

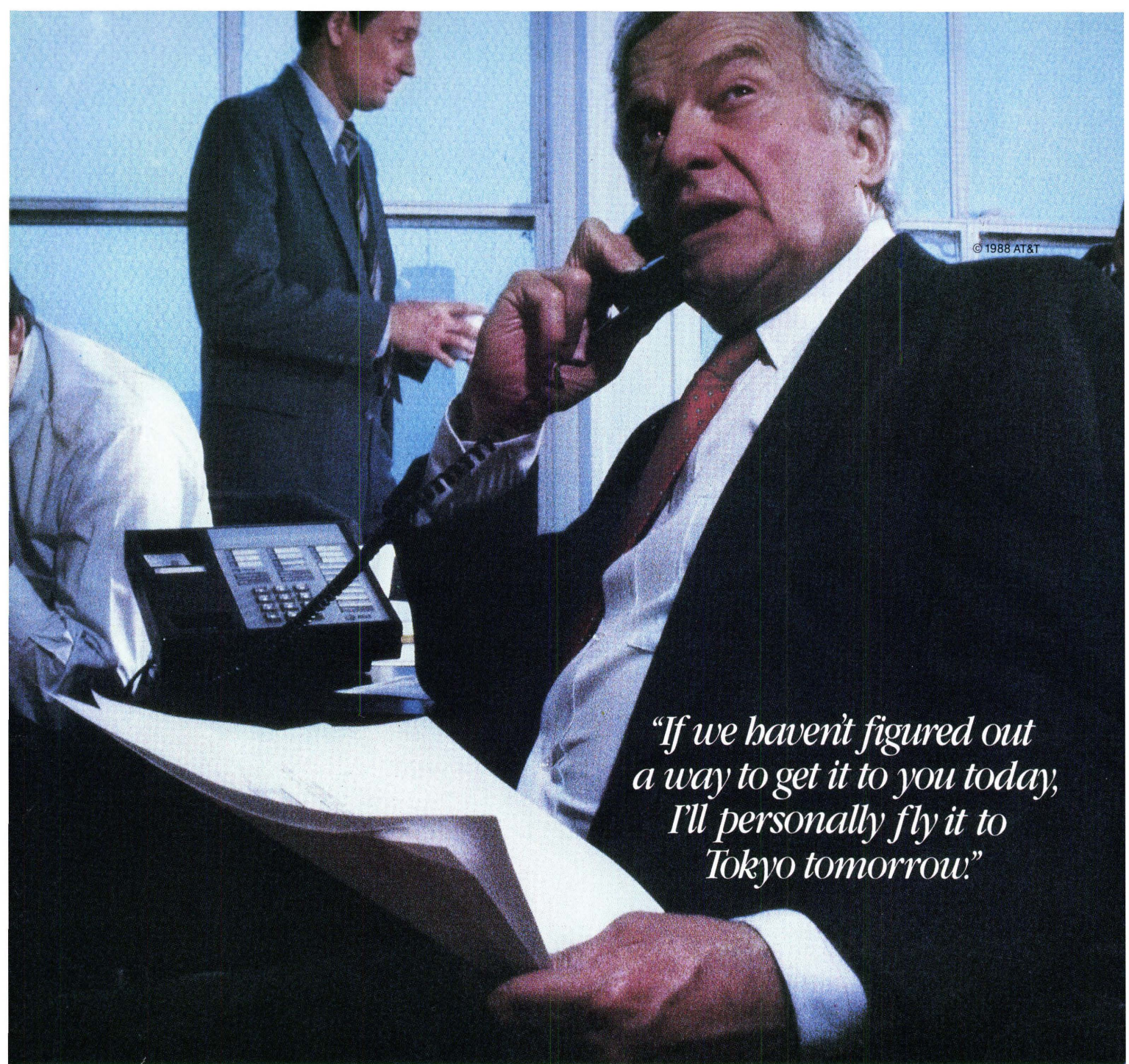
**THE 1992 MARKET:
ANSWERING SOME QUESTIONS**

EUROPE



OCTOBER 1988 \$1.95

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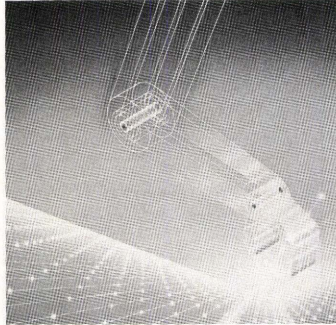


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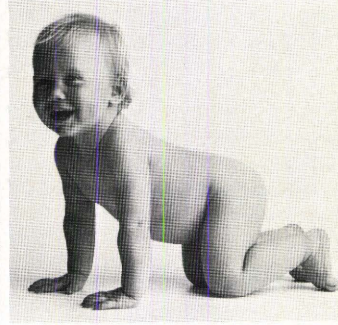
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PUBLISHER'S LETTER

Nineteen-eighty-eight seems to be the year for a new European optimism—on many fronts. As we are all aware, the 12-nation E.C. is taking big strides toward completing its economic goal of creating the long overdue single market for goods, people, services and capital. But there is much more to this idea of “oneness” than the purely economic aspects.

On the political level, too, the E.C. is coming closer to achieving international recognition as a major force. As our *Dossier* studies in this issue, European Political Cooperation (or EPC) is gaining strength. Although the member states in the past have consulted more and more on international issues and how to approach them, the fact that EPC was enshrined on a treaty basis in the Single European Act in 1987 gave the process of international decision-making among the Twelve much more force and serious recognition by its international partners. It also enforces the idea of the member states consulting and acting in a joint, rather than national, interest. As the *Dossier* outlines, EPC has indeed made its voice heard in several international fora.

