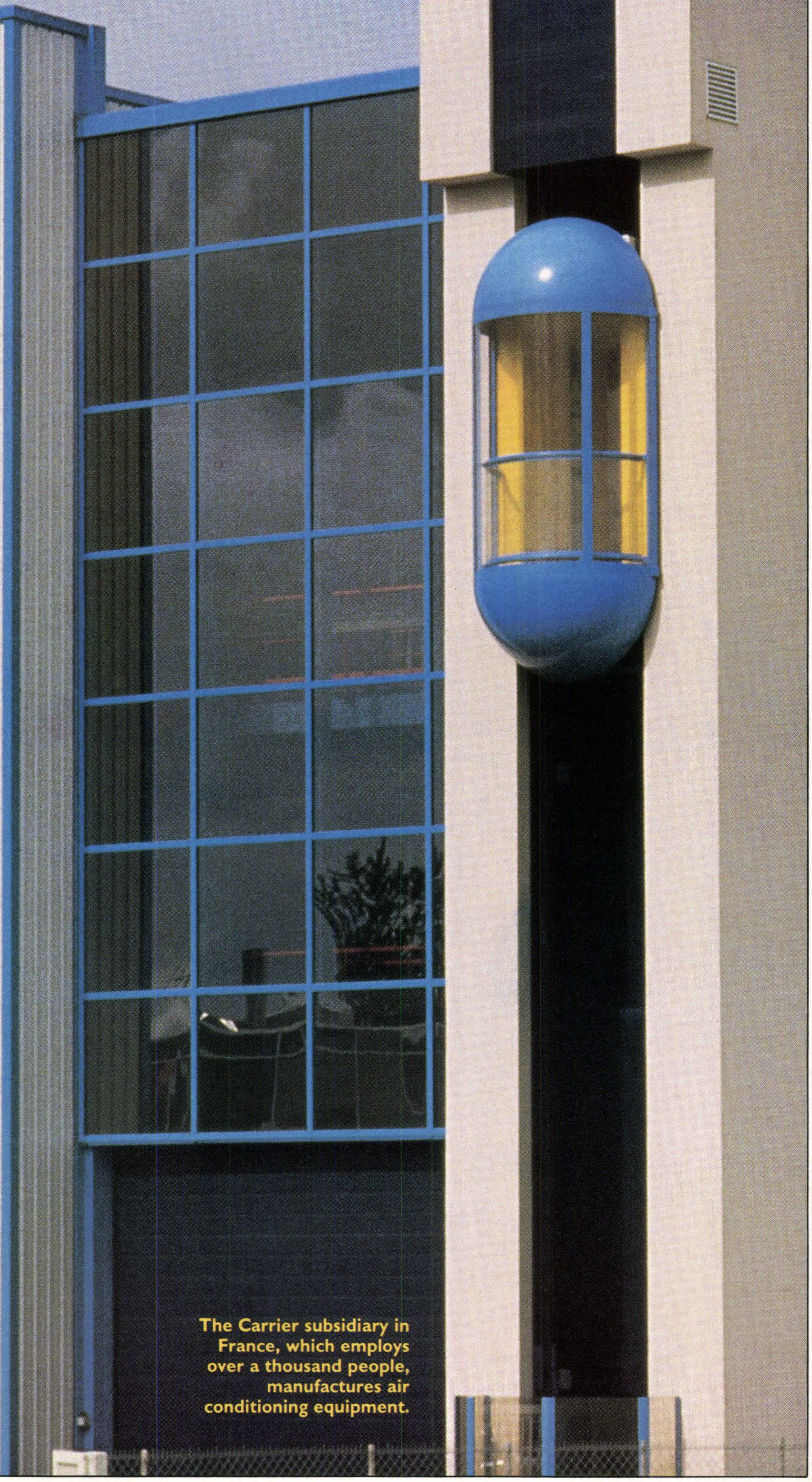
Growing concerns over France's vulnerabilities also began to surface as the summer vacation doldrums settled over the nation. *L'Expansion,* a leading business magazine, said that "the French are just beginning to discover that not everything is rosy in the *grand marché,* which has been so often touted for its merits." Quoting Jacques Calvet, head of the Peugeot automobile group, and other French business leaders, *L'Expansion* cited the following weaknesses: the relatively small size of French companies, their lack of working capital, the absence of industrial strategy and insufficient "internationalization." The underdeveloped state of French distribution networks will, for example, provide what *L'Expansion* described as "an autoroute" for cheap imports from other E.C. countries that could cause further joblessness at a time when the economy is weak.

Some analysts have been upbeat about the outlook. "Like a sailing boat righting itself after a squall, the French economy is back on an even keel and gathering speed," said the influential Banque Paribas, projecting gross domestic product (GDP) growth of around 3 percent this year, up from 2.3 percent in 1987. "The economic recovery, which began in 1982, continues," added Shearson Lehman Hutton from New York, emphasizing that it added up to "a compelling case for holding French assets." Bérégovy helped fuel the upbeat beat on the Paris Bourse by holding out the promise of lower interest rates to stimulate investments.

A more guarded assessment came

Continued on page 46.

INVESTING IN FRANCE AS 1992 APPROACHES



The Carrier subsidiary in France, which employs over a thousand people, manufactures air conditioning equipment.

COURTESY FRENCH INDUSTRIAL DEVELOPMENT AGENCY

GOVERNMENT INCENTIVES AND QUALIFIED WORK FORCE MAKE FRANCE A STRATEGIC LOCATION.

PASCAL BONNE

The completion of the European Community's internal market by the end of 1992 is presenting new opportunities and new challenges to North American corporations—not only to large ones that are restructuring or developing their European activities, but also to smaller ones, which so far have not been operating in Europe.

A presence in Europe has now become a necessity for most U.S. companies, regardless of size. As Patrick J. Gnazzo, president of United Technologies International, puts it: "In today's interdependent business environment, U.S. companies can no longer prosper by exporting. Our operations must be woven into the fabric of the global business system."

Truly, the 1992 spirit is already blowing in France and opening up new markets. As an example, artificial sweeteners and sugar substitutes were prohibited in food products on the French market until December 1987. To comply with E.C. regulations, the French Government had to pass a law and lift the ban, thus enabling Coca-Cola and other food companies to market their lines of diet products.

Coca-Cola is currently building its largest European bottling facility in Dunkirk in northern France, to supply canned soft drinks to France as well as to other European countries. This is a windfall also for the world's largest steel and aluminum can manufacturers, including several U.S. corporations ready to follow Coca-Cola's move and to set up their own facilities in the vicinity.

Every year, North American direct investment in France includes over 80 greenfield start-ups, major expansion of existing plants and acquisitions. Over 750 subsidiaries of American corporations are employing as many as 250,000 people.

"Probably the most important advantage of locating in France is its location in Europe, combined with the French Government's encouragement to export products," says Roy Plaut, Jr., president of Kimberly Clark's specialty products division. "They also have a very good work force, well-trained people and one of the best infrastructures in Europe, such as excellent transportation and power generation," he adds, naming a few of the advantages France is offering to U.S. companies. With a diversified consumer base of 55 million persons, France provides a large homogeneous domestic market with borders shared with six active trading partners: the Federal Republic of Germany, Belgium, Luxembourg, Italy, Spain and Switzerland, notwithstanding the United Kingdom, which will be physically linked to the north of France by the Channel tunnel in 1993.