In social policy, also, the E.C. is moving forward. As the number of women in the workplace continues to grow, the need for better and more specific parental leave policies increases. In this issue, we compare proposed legislation in the E.C. and the United States on the issue.

Europe's space program, now well back on track with several successful Ariane launches recently, is eager for the U.S. space shuttle to begin flying again. As Paul Kemezis reports in this issue, there are a number of joint U.S.-European projects under way involving the shuttle, including an unmanned space platform due to be launched in 1991.

Our member state report in this issue features the Federal Republic of Germany, where, writes Bonn *Financial Times* correspondent David Marsh, the economic picture for 1988 is looking much more rosy than initially expected, although U.S. pressures on the country to raise its growth rate may not abate. And Birgit Breuel, Lower Saxony's Finance Minister, writes that German-American relations, though evolving, remain strong.



Giancarlo Chevallard

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AROUND THE CAPITALS

LONDON Satellite Television

Americans, accustomed to having dozens of television channels from which to choose, may be surprised, perhaps even horrified, to learn that in the United Kingdom there are only four stations, all firmly under state control. But that is about to change. The television viewing "revolution" should begin in November, when an Ariane rocket, due to blast off from Kourou in French Guyana will carry an Astra satellite, designed to beam at least 16 television

channels to Britain and other parts of Western Europe. By 1995, at least seven more broadcast satellites should be orbiting over Europe and bombarding it with even more television stations.

Commercial satellite television operators are planning to flood Britain with more than a dozen new channels over the next 12 months, and in the process they will profoundly change the nature of television viewing and weaken the British government's control over what the people can see.

The competition promises to be stiff. Multinational media mogul Rupert Murdoch, whose Sky Channel pioneered pan-European satellite television transmission in 1982, will be

the first in the field in January 1989, using Astra to beam four channels to Britain. These will include a news program, modeled after Ted Turner's Cable News Network, as well as sports and movie channels.

British Satellite Broadcasting (BSB), which won the government's franchise to operate a direct-broadcasting satellite service from the United Kingdom, plans to commence transmissions shortly after its own satellite launch in August 1989. BSB head Anthony Simonds-Gooding says the company is committed to providing three high-quality stations that will offer new, experimental and innovative programs. During the course of the next year, a further six channels may be offered via Astra by Robert Maxwell, the British media tycoon already involved with U.S. pop television station MTV.

It is further assumed that, once the British develop a taste for multi-channel choice, they also will want to tune into programs beamed at a pan-European or even a world-wide audience (such as the U.S. Information Service's Worldnet channel), catering to sections of the population such as

children, or special interest groups such as movie or music fans.

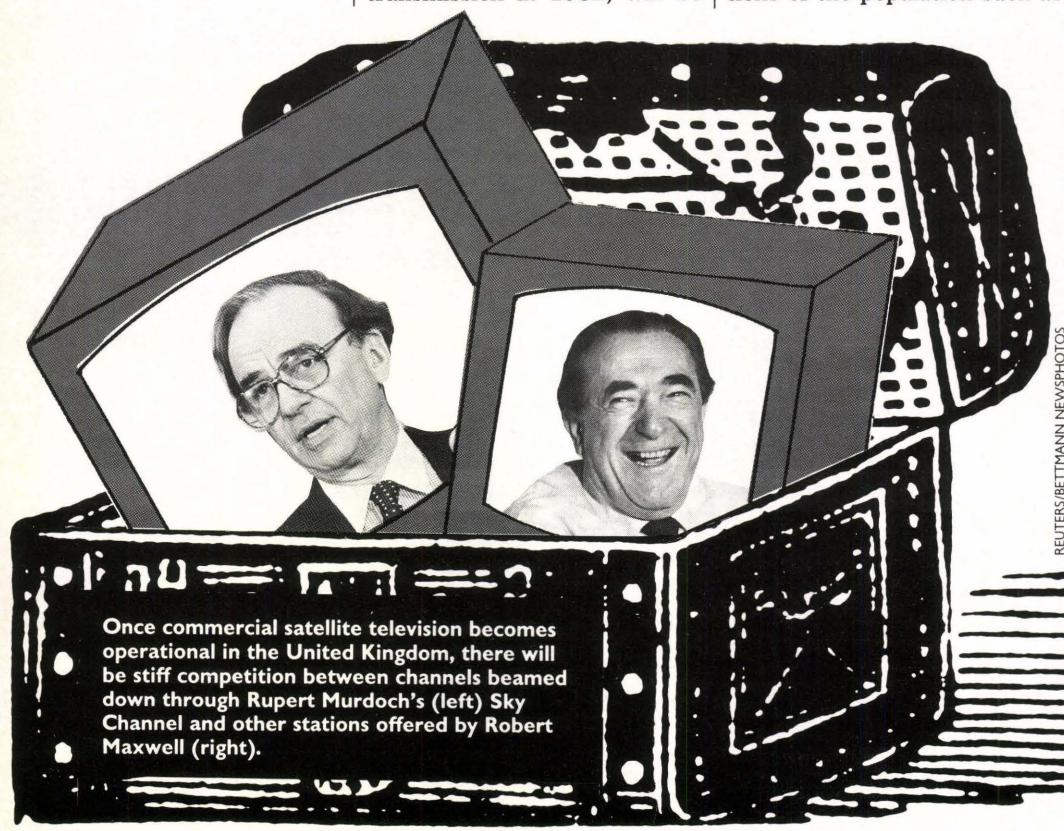
Twenty million British homes have television sets, and investors in the television revolution are hoping eventually to persuade about 6 million to purchase satellite dishes to receive more stations. At the same time, it is projected that millions more homes will be receiving a wide range of stations by cable, something that has been very slow to get started in Britain.

In keeping with its advocacy of competition and free-market forces, the British Government decided to break the "duopoly" of the state-owned British Broadcasting Corporation and the commercial Independent Television group, which each operate two channels. As the day of free-for-all competition draws near, however, Whitehall has displayed a slight twinge of apprehension over what may emerge from the electronic Pandora's box.

Concern that Britain's home screens will be filled with sex, violent, wall-to-wall *Dallas* clones or mind-numbing quiz shows has led the government to establish a new broadcasting standards council to monitor events. This group will have no power to control what is beamed down by broadcasting stations owned and operated from outside the country, however.

Commercial realities may have a greater role to play in controlling both the spread and the content of the new services. Already a major split has arisen over the type of technology to be used by the new channels. Murdoch has opted for conventional transmission, while BSB plans to beam down a form of high-definition picture that Gooding says will be as significant a development in the quality of the television picture as was the move from black and white to color.

But the real problem lies with the satellite receiving dishes. BSB's satellite will use sufficiently high power to require only small dishes to pick up the broadcasts. Sky Chan-



Once commercial satellite television becomes operational in the United Kingdom, there will be stiff competition between channels beamed down through Rupert Murdoch's (left) Sky Channel and other stations offered by Robert Maxwell (right).

REUTERS/BETTMANN NEWSPHOTOS

nel's Astra will use less power, thus being able to offer more channels. Viewers, however, will need bigger dishes to pick up the signals for these stations.

That is not the end of the tale, either. Murdoch forged a tie-in with Alan Sugar, whose Amstrad Company will be marketing a dish for £199, or \$340, a price that sharply undercuts the proposed price of the smaller dish to be used to receive the BSB programs. Furthermore, Sky will be free while BSB will operate on a monthly subscription basis. Confused? Then think of how the British consumers will feel when they are being plied with a huge range of options, none of which on their own will enable them to receive *all* the new channels.

Despite these teething troubles, it is clear that viewers in Britain are rapidly approaching the day when the power to choose what to view has been placed in the hands of the people, rather than some faceless civil servants or aggressive politicians who try to mold the public mind in their own images.—DAVID LENNON

DUBLIN

Banking On A Lottery

The new National Lottery has turned out to be an extraordinary success in what was assumed to be a cash-strapped country: Receipts during the first 12 months of operation have amounted to \$182 million, or \$52 per head of population. As a result, the Government, which runs the lottery, has been able to pay out \$84 million in prize money, and almost \$100 million in grants to assist sports, the arts, health and the Irish language.

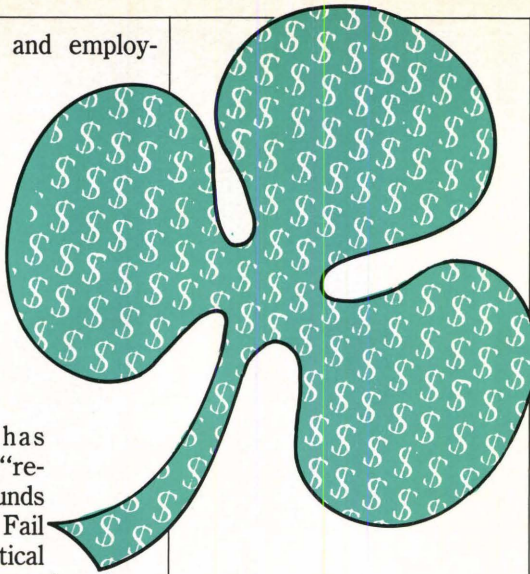
Criticism of how the money has been allocated has not been lacking, however. At a time when cutbacks in government spending have been hitting

public services and employment, the lottery funds have been, as one newspaper put it, "a license to print money." The first detailed list of the recipients of the government grants, however, also has aroused cries of "re-election slush funds for the Fianna Fail party," the political party that has formed a minority Government since the last election in February 1987.

The Minister for Finance, Ray MacSharry, whose department oversees the lottery funds, has indignantly rejected these accusations from political opponents, pointing out that the Dail, the Lower House of Parliament, voted on the overall expenditure of the funds. He further argued that the ministers in charge of the spending departments, through which the lottery funds are channeled, were answerable to the Dail on how the money had been allocated and spent.

This assurance did not satisfy the opposition parties or the newspaper editorial writers, however, who wondered why certain parts of the country received such generous treatment. "If the members of the Government had the wisdom of Solomon—with qualities of justice and detachment in equal measure—it would be undesirable to have the allocation of such vast sums at their absolute discretion," the *Irish Times* commented.

The novelty of the National Lottery, combined with its unexpected attraction for sectors of the population not noted for excess spending power, also has caused disquiet. Social workers in deprived areas report that social welfare payments are being invested in lottery tickets rather than in feeding families. This has led to calls for studies to be done on the social and economic impact of the National Lottery. A



rival lottery, which devotes all its surplus funds to helping handicapped people, has conducted a poll showing that 31 percent were not happy with the way in which the National Lottery funds were used and that 27 percent had no idea of what either lottery was doing with its funds.