France also is renowned for its highly educated people, placing the country at the forefront of the most advanced technologies and offering a qualified work force ready to meet the demands of industry and research. "Allied-Signal has been doing business successfully in France for decades . . . Why? Simply because France is one of Europe's acknowledged technology leaders in the industries we serve: aerospace, automotive products and engineered materials," states Edward L. Hennessy, Jr., chairman and executive officer of Allied-Signal, Inc., whose French subsidiaries have an overall employment of 6,000 in 16 facilities.

At the end of 1987, Digital Equipment decided to locate its European research and development center—the first outside the United States—near Paris. In the meantime, Rockwell International and VLSI created their electronic engineering design and marketing centers in the Sophia-Antipolis Research Park near Nice.

The wave of deregulation shaking the old Continent has opened new market niches in long-held monopolies, niches that some American companies have already filled. The deregulation of the financial markets took a great roll forward in 1987, when the government unveiled a plan to open the Paris Bourse to new brokerage firms, including those from abroad. In the telecommunications sector, the value-added services as well as a few specialized markets, such as paging systems and mobile telephones, are opening their doors to private initiative. BellSouth International, the Georgia-based "Baby Bell," has taken a share in a new nationwide paging venture, competing on this market with France Telecom, the government-owned telephone operator. Says Charles Coe, president of BellSouth International: "This new agreement is a further demonstration of our commitment to the French telecommunications market and indeed to establishing BellSouth as a major force in the international marketplace."

The opening of the E.C. also is forcing each member government to reconsider its fiscal policy. For the past few years, the trend in France has been to reduce the corporate income tax: The rate was progressively cut to 42 percent from 50 percent, and further reductions are expected, especially on distributed profits. France is of course involved in the harmonization of its value-added tax rates to achieve the complete elimination of customs barriers with its E.C. partners: these rates will drop substantially to be in line with the European average.

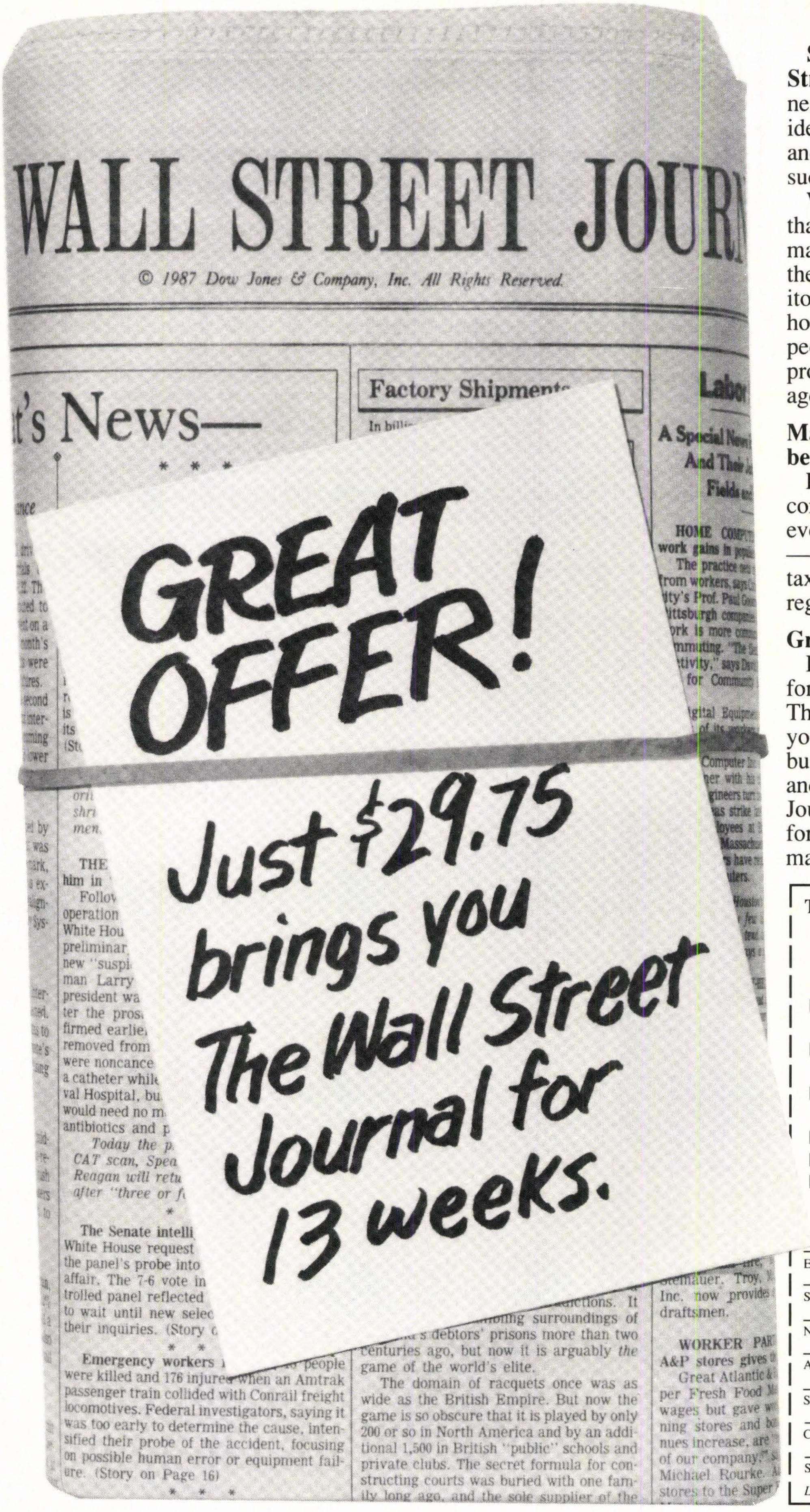
France values—and welcomes—foreign investment, and its commitment to investment does not stop at just a pro-business attitude. Over the years, the government and the regional authorities have designed a series of incentives to attract foreign businesses. The responsibility to foster and oversee this program has been given to the DATAR, or Délégation à l'Aménagement du Territoire et à l'Action Régionale. DATAR is represented in North America by the French Industrial Development Agency, with four offices in New York, Chicago, Los Angeles and Houston.

Investment incentives—strictly regulated by the E.C.—include government cash grants, low interest loans from private sources, training subsidies and fiscal abatements. Cash grants can finance up to 25 percent of the investment, except in Lorraine (on the border of France with Luxembourg and Belgium), where a special program matched with E.C. funding allows grants up to 37.5 percent. In the enterprise zones of Dunkirk on the English Channel and La Seyne and Siotat on the Mediterranean coast, newly created industrial companies can take advantage of a total exemption of the corporate income tax for a period of 10 years.