The advertising and public relations manager for the National Lottery, Bob Lane, was reported as saying that buying lottery tickets was "across the board and predominantly a middle-class sport," based on the findings of more than 90 lotteries around the world. He said slightly more men than women buy lottery tickets, and there also was a slight rural bias.

The biggest prize won so far was in the small town of Athboy, about 30 miles from Dublin, where a Michael Glennon won over \$1 million. The newspaper photographs showed him and his family in a state of shock, but it is obvious that the prospect of instant riches is appealing to the Irish public, who like to gamble for more than the traditional Hospital Sweepstakes, which the National Lottery has replaced.

A lottery ticket costs as little as \$1.40. By scratching off a foil cover, the purchaser knows whether he or she has won an instant prize of up between \$7,000 and \$15,000. Or the ticket may indicate that the purchaser has qualified for the

weekly draw of the much larger prizes. There also is a lotto game in which the buyer chooses a series of numbers. Under the sweepstake system, the purchaser had to wait for weeks to know whether the ticket had drawn a horse in one of the big races, and then a further period to know if the horse was in the first three.

Even the critics of the National Lottery concede, however, that the allocations to sport, the arts, health and the Irish language have been mostly to worthwhile projects that help to make life more attractive. Sports facilities all over the country are getting a major boost, even if some golf clubs are the favorite relaxation of notable politicians both in and out of government.

Each political party has a different plan to try and ensure that the division of the lottery spoils is not left to individual government ministers to decide. For the *Sunday Independent*, the National Lottery is "debased" by the present approach. "All claims should be assessed on their merits and quite independently of the influence of individual ministers, who, as Cabinet members, should be concerned with more important national matters," the paper said.—JOE CARROLL

LISBON

Overhauling Education

Roberto Carneiro, a 42-year-old former World Bank consultant on Africa and Latin America, and son of a Chinese mother from Shanghai and Portuguese jazz musician father, is not just supervising the education of his eight own offspring. He also is taking on Portugal's flabby educational system and trying to whip it into shape.

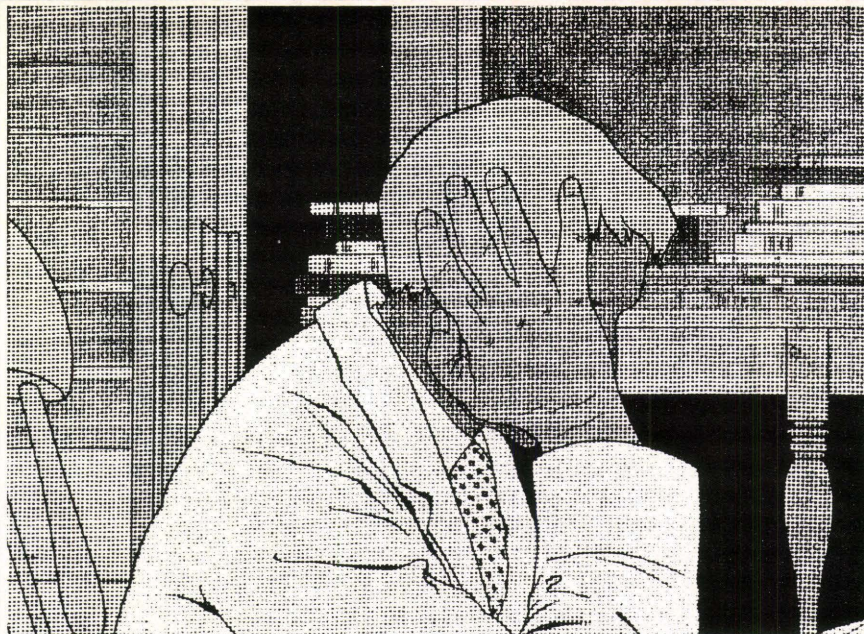
When Carneiro became Education Minister in the summer of 1987, he inherited a bloated ministry with 400,000 people (one in every 10 of Portugal's active labor force), which had

become famous for its stranglehold on an overcentralized educational system created in the 19th century and was slowly creaking to a standstill. Carneiro swore to change this and other aspects of education drastically and lastingly.

He is up against considerable barriers. Portugal has a 23-percent nationwide illiteracy rate, with rates as high as 38 percent in rural pockets, and widespread semi-literacy whereby adults, barely able to read or do simple sums, are condemned to a lifetime of menial jobs. There also is widespread child labor, which involves, according to official estimates, 40,000 youngsters under the age of 12, who are put to work full-time in factories or on building sites by illiterate or semi-literate parents (who were themselves child laborers) for wages one-third of the already meager national minimum of roughly \$178 a month. Although the employment of minors is illegal in Portugal, the practice is ancient, with deep roots that the Education Minister hopes to eliminate by offering more and better schooling, counseling and child care.

Moreover, the educational infrastructure is outdated and insufficient. Schools often lack basic equipment and often fail to open in time for the beginning of the school year. In 1987, for example, some 22,000 school children did not start school on time because classrooms were not ready. High prices of textbooks further weigh heavily on low-earning parents and are often discarded after only a few months' use when new books are assigned.

Rural and urban truancy, drop-out and failure rates of children are high, the latter standing at 45 percent to 50 percent, the highest rate in Europe. This compares to about 10 percent in Britain, a country that considers it has a serious failure/drop-out problem. What does not help in this respect is the fact that teachers are paid badly, are often not adequately trained and themselves have



COURTESY R. LAUNCE/MUSEE DES ARTS DECORATIFS

In his attempt to modernize an outdated national education system, Portuguese Education Minister Roberto Carneiro has successfully initiated a program intended to drastically lower the school drop-out rate.

high absentee rates, forcing pupils to sometimes spend weeks or months without classes.