Every year, North American direct investment in France includes over 80 greenfield start-ups, major expansion of existing plants and acquisitions. Over 750 subsidiaries of American corporations are employing as many as 250,000 people. These corporations invest in a large spectrum of activities, such as computers and electronics, composite materials, software, telecommunications, chemicals, paper, pharmaceuticals and hospital supplies. In 1987, for instance, Johnson & Johnson announced the creation of a pharmaceutical facility in Normandy, Ford expanded its Bordeaux plant to produce trans-axle gear boxes for the European market, Rohr Industries increased its Toulouse operation to follow the development of the Airbus program and Scott Paper started building a paper mill in Orléans.

Beyond Europe, France has always had privileged ties with Africa, the Middle East and Eastern Europe, and is thus a good place for gaining access to these markets. "Much of the success of Bendix France is due not only to the support of regional customers, but also to the developing business to Europe, the Middle East and Africa," asserts James Van De Veire, director of business development for Bendix Automotive. When prospective U.S. investors consider France's strategic position and its economic and financial soundness, they will conclude that they cannot overlook this country in their decision on where to locate their businesses in the future. €

Pascal Bonne is deputy director of the French Industrial Development Agency in New York.



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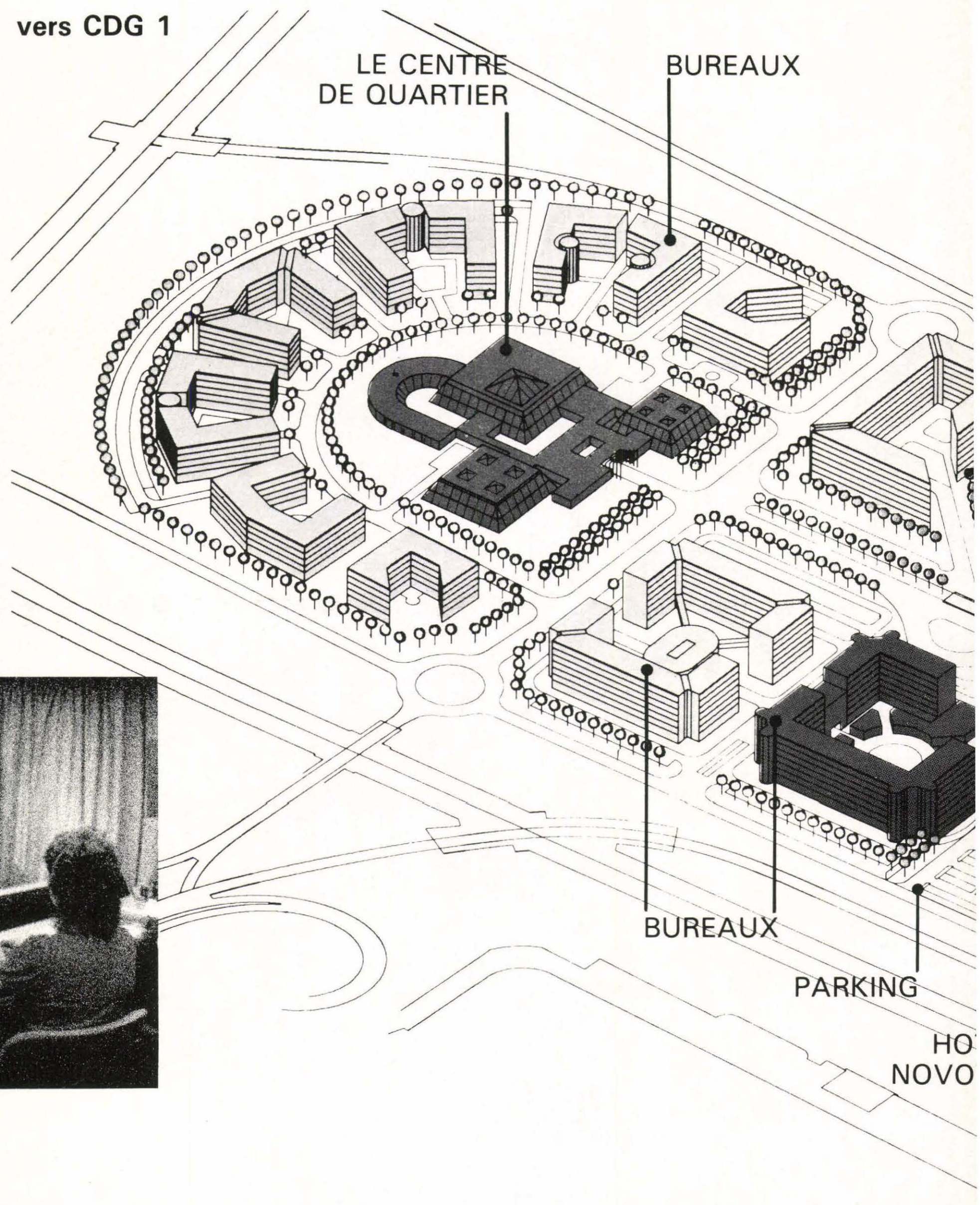
PARIS AIRPORTS LOOK TO 1992



PHILIPPE GUICHARDAZ

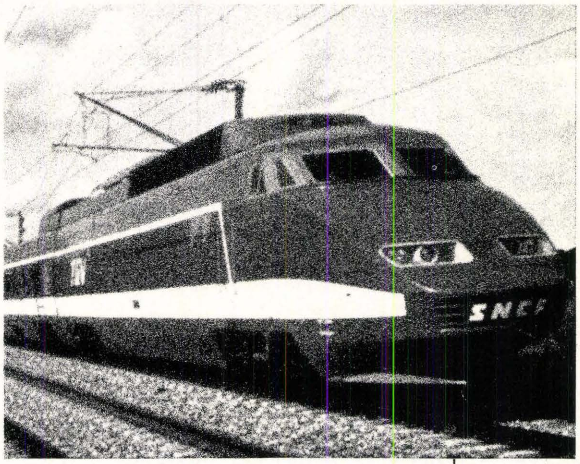
PROMOTERS STRESS LINKS TO EUROPE-WIDE TRANSPORT NETWORK.

Full videoconferencing facilities will be available at the Roissy/Charles de Gaulle airport center.