When one comes to higher education, the picture is not much rosier either, since only about 11 percent of school leavers go on to higher education. The problems here are limited university places and little choice of courses, with polytechnic institutes and universities not offering adequate career training, but rather outdated and often theoretical courses in their curricula.

All this is the price of generations of neglect of basic and higher education in Portugal. The cost is high enough in itself to a nation of hardworking but not always skilled people, whose wages and living standards lag far behind those of their E.C. partners. This is aggravated by the scheduled completion of the E.C.'s internal market by 1992, when Portugal, in Carneiro's view, must change dramatically in order to cope with the new challenges.

The sheer size of the educational problem and the resistance of the bureaucracy to change has daunted Carneiro's predecessors. He, on the other hand, has charged the problem head-on, like a bulldozer refusing to be stopped, and has seen results in a surprisingly short time.

Horrified by the rate of school failures, Carneiro began an experiment in January that

involved 160,000 children in areas with some of the worst problems, hoping, by the end of the school year, to shave 5 percent off the drop-out and failure rates in these areas. He instituted nourishing school meals—a vital factor in poor areas where children may have to walk five kilometers to school without proper food at home. This produced a rush to register children at schools that offered daily meals and, Carneiro believes, a corollary in less child labor in these areas.

He also began to decentralize by giving schools more say in curricula and teaching methods, by encouraging parent-teacher associations and hiring pediatricians and psychiatrists to help principals and teachers increase children's basic health and their ability and wish to learn.

Such innovations cost money and involve the recruitment of medical and other staff. Chronically short of funds, despite the fact that the government has increased its education budget, Carneiro sought to involve the local authorities and local businesses or individuals to sponsor school projects, activities and supplies. The experiment has already begun to pay off: Carneiro claims that in target areas, failures this year shrank by a near-miraculous 10 percent to 15 percent in nearly all the schools.

In the next scholastic year,

Carneiro plans to extend that anti-drop-out program to nearly 300,000 children. He suspects he might have done better still in this year's target schools if red tape had not held up special supplies, or more local pediatricians and counselors could have been found faster.

Roberto Carneiro's other targets—less rigid university systems, rapidly increasing numbers of polytechnic institutes, real and decently paid careers for teachers and, above all, less ministry and more individual responsibility—will take some time to achieve. But his sense of urgency is contagious and is firing more Portuguese to realize the shakiness of the tools at their disposal for the great enterprise of 1992.—DIANA SMITH

LUXEMBOURG Europe's Legal Heart

After years of frustration at the hands of the European Parliament, which is steadily concentrating more and more of its work in Brussels, Luxembourg has won an important victory in its bid to become the center of the European Community's legal operations.

In July, the E.C. Govern-

ments agreed to set up a new court of first instance in an attempt to cut the rapidly swelling workload of the European Court of Justice. They unanimously accepted that the new institution should be located in the Grand Duchy. Since the European Court of Justice itself already sits in Luxembourg, the choice of site was hardly controversial. Nevertheless, it has come as something of a tonic to the country after its many rebuffs in the past.

More significantly perhaps, the decision has emboldened Luxembourg in its claim to become the headquarters for the Community's proposed trademark and patents office. This will be a much tougher one to land, however, with the United Kingdom, the Netherlands, the Federal Republic of Germany and Spain all in contention for the office. But to the extent

that the court of first instance will handle trademark disputes, there is now an added logic to Luxembourg's argument.

The move to set up the new junior tribunal follows the increasing strains being placed on the European Court of Justice as the E.C. marches toward closer economic and political integration. As the supreme legal body in the Community, overriding all national courts, the Court interprets and applies all E.C. law, whether it arise from the Treaty of Rome founding the E.C. or from decisions subsequently taken by the Council of Ministers. With no appeal allowed against its rulings, the Court has evolved into a major driving force for the creation of a united Europe, with an influence extending into virtually every area of E.C. policy.

To most of the public, the Court is best known for deci-

sions outlawing West Germany's ban on the sale of beer containing additives, for forcing the British Government to allow women the same retirement rights as men and, again in Britain, for extending the range of goods liable for value-added tax. But the Court's "bread and butter" is the constantly increasing flow of highly technical judgments in agriculture, industry and finance.

In 1975, the Court handled 135 cases and took about six months to reach a finding. Last year, almost 400 cases were brought before it and the time taken for a decision lengthened to 18 months. With more and more technical decisions now flowing from Brussels as part of the move to set up the internal market by 1992, the Court is facing a potentially crippling surge in its workload.

The plan is for the court of

first instance to take around 150 or so cases a year—although probably half of these would subsequently be passed on to the senior court in the form of appeals. It is to be mainly concerned with points of "complex fact" rather than the law itself, which should allow for speeded-up procedures. But the composition of the junior court, and its basic pattern of operations, will be similar to that of the European Court of Justice.

Much agonizing has been done by the E.C. member states over the precise jurisdiction of the junior chamber, with many governments unwilling to give it competence in the area of trade disputes, and especially anti-dumping cases, as sought by the European Court of Justice. The fear is that businesses found guilty of violating E.C. competition laws by the court of first instance would

PARIS

About-Face in New Caledonia

For years, France's South Pacific territory of New Caledonia has been simmering with violence and seemingly insoluble inter-racial hostility that, just a few months ago, erupted to near civil war. Now the leaders of the feuding communities are shaking hands and promoting the same formula to govern the tropical islands. It is an about-face that not even the promoters of the plan would have dared to predict.