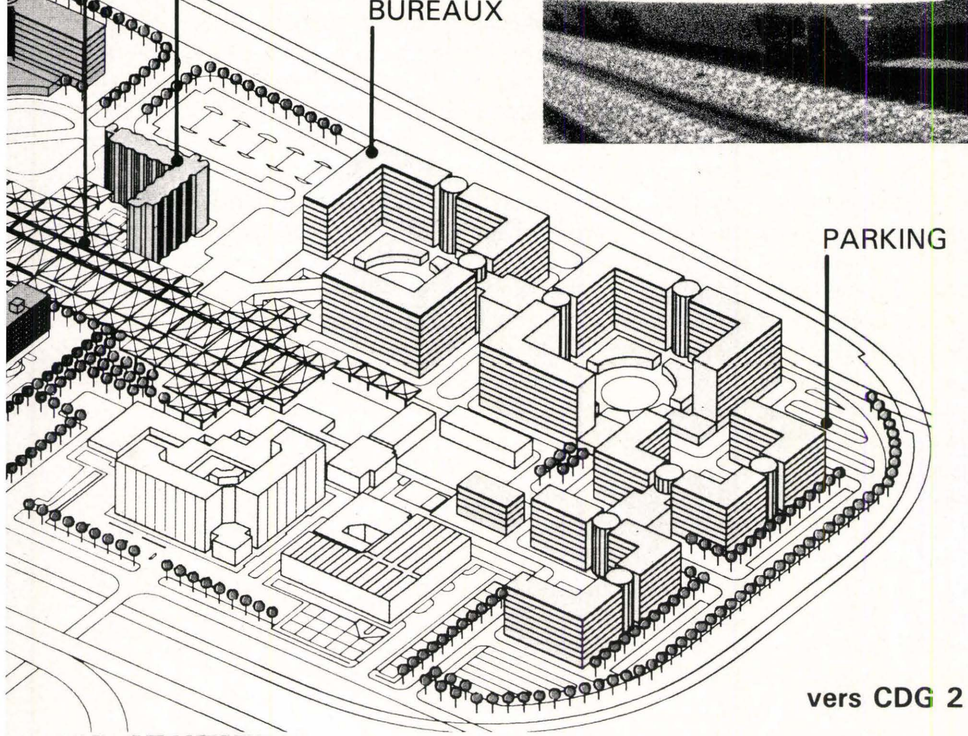
"We have an historic chance to create a complex that is unique in the world," said Jean Pierre Beysson, director-general of the Paris airports authority (ADP) during a recent press conference. Such a declaration is in keeping with the ambitious plans of Continental Europe's largest airport (37 million passengers in 1987): to become the gateway to Europe for long distance travelers from around the developed world, redistributing them around the four corners of Europe with the high-speed *train à grande vitesse* (TGV) rail network.

Growing competition among Europe's largest airports—including Paris, London and Frankfurt—is the biggest challenge for the future. Economic, technical and political factors—such as increased competition, longer flying ranges and new deregulation within the E.C.—will have domestic, American and Far Eastern airlines rethinking their European service.

The intercontinental airlines will concentrate their activities on two or three



"Smart" buildings will have direct satellite links (top), and the high-speed *train à grande vitesse* (bottom) will stop at the airport.



hubs that will become the main connecting centers for the rest of Western Europe. The stakes are clear and Paris wants to be one of those hubs. ADP, which already has important advantages, is working on large-scale infrastructure projects aimed at improved connections between air, road and rail travel, with office development attached.

Paris' two airports, Roissy-Charles de Gaulle (CDG) and Orly, will welcome 40 million passengers and transship 820,000 tons of freight in 1988. The airports are run by ADP, an independently financed public entity under the authority of the Transport Ministry. Revenues were up 6 percent in 1987, totaling 3.7 billion francs (about $690 million). Freight traffic is expected to grow 7 percent in 1988.

The Paris hub is already well developed: 190 airlines serve 275 cities in 120 countries from the two airports. That is more than either London or Frankfurt, even though Paris is second to London in passenger traffic and third to both London and Frankfurt in freight traffic.

In addition, ADP controls a a lot of real estate, which makes it easier to plan grand new development: Roissy occupies some 7,400 acres, of which only half is currently in use. The London and Frankfurt airports have far less room to expand. Armed with these assets, ADP has had no trouble launching some important investments.

One of the keys to ADP's development plans is the "intermodality" of various means of transport. By 1993, Roissy will be at the heart of the high-speed TGV rail network since a connection station will be built there and linked directly to the CDG-2 terminal. Thus the air traveler will be able to board, without going through Paris, one of the three TGV networks that will be in service by then. TGV-Nord (1993) will serve London through the Channel tunnel, Brussels, Amsterdam and Cologne/Dusseldorf; TGV-Sud-Est (now in service) goes to Lyon, Marseilles, Italy, Switzerland and Spain; and TGV-Atlantique (1989-1990) will serve western and southwestern France, Spain and Portugal. Later, a TGV-Est link will be built to Strasbourg and points in Germany. Twenty to 25 trains a day in both directions will put CDG 1½ hours from Brussels; 3 hours from London, Geneva and Cologne; and 3½ hours from Amsterdam.

Road links with Roissy are already well established. The airport is on the A1 highway to the north of Europe and connected through the Paris system to the A4 highway to eastern Europe and the A6 highway to the south of France and Switzerland, Italy, Spain and Portugal.

Paris' public transport system has a direct train into the airport that puts an air traveler 30 minutes from the center of town, with easy connections to the business sections of the Opéra, the Champs Elysées and La Défense. Thus, CDG is, or

Continued on page 46.

Philippe Guichardaz is a free lance journalist based in Paris.

NEWS OF THE E.C.

SCIENCE AND TECHNOLOGY

EUROPE TO BE BOOSTED AS WORLD SPACE POWER

The European Community outlined plans in July to help launch Europe as a world space power through space-oriented research programs and closer links with the 13-member European Space Agency (ESA). The E.C. Commission said it wanted to harness existing E.C. research projects in areas like robotics, telecommunications and aeronautics to meet the needs of space exploration.

Twelve of the 13 ESA nations—all except Britain—agreed last November to go ahead with a $13 billion program to put European astronauts in space by the turn of the century and create an international space station. The Commission said it planned to support ESA programs by developing satellite technology, improving analysis of satellite data and researching areas like micro-gravity. It also plans to gear up its industrial policy to the needs of space technology and step up specialist training. A spokesman said the Commission would present detailed, specific proposals after consultation with member states, but no new cash would be injected until the current E.C. overall research program expires in 1991.

E.C. members Germany, France, Italy, Britain, Denmark, the Netherlands, Belgium, Spain and Ireland are all members of the ESA, as are Austria, Norway, Sweden and Switzerland. —*Reuters*

COURTESY EUROPEAN SPACE AGENCY

The E.C. announced plans this summer to launch Europe as a world power in space.

NUCLEAR SAFETY: E.C. TO RESEARCH REMOTE HANDLING

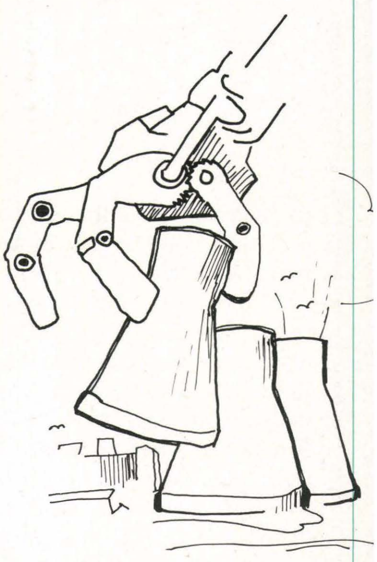
Believing that there is considerable potential for the use of tele-operators in the nuclear industry to improve separation of workers from radioactive equipment, there by enhancing nuclear safety, the Commission proposed in July a new five-year research program designed to strengthen the scientific and engineering bases used for the design of nuclear remote-handling equipment. The program, to be known as TELEMAN, will run from 1989 to 1993, and will cost some 40 million ECU ($48 million), about half of which will be provided by the Community.