The Matignon accord, named after the Prime Minister's office in Paris where the agreement was thrashed out, is a turning point in the 135-year-old history of French rule over New Caledonia. During these years, the colony has seen prosperity with a booming nickel trade fade to economic depression, and the Melanesian community gradually become the minority on the islands, as French farmers, administrators, teachers and the military gained in numbers and grabbed power in the New Caledonian capital of Noumea.

Today, Melanesians represent only 43 percent of the

territory's total population of European settlers and people from Asia and other South Pacific islands. That minority status, and a sense that they were living under an antiquated colonial system, pushed Melanesian leaders to what French Prime Minister Michel Rocard acknowledges was the brink of civil war this spring.

There have been many unsuccessful attempts by conservative and previous Socialist Governments to bring the feuding sides together and settle on a new way to govern the territory. But those efforts failed and only ended by sharpening the differences and deepening the tension. A burst of violence that lasted through 1984 and 1985 prompted a Socialist plan for restructuring the local system of government to give Melanesians more autonomy. That was scuttled in 1986, when the conservative Government of Jacques Chirac took control in Paris and set out a different future for New Caledonia that Melanesians opposed.

Insurrection on the islands

reached a pitch this spring when Melanesian activists kidnapped 23 *gendarmes* and held them in a jungle cave. Chirac, who was running for President in France, ordered a military assault raid to free the hostages, in which 19 Melanesians and two French soldiers were killed.

Chirac lost the election to Socialist incumbent François Mitterrand, who made New Caledonia the top priority of his new presidential term. His new Prime Minister persuaded the leader of the pro-independence Melanesian groups to sit down with the pro-France loyalists, who are mainly European. Rocard led the all-night sessions at his residence and finally was able to clinch an agreement that satisfied both the staunchly loyalist representatives and the Kanak Socialist National Liberation Front, which represents separatist Melanesians.

Under the plan, a territory-wide referendum will be held on whether New Caledonia should separate from, or remain a part of, France—but

not for another 10 years. That delay guarantees that the vote will not be swung by transient French residents like teachers or military on short posting from mainland France. Meanwhile, New Caledonia will be ruled for one year from Paris until a new equation for local power-sharing and economic improvement can be devised.

The agreement between the New Caledonian leaders was an unprecedented turn to optimism for the territory. Almost as astonishing is the support Rocard mustered in Paris. With the exception of the extreme-right National Front, the Socialist Prime Minister won praise from all political sides for devising a solution to a situation that others had found insoluble. The test of French opinion will come in November, when Rocard will seek endorsement for the plan in France's first national referendum since 1972. The result is almost certain to be positive, but the turnout will tell how concerned France is about its lingering colonial troubles.—BRIGID JANSSEN

automatically appeal to the senior chamber, thus giving them two chances to escape the charge instead of one, as at present.

The guessing in Luxembourg is that the new court could begin its activities next year, but that it could take some time after that before its full competences can be defined and its optimum work practices put into place. The court is likely to operate in the same futuristic building in Luxembourg as the European Court of Justice, but will employ several hundred highly qualified legal staff of its own.

The economic benefits from the new institution are small but useful to the Grand Duchy, although its greater value lies in enhancing Luxembourg's status as an E.C. institutional seat.—ALAN OSBORN

COPENHAGEN

Nifty Little Automobiles

General Motors and Ford may not lose any sleep over it, but Denmark is quietly developing a car industry of sorts, courting short-distance commuters who travel alone. The vehicle is a very light and low-cost electric car, of which more than 1,200 have already been produced and sold by the El-Trans Corporation of Randers, a town in northwestern Denmark.

This figure is especially impressive because a nation-wide network of distributors has only just been completed, and sales opportunities in the greater Copenhagen area have not yet been fully exploited. Exports to the E.C.'s toughest market, the Federal Republic of Germany, have just begun, and other E.C. markets also are showing signs of promise.

Electric cars have a long history in Europe, but until now they have only been competitive in specialized areas, such as airports and railway stations, while electric vehicles are used as milk vans to distribute dairy products in the

United Kingdom. The new Danish electric car is therefore the first to be accepted in any number by the general public for everyday transportation.

German Mercedes and BMW drivers will not meet the Danish competition on the *autobahn*, and that for a simple reason. The maximum speed of the vehicle, called the "Ellert" in Denmark and the "Mini-El" on the German market, is only about 40 kilometers per hour, and no vehicle with a maximum speed of less than 60 kilometers per hour is permitted on the *autobahn*. With a maximum range of 70 kilometers between battery recharges, it would be a short race anyway!

Much of the appeal of the Ellert, which is classified as a motorcycle by Danish authorities, is explained by convenience and life style. Parking in the center of major European cities is virtually impossible with big cars, and pollution also is a major political issue. Major shopping centers already provide free plug-in facilities that allow drivers to recharge the batteries of their car, while providing business to pay for it by shopping at the mall. Free of the Danish taxes that usually multiply car prices by three, many businessmen have started to use it—and not only save money but also attract novelty interest.

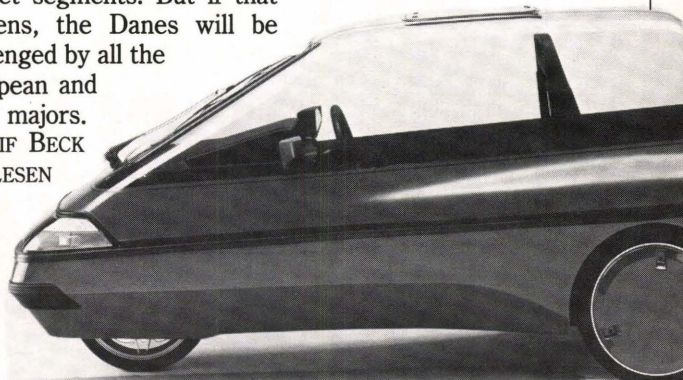
How the vehicle will fare on export markets that do not offer the Danish tax perk is still being debated. Critics claim that its size—just big enough for two persons, with absolutely no room for any kind of population explosion in the back seat—will be a drawback on some markets. Its environmentalist image has also been slightly tarnished by critics who claim that if the electricity used by the car is produced by coal-fired furnaces, the net reduction of pollution may be very small, and certainly no better than any regular car conforming to the newest U.S. anti-pollution standards.

With the right price and the right looks—sleek, slim and Scandinavian in design—even if it is a sedan-motorbike,

Danes are at least providing a market for the new vehicle. With a still awaited breakthrough in battery technology size, speed and range may be increased to penetrate other market segments. But if that happens, the Danes will be challenged by all the European and U.S. majors.

—LEIF BECK
FALLESEN

The Ellert is the newest electric car to hit the European market. Sleek Scandinavian styling, a low price and convenient city handling make it a great buy for the commuter.



MADRID

Cracking Down On Crack

When Civil Guards at Madrid's Barajas airport discovered 75 kilograms of expensive powder packed in a shipment of live tropical fish from Colombia, they said it was the biggest haul of cocaine ever recorded at a European airport.

But cocaine was not the only drug to grab the headlines this summer. In July, the police found a sophisticated underground warehouse stuffed with 17 metric tons of hashish on the Mediterranean coast south of Barcelona. The tunnel was equipped with air conditioning and conveyer belts and cost more than \$10,000 to build.

Eight people were arrested as a result of the find, including Jacques Antoine Cannavaggio, a Corsican reputed to head the ring, which had operated under the noses of the Civil Guard. Two days later, police on the island of Majorca arrested Dennis Howard Marks, a Briton indicted by U.S. officials for operating the largest Asian-based marijuana ring ever uncovered. Spanish police said they had been trying for years to arrest both Cannavaggio and Marks, the latter dubbed "the Marco Polo of drug trafficking" by American authorities for his frequent voyages to the Far East.

The police actions have

helped put to rest the long-time image of Spain as a trouble-free playground for international fugitives. Spanish authorities are up against seasoned smugglers, however, who often use networks developed years ago for tobacco and other contraband to land the drugs along Spain's ample coastline.

Deaths in Barcelona, caused by heroin overdoses, also rekindled a debate over a 1983 law that decriminalized possession of small quantities of drugs for personal use. In Madrid, for example, addicts can be seen washing out their syringes in public fountains and shooting up in the *plazas*. Police believe that junkies are responsible for 90 percent of Spain's street crime and petty criminals have sheathed their knives and begun threatening their victims with needles they say are infected with AIDS.

Heroin users around Barcelona will long remember the summer of 1988, during which, in less than two months, 40 people died of overdoses after injecting themselves with extremely pure heroin, victims of a marketing strategy used by big-time traffickers that highlights Spain's importance as a drug center. According to Health Minister Julian Garcia

BRUSSELS

Governing By Alliance

The normally sleepy mid-summer months in Brussels this year yielded a remarkable burst of activity on the political front. Many Belgians left the capital in early July fully expecting the new coalition Government formed in May to keep a low profile, with mere survival uppermost on its list of priorities. A fresh general election in the autumn was widely considered a real possibility.

Vargas, the deaths began in July, when a new group of dealers decided to crack the Spanish market by bringing in top-quality heroin and underselling the competition.

But there is more at stake than a lucrative local market. Two-thirds of the drugs that enter Spanish territory are headed for other points in Europe. While maintaining its status as the gateway to Europe for Moroccan hashish, Spain has become a major continental point of entry for Latin American cocaine and a thoroughfare for heroin from the Middle East and southeast Asia.

The increase in cocaine trafficking has been the most abrupt. Authorities say that Latin American cartels have turned their efforts from the stagnant U.S. market to Europe, where the demand has surged and prices remain high. Spain, with language and cultural ties to Latin America—and frequent direct flights—is the logical focal point.

During the first six months of 1988, police seized 3,000 kilograms of cocaine, more than triple the amount they discovered all last year. More co-

But they were in for a surprise. Prime Minister Wilfried Martens, heading his eighth Government in 10 years, and his colleagues instead have stunned critics with a frontal—and so far largely successful—assault on two key Belgian problems: the troubled condition of the economy, in particular the size of the huge public debt, and the longstanding dispute between the country's two linguistic communities. While the Government's longer-term survival prospects are still far from assured, the agreements reached so far this summer suggest an unexpected willingness by the cen-

ter-right and Socialist coalition partners to bury their political differences for the time being in the interests of the country in general.

caine has been netted in Spain so far this year than in the rest of Europe combined. Major cocaine seizures include a 1,000-kilogram haul in May in a basement in Irún, a town on the French border, reportedly the biggest bust in European history. Spain had held the previous record with a 562-kilogram find on a ship off the Catalonian coast in April.