Applications for remotely-operated equipment exist at all stages of the nuclear fuel cycle from uranium mining to nuclear fuel processing, and especially in reactor operations such as inspection, repair and maintenance, decommissioning and emergency response. The technology to be developed for application by industry is computer-assisted teleoperation delivered by machines with appropriate degrees of autonomy at a distance from its operator. The teleoperators of interest are mechanical arms to which a variety of tools and sensors can be attached, manipulators attached to moveable gantrys and partially autonomous vehicles equipped for specialized jobs. Although there is considerable overlap with developments in industrial robotics, the environments in which these machines must work place additional demands on the technology.

At present the safety inspections of nuclear plants are subject to constraints relating to the need to minimize each inspector's exposure to radiation. The Commission wants to encourage the development of equipment that will enable plant operators and public authorities to deal more effectively with accidents and other unusual events.

TELEMAN will address basic problems associated with remote operations using computer assisted teleoperators with increasing degrees of autonomy, questions relating to teleoperation in nuclear environments, and the integration of disciplines that make up robotics. To serve the maximum number of nuclear industry users and entrepreneurs and minimize the risks associated with a rapidly evolving market, TELEMAN will invest most of its resources in the provision of generic building blocks for incorporation in a variety of specialized machines. These subsystem technologies in turn could then be used by industry in ways that cannot all be foreseen today.

TELEMAN will demonstrate its research products by incorporating them into research machines that exist or are under development in the laboratories of its contractors. Analysis of the behavior of research machines will show how machines need to evolve to meet commercial demands and thus lay the groundwork for product development and demonstration programs to be executed outside TELEMAN by industry in a competitive environment.



AID AND DEVELOPMENT

E.C. PLEDGES MORE DEVELOPMENT AID, BUT NO MIRACLE CURE

The European Community will step up its short-term aid to developing countries but can offer no magic solution to the problem of rock-bottom commodity prices, a senior E.C. official said in July. Dieter Frisch, Director-General of development at the Community's executive Commission, said there was no mechanism in the world that could balance supply and demand in key commodities like cocoa, where stocks had reached half the level of world annual consumption. "There is no miracle solution for this question of stabilizing prices, either in this Lomé Convention or in a future Convention," he told journalists.

Commodity prices will be a key issue in October when the Community starts crucial negotiations with the 66-nation group of African, Caribbean and Pacific (ACP) countries on a new Lomé pact on aid and trade. Frisch, speaking after an informal meeting with ACP ministers and officials in Senegal to discuss the key issues in the Lomé talks, said Third World countries needed help to adapt their production to market needs, and channel investment away from "sectors with no future." But he said STABEX, a special scheme for compensating countries hit by tumbling commodities prices, was unlikely to get a major boost under the next Lomé pact.

Most ACP countries would prefer increased aid in other areas rather than a major transfer of resources to the overstretched STABEX, where claims by Third World countries exceeded available funds by more than $225 million last year, he said.

Frisch reiterated an E.C. promise to step up short-term aid to Third World countries, especially in Africa, which face social unrest as they struggle to carry out painful belt-tightening economic reforms. "We need an instrument that allows us to intervene more rapidly with balance of payments support," he said, citing health and education as two priority areas for future E.C. aid.

The E.C. also said in July that it was giving more than $120 million in grants and loans to the Third World, with African countries getting the major share. The E.C. Commission said that just a third of the total would be used to help fight drought and desertification in the arid northeast of Nigeria and boost farm output. In Uganda, $16.5 million will help pay for imports of equipment for industry, transport and agriculture, and $2.75 million will go towards improving health care and the fight against tuberculosis and AIDS.

Nigeria will receive a special loan of $13.7 million for mining research, including gold prospecting, the Commission said, while $11.3 million will go for rural development in Togo and $12.6 million to support economic reform in Senegal.—*Reuters*

FOREIGN AFFAIRS

SOUTH AFRICA URGED TO RELEASE MANDELA

The European Community urged the South African Government in July to free the jailed black nationalist leader Nelson Mandela. "The Twelve take this occasion to renew their call on the South African Government to release Mr. Nelson Mandela and other political prisoners unconditionally and immediately," a statement issued at a meeting of E.C. Foreign Minsters said.

Greek Foreign Minister Karolos Papoulias, who chaired the talks, suggested that the bloc might renew attempts to agree on further economic sanctions against South Africa.

"We agreed to follow closely the trade relations of South Africa with our countries to see what possible measures we could take in that direction," he told a news conference. But British Foreign Secretary Sir Geoffrey Howe said there had been no discussion of extending sanctions. Britain, Germany and Portugal oppose tougher sanctions against Pretoria, a move which most member states, including Greece, support as a way of pressuring South Africa to abandon apartheid race segregation.

The ministers said the release of Mandela, jailed since 1962, would be a welcome political signal and humanitarian gesture. "With such a gesture the South African Government could show the world and those who identify themselves profoundly with the fate of Nelson Mandela that a will for dialogue and peaceful reconciliation exists," the statement said.—*Reuters*

COMMUNITY HAILS OUTCOME OF WARSAW SUMMIT

European Community Foreign Ministers hailed the Warsaw Pact summit meeting in July and the recent Soviet Communist Party conference as narrowing differences between East and West, diplomats said this summer.

German Foreign Minister Hans-Dietrich Genscher said Ministers welcomed the Warsaw Pact's positive reaction to NATO's long-held position that the East Bloc had to accept a bigger cut in the number of its numerically superior forces under any future conventional arms reduction accord. Diplomats said the Ministers were also pleased that the Warsaw Pact accepted that on-site verification of future conventional arms cuts should be obligatory, and that it wanted a speedy conclusion to East-West talks in Vienna on a mandate for future conventional arms talks. "There was the feeling that something was moving on the other side which went in the right direction," one diplomat said.


German Foreign Minister Hans-Dietrich Genscher wants progress on East-West relations.

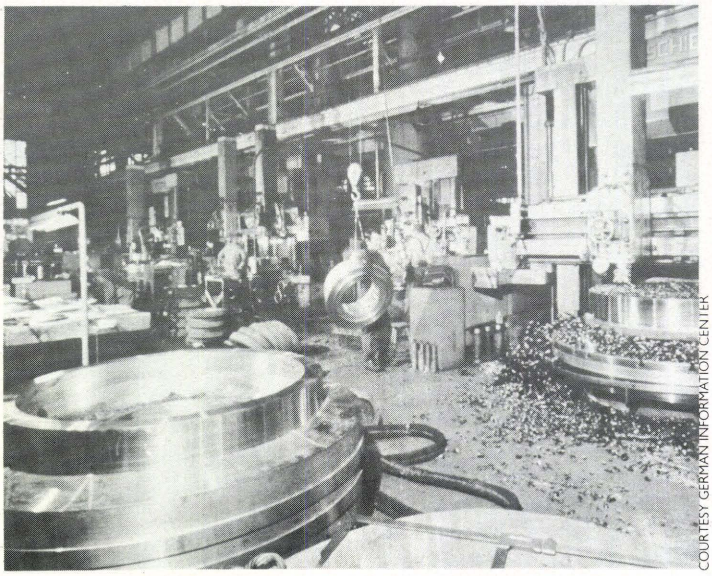
Genscher said the E.C. also wanted the 35-nation Vienna talks to agree a mandate as soon as possible provided the final document was a comprehensive one dealing with human rights issues as well as security. "It is now necessary that the East brings to the negotiating table its formal response to Western proposals," he told a news conference. Diplomats said governments wanted the mandate for future talks on conventional arms reductions and development of human rights and contacts to be agreed by the end of the month but some believed an accord was not likely until early in the autumn.

Ministers backed a proposal from Belgian Foreign Minister Leo Tindemans that they should devote an informal meeting in Greece in October to discussing a more coherent approach to relations with the Soviet Union in the light of changes there and elsewhere in the East bloc. Genscher said there had been little discussion of Soviet leader Mikhail Gorbachev's proposals for a summit of East and West European nations plus the United States and Canada to discuss conventional arms cuts, since the idea was not contained in the Warsaw Pact's final summit statement.—*Reuters*

BUSINESS & ECONOMICS

E.C. STRENGTHENS CRISIS WARNING SYSTEM FOR STEEL MARKET

The European Community pledged better monitoring in July of the steel market, so that it could react quickly if a new crisis developed following the return of Europe's steel-making sector to free competition. E.C. Industry Ministers agreed in June that output quotas which had protected the steel industry since it slid into crisis in 1980 were no longer needed, but they called for more detailed monitoring to ensure early warning of any renewed downturn.


COURTESY GERMAN INFORMATION CENTER

The E.C. is monitoring the return of its steel industry to free market conditions.

The E.C. Commission, the Community's executive body, said it was extending existing quarterly market prognoses for crude steel to cover all products considered potentially at risk from rapid market changes. It would also increase contacts with producers and consumers, it said in a statement, adding that data on production and deliveries provided by producers would enable it to follow global market developments closely and to draw quick conclusions about trends in demand.

The Commission agreed to tighten monitoring because, although steelmakers are currently enjoying a boom for most products, it considers there is still a major overcapacity in the industry. Massive restructuring this decade has already forced the industry to shed 30 million tons of capacity and 240,000 jobs. Producers in all E.C. member states except Britain and the Netherlands opposed the abolition of the mandatory quotas at the end of June, warning that it could result in a collapse of prices. In ending the quota system, the Ministers also rejected industry demands for an informal market-sharing arrangement to be allowed in their place.—*Reuters*

AIRLINE SECTOR GETS NEW RULES

The E.C. Commission adopted three competition regulations in July which lay down strict new conditions for various types of agreement in the air transport sector. The new rules relate to commercial agreements between airlines such as coordination of capacity and schedules of revenue pooling, computer reservation systems operating in the Community, and the provision of ground handling services at airports.

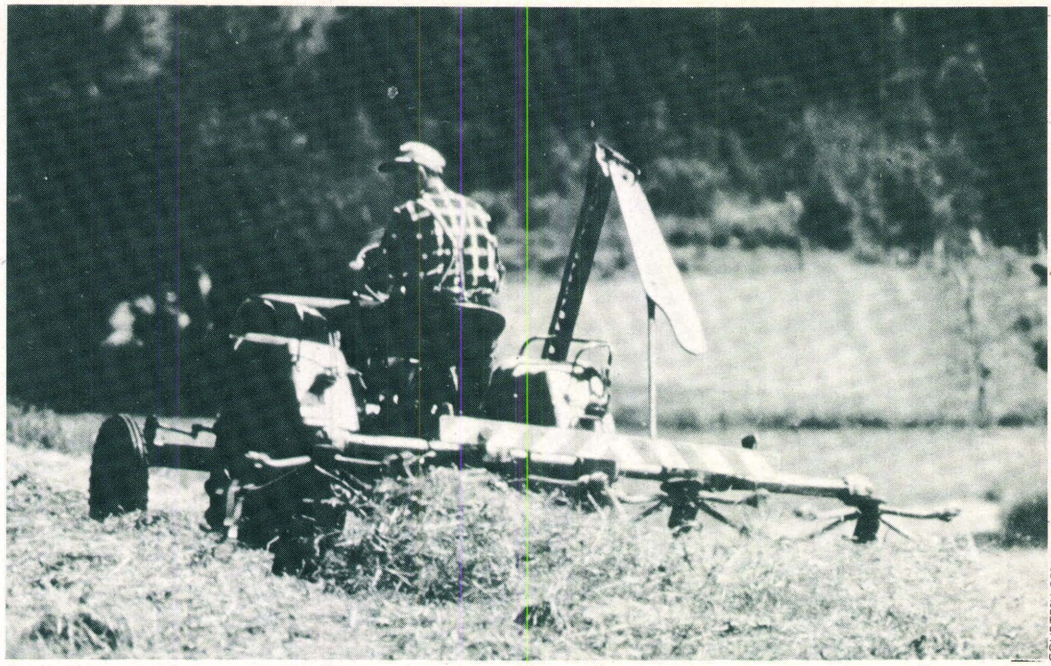
At the same time the Commission is proposing a Council regulation for a mandatory code of conduct for all computer reservation systems working in the Community. This would cover freight, charter and scheduled passenger traffic and is designed to ensure that the newly liberalized Community air transport market operates properly and does not become distorted by the discriminatory use of reservation systems.

The three competition regulations are a further step in the application of the competition rules to air transport. They have been adopted on the basis of powers given to the Commission by the Council under the air transport liberalization package of December 1987.

The first regulation applies to commercial agreements between airlines relating to the coordination of capacity and schedules, to revenue pools, to consultations on fares and to the allocation of airport slots. The conditions laid down by the Commission are designed to ensure that the agreements benefit air travellers, that airlines retain the largest possible freedom to act independently and that the agreements do not weaken the position of airlines which are not party to them.

The second regulation applies to the two joint ventures (Amadeus and Galileo) established by various Community airlines to develop and operate computer reservation systems. In order to compete effectively with the systems currently available on the world market, Community airlines need to combine their resources to develop more advanced systems. The joint ventures established for this purpose are granted an exemption from the competition rules subject to conditions designed to safeguard competition between computer reservation systems and between air carriers. These conditions include free access to systems, elimination of bias between air carriers listed in a system, and the possibility for air carriers and travel agents to cancel their contracts without penalty at reasonably short notice.

The third regulation authorizes agreements for the provision of ground handling services, subject to conditions ensuring absence of discrimination among air carriers and continued choice between different carriers offering these services.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Some European farmers are hoping to win new world cereals markets as a result of this year's poor grain harvest in the United States.

AGRICULTURE

E.C. FARMERS HOPE TO PROFIT FROM U.S. DROUGHT

Europe's farmers, harvesting a bumper grain crop, hope to cash in on the North American drought to boost their share of a U.S.-dominated world cereal market. Traders and market analysts say handsome yields in Europe and the worst U.S. drought in 50 years are a recipe for fiercer transatlantic competition in the grain trade.

"The European Community would like to use the North American drought to regain its traditional markets in the Third World which had been lost to the Americans," said an official at the French Foreign Trade Ministry. France, the biggest agricultural power in the 12-nation E.C., is angry at what it sees as penetration of markets in North Africa and Latin America by the United States, the world's largest exporter.

European traders agree the drought is a golden opportunity to cut back E.C. grain surpluses with exports to the Soviet Union and elsewhere. But officials at E.C. headquarters in Brussels have so far shown no sign that they want to risk a new transatlantic trade conflict. The United States and the E.C. narrowly averted one in 1986 over U.S. corn sales to Spain, and analysts believe that the E.C. will also want to avoid an aggressive export drive so as not to strain its budget with much bigger handouts to farmers—it subsidizes cereal exports—as well as to avoid arousing the wrath of the U.S. Congress.

Also at stake is the current round of world trade negotiations in the General Agreement on Tariffs and Trade (GATT), which are taking place against a background of charges of unfair trade subsidies on both sides of the Atlantic. Traders polled by Reuter correspondents therefore predict a rise in E.C. exports as a result of the U.S. drought but say farmers will not get a walkover. "The Americans are maintaining a very competitive edge, so the Community is still facing stiff competition," said Brian Gardner of researchers Policy Analysis Brussels.

Traders in Germany say world grain demand is likely remain stagnant or decline slightly, particularly as the Soviet Union, the biggest importer, looks set to bring in a good crop. The U.S. Department of Agriculture predicts that E.C. wheat exports will rise this year to 29.7 million tons from 27.68 million. Exports of coarse grains used mainly for animal feed will grow to 22.79 tons, up from 19.97 million. European traders calculate that the E.C. could capture 18 percent of the world grain market this year, up from around 14 percent last year.

Rising prices of U.S. corn and soybeans also give European farmers a chance to regain the animal feed market, where cheaper American products have been squeezing out domestic grains. French analysts reckon that European farmers lost five million tons last year in the animal feed market to U.S. imports, but traders say they could regain up to half of that figure this year.

The E.C. cereal harvest this year is expected to rise to 160.5 million tons, comfortably up from 154.4 million last year, according to COCERAL, the E.C. cereal traders' organization. If this is correct, it will mean a three percent price cut for E.C. farmers as it just tops a 160 million ton ceiling agreed in February as a trigger for subsidy reductions. Many analysts, however, say that member states may understate crop figures to avoid price cuts. France is heading for a near-record wheat harvest of 29 million tons, but this has been balanced by poor crop outlooks in Italy.—*Reuters* €

SPAIN
Continued from page 31.

countries jumped on Spain with regard to fishing rights. Spain is the fifth-largest per capita consumer of fish worldwide.[1] Such a market proved extremely tempting to many of Spain's partners. By limiting Spain's fishing quotas, they could cash in on the Spanish craving for fish. Troubled subsidiary industries like shipbuilding would grow along with the businesses directly involved with fishing. Unsurprisingly, Spain's quotas took a nose-dive.

In 1977, Spain was permitted to catch 14,000 tons of fish. By 1985, this figure had fallen to 8,900 tons.[1] Naturally, many Spanish fishermen simply chose to ignore these limits, but this only served to turn public opinion against Spain and create a rash of unfortunate accidents. In March 1984, a French coastguard vessel actually opened fire on two Spanish fishing boats.[1] The countries involved with limiting Spain's fishing capacity invariably invoked concerns about depletion of fishing beds, but the whole proceeding carried the distinctly bad aroma of greed. In the end, France, Denmark, the United Kingdom and the Federal Republic of Germany finally managed to arrive at a reasonable settlement. Sensibly, they realized that continued harsh measures against Spain's fishing fleet ran the risk of destabilizing the Basque region, home to most of Spain's fishing industry.[1]

The European Community resolved the strawberry dispute, for the time being at least, via a compromise. Spain has had to scale down its French strawberry exports to 400 tons a day, but the French request for even more drastic reductions was turned down.[2] This compromise does not represent a perfect solution any more than joining the E.C. represented a perfect solution. Both were merely the best solutions that could be worked out under the circumstances.

One of the Spanish negotiators put the situation in a nutshell: "It is true that the Community has problems and it is full of leaks, but it is just that outside it is flooding."[1] So far, everything has worked out well for Spain. €

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FRANCE
Continued from page 34.

from the Organization for Economic Cooperation and Development (OECD), which, in its June economic report, projected falling GDP growth rates—to 1.75 percent next year from 2 percent in 1988. The OECD Secretariat also projected worsening unemployment rates—rising to 11.5 percent in the second half of next year, from 10.75 percent in 1988, a record level. Among the world's leading seven industrialized nations, only Italy had a higher projected jobless rate next year, of 12 percent; followed by Britain (9.75 percent), Germany (8 percent), the United States (5.5 percent) and Japan (2.75 percent). The OECD concluded that "the projected slowdown in domestic demand and the external constraint leave national authorities only very little room for maneuver."

Where does all this leave Rocard? The answer may lie not in his speeches, nor in statements by his Ministers, but rather in his complex personality. Just over eight years ago, Frank Prial of *The New York Times* began a portrait of him by noting that friends described him as a French Kennedy. "But they do not say which one," Prial said, quickly adding that "short and slight in build, as full of tension as a coiled spring, he projects the dynamism and the intensity of Robert, not the easy charm of John." Rocard, who turned 58 on August 23, has remained very popular with French youth, perhaps because of his intelligence, his moderate but critical views and because he worries about environmental issues and, above all, the future. His call for unity on June 29 drew strong support from younger voters, whom he addressed when he said his priorities were "not those of one half of France against the other, but those of all the French."

The consensus of many observers was that it is still too early to judge Rocard fully, but that he has made something of a start. And to succeed, he should press forward boldly, not hold back, particularly with regard to helping France prepare for 1992. His Minister for European Affairs is ready to do her part, saying in the recent interview that one of her priorities is seeking input from leading French and other, European businessmen. "We will be seeking views of businessmen as we go along," she said, "and not just the French, because I am convinced that we will need the input of European business leaders as we prepare, but we are not afraid." €

PARIS AIRPORTS
Continued from page 41.

will be by 1993, very well connected to the Paris region, to France and to all of Europe.

ADP also has undertaken substantial office development projects, notably at CDG: 4 billion francs over 10 years, including 2.5 billion francs for the future International Business Center. There is a double purpose to this development: to build new airport traffic and to self-finance the investment necessary to modernize and expand the airport's runways, radar, hangers and so on. In the context of heavy competition between airports, ADP must limit as much as possible increased fees on its most important clients, the airlines. "It is not a good idea to depend solely on landing fees," explains J. Reder, press spokesman for ADP. "This necessary diversification [into office development] should generate new sources of revenue of a durable, safe nature that do not depend solely on air traffic," he says.

The business center will contain:

- an office park with 2.2 million square feet of office space in "smart" buildings and a videoconference studio of broadcast quality linked to the public network;
- a Franco-Japanese business center (Japan Airlines having chosen Paris as an entry point to Europe) with translation, marketing, legal and tax services;
- exhibition halls and meeting rooms;
- hotels, restaurants and shopping;
- an 18-hole and a nine-hole golf course spread over 150 acres.

ADP is trying to attract multinational firms in electronics, services or other high value-added industries for which the airplane is important and that wish to set up headquarters or export divisions and spread through out Europe from one sole point. ADP is looking for companies that might prefer its superior amenities and communications services to those available in a standard industrial park. The first companies will move in beginning in 1990, with ADP expecting mainly firms of 20 to 100 employees.

In the context of the 1992 deadline for the completion of Europe's internal market, U.S. or Far Eastern firms that set up shop in Europe must take into account not just the city they choose, but also the surrounding radius of 1,500-2,000 kilometers—namely, the European Community. That is why ADP has embarked on a project with a European dimension, as best illustrated by its slogan—"ADP: at the crossroads of five continents, at the heart of Europe." €

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.*

The Silent Partner: West Germany and Arms Control. By Barry M. Blechman and Cathleen Fisher. Ballinger Publishing Company, Cambridge, MA, 1988. 280 pp. $39.95 cloth, $19.95 paper.

Both geographically and politically, the Federal Republic of Germany is squarely in the middle of the current arms control debate. Although not itself a nuclear nation, West Germany's arms control policies have played a major role in the INF negotiations and will continue to do so in the forthcoming talks between NATO and the Warsaw Pact on the reduction of conventional forces. Thus an understanding of West German feelings on arms control is essential for effective U.S. policies. In this book, five experts analyze in detail both the sources of behavior and the policy making process in West Germany in the area of arms control. They look at the current popular outlooks on security issues in West Germany, and how these attitudes influence the policies of the two major political parties. Finally, the authors examine how the government of West Germany reaches arms control decisions, identifying the key offices and political actors.

Studying the World and the United Nations System. By Leonard S. Kenworthy. World Affairs Materials, Kennett Square, 1988. 181 pp. $6.95.

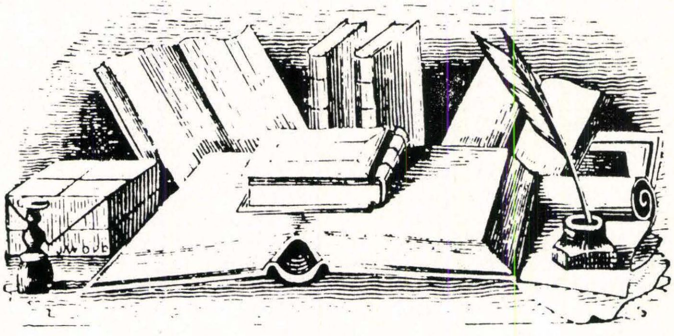
This study outlines key aspects of education for a peaceful and humane world community. It emphasizes a broad philosophical background, along with practical suggestions for implementation of the accompanying considerations, the two primary ones being aspects of the world community today and in the future, and the broad-based United Nations system. The book includes chapters on education in primary or elementary schools, secondary schools, and teacher education institutions. This volume is the sequel to an earlier work by Dr. Kenworthy on **Telling the U.N. Story: New Approaches to Teaching About the United Nations and Its Related Agencies.**

The U.N. Under Attack. Edited by Jeffrey Harrod and Nico Schrijver. Gower, Brookfield, VT, 1988. 144 pp.

Recent years have seen the United Nations and its specialized agencies receiving much negative publicity, stemming from charges of inefficiency, overspending, and authoritarianism. The intensity of the criticism has led to the withdrawal of important states from U.N. membership, or threats to do so, and has essentially placed the U.N. under attack. This book addresses the substance of the current attack, as ten authors with practical U.N. experience present wide-ranging analyses. They examine the U.N. system, focusing on its social and economic organizations such as UNESCO, UNCTAD, GATT, IMF, etc. All of the authors consider equally the nature of the attack, the sources of the problems, and the extent to which the criticisms are justified. The book combines an academic and theoretical analysis with the practicalities and details of the functions and policies of the U.N. agencies.

Rethinking the Nuclear Weapons Dilemma in Europe. Edited by P. Terrence Hopmann and Frank Barnaby. St. Martin's Press, New York, 1988. 368 pp. $55.00.

NATO's heavy reliance on nuclear weapons in recent years has created serious strains within the Alliance, between the U.S. and Western Europe, and between NATO and the Warsaw Pact. The dilemmas posed by this reliance include the political liabilities for Western Europe being dependent upon a U.S. decision to use or not use nuclear weapons in a conflict, NATO's declining credibility as a deterrent, the high risks of escalation to the nuclear level in a crisis situation, and the undermining of East-West detente. The authors in this volume reevaluate the causes and implications of these dilemmas and seek to identify ways of resolving them. These include efforts to reduce European intermediate-range and tactical nuclear weapons, proposals for a "no first use" policy, suggestions for alternative, non-provacative conventional defense postures for NATO, and conventional arms control and confidence-building measures. Despite the varied positions of the book's contributors, a consensus emerges that NATO must determine alternatives to reliance upon U.S. nuclear weapons as the cornerstone of its security, and that it should also begin to explore common security interests with the Warsaw Pact.



Enterprises and the European Development Fund. By Patrick Baragiola. European News Agency, Brussels, 1986.

This is a survey which focuses on the generally incongruous pairing of business and development. It aims to increase awareness among the public and industry of EDF projects, their programming and their benefits, which include public works contracts, supply contracts, and service contracts. Baragiola makes the point that private investment, and not just public development aid, is essential for development. The EDF can provide an essential link between public funds and private contractors, but it is also not a miracle cure-all and the ACP countries must also assume some of the responsibility for their own devlepment needs.

ATBMs and Western Security: Missile Defenses for Europe. Edited by Donald L. Hafner and John Roper. Ballinger Publishing Company, Cambridge, MA, 1988. 344 pp. $34.95.

One of the prominent questions in the current arms control debate is whether Europe needs missile defenses. Since the signing of the INF agreement this question has focused on anti-theater ballistic missiles (ATBMs) because they are not covered by the INF treaty. Presently neither NATO nor the Warsaw Pact has developed an ATBM network, but the Soviet Union has deployed weapons with ATBM potential, presenting NATO with the difficult choice of whether or not to do the same. In this book sixteen U.S. and European experts, representing both proponents and skeptics of ATBMs, discuss the technical and political aspects of the ATBM question. They show how the ATBM issue, which was previously overshadowed by the strategic missile defense debate, is now much more timely and potentially divisive for the Alliance. Some of the major issues addressed by the book's contributors are understanding the Soviet theater ballistic missile (TBM) within the framework of the Soviet strategic doctrine, how NATO should respond within its own strategic doctrine, the arms control implications, and how the Alliance's action on these issues will affect security interests outside Europe, in such states as Japan, China and the Middle East.

PUBLISHED FOR THE COMMISSION

Electrical and Dielectric Properties of Food Materials. *EUR 11297.* Compiled by M. Kent. Science and Technology Publishers, Essex, England, 1987. 135 pp.

A bibliography compiled as part of the COST90bis Project on the physical properties of foods covering the period from the earliest known reference up to 1987.

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A literature study compiled for the Commission of the European Communities, Technological Information and Patents Division of the Directorate-General for Telecommunications, Information Industries and Innovation, Luxembourg.

Technology Assessment and New Kidney Stone Treatment Methods. Edited by Finn Kamper-Jorgensen, Sabri Challah and Tavs Folmer Anderson. Oxford University Press, New York, 1988. 186 pp. $49.95.

Contributions and outcomes of a workshop held in Copenhagen 19-21 March, 1986.

Expensive Health Technologies. Edited by Barbara Stocking. Oxford University Press, New York, 1988. 184 pp. $52.50.

Based on a workshop held in London in April 1986 and reports prepared by writers in various EC countries.

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