Some defenders of the current legislation say such scenes are just as common in European countries, where laws are more rigid. Others say that finding jobs for Spain's estimated 3 million jobless, an unemployment rate of nearly 20 percent that disproportionately affects the young, will do more to fight drug addiction than clamping down on small-time users. The Socialist Government of Prime Minister Felipe González seems to have come down squarely in the middle of the question. Recently appointed Special Drug prosecutor José Aparicio has declared himself in favor of ending decriminalization, but says it would be impossible to push a new bill through Parliament.

González, who was quoted as saying that "smoking marijuana is pretty healthy," as a young member of parliament in 1979, now pushes stiffer sentences and fines for dealers, but has not announced plans to repeal the current decriminalization law.—RICHARD LORANT

ter-right and Socialist coalition partners to bury their political differences for the time being in the interests of the country in general.

The ruling five-party coalition has brought together the French and Dutch-speaking wings of the Christian Democratic and Socialist parties, as well as the militant Flemish *Volksunie*. This somewhat unlikely alliance was formed after several months of painstaking negotiation following last December's inconclusive general election, which ended six years of center-right Government.

Martens made no secret of his desire to continue the assault on public spending and the austere fiscal policies that have characterized his earlier Governments. In particular, he made clear his objective to restrict Belgium's huge national budget deficit to 7 percent of gross national product by 1989, mainly through cuts in government spending.

This formula aroused immediate fears of a split with the Socialists, whose election successes last year had largely been founded on voter discontent at high unemployment rates and several years of stagnation in real living standards. Precisely why the threatened revolt fizzled out so quickly is not clear, but some commentators believe that the Socialists were ready to make big concessions over economic policy for the sake of gains in other areas, notably in the devolution of central power to the regional communities.

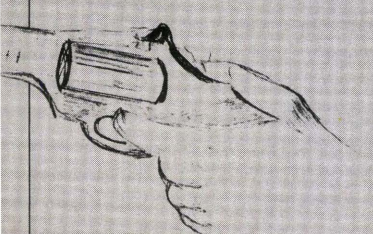
Whatever the reason, the Cabinet was able to agree remarkably quickly on cuts of almost \$1 billion, which covered virtually every area of public spending, but fell particularly heavily on health services, defense and education. In deference to the Socialists' election pledges, pensions and allowances for handicapped people have been raised and a major drive to reduce long-term unemployment has been launched, but these are not significant in terms of the overall plan.

Perhaps more significant is

that the Government also is pressing ahead with a bold plan to reform personal taxation, which, on the face of it, offers even fewer concessions to the left. Belgium's top marginal rate for individual taxpayers is to be cut from 70 percent to 55 percent, and personal tax bands are to be recast in a way that will mean vastly higher take-home pay for the better off: Executives and others earning \$50,000 a year or more are likely to enjoy increases of up to a third in net income. The reforms will be paid for by higher indirect taxes, such as duties on tobacco and alcohol, the ending of some business tax deductions and more efficient administration of the taxation system.

Both the spending and tax changes, however, carry worrying implications for the plans to transfer powers from the central government to the regional communities of Flanders, Wallonia and Brussels. The proposal is that the regions eventually will conduct their own independent policies in education, public works and research and development. This means that the regions could control between a third and a half of all public spending that is currently handled by the central government.

While legislation granting major new powers to the regional communities has now been approved by the Parliament, major headaches seem inevitable later in the year when the extent of the revenues to be handed over are spelled out. There are already grumbles that the cuts in national spending will sharply curtail the regional budgets, which promises to lead to renewed tensions on the linguistic fronts before too long. So, while there has been considerable admiration for Martens' political initiatives so far, there is a strong undercurrent of worry that he may have bought his economic triumphs at the expense of a smooth passage for the long-awaited move toward full federalism for Belgium.—ALAN OSBORN



AMSTERDAM

Helping To Save the Seals

In a 10-foot by 14-foot swimming pool, a few young seals fight with seagulls for a piece of fish. The scene is set in a seal sanctuary just outside the small village of Pieterburen on the northernmost part of the Dutch coast. The seals are some of the 80 "patients" in the sanctuary and all wear rings around their paws on which their names are engraved.

In recent months, the sanctuary has been invaded by sick seals due to the epidemic that has killed some 11,000 of them in the North Sea, the Baltic Sea off the West German and Dutch coasts and is now raging off the British Isles. Leni 't Hart, founder and director of the sanctuary, says that while there are normally about 40

seals in her sanctuary, numbers have doubled this year. She said that she has even had to sacrifice her office, where a dozen sick seals are being treated for the disease that erupted this summer. Although the hospital is manned by eight full-time employees, seven part-time employees and a number of volunteers, 't Hart points out that more personnel and space are needed to cope. She explains that three people are needed just to inject a seal with vaccine—one to hold the seal between the knees, a second to hold his tail and a third to give the shot.

Studies conducted by a variety of institutes, research centers and universities identified the dreadful sickness as "canine distemper." A possible cause for the rampant spread of the disease in the seals could be an epidemic of canine distemper among the sledge dogs in Greenland earlier this summer. Since the dogs' bodies

could not be buried in the frozen soil, their corpses were simply thrown into the sea by the thousands, thus leading to the spread of the virus. Once activated in the seals, the virus attacked the animals' natural immunity within a month, leading to loss of appetite, apathy and usually death of pneumonia.

A Swedish doctor and a Dutch expert, Dr. Albert Osterhaus, finally developed a vaccine. Several institutes, such as the Pieterburen sanctuary, the Netherlands' National Institute for Public Health and Environmental Protection, the Sea Mammal Research Unit of the Natural Environmental Research Council in Cambridge in the United Kingdom and Liverpool University, have combined studies of the vaccine's effect. What can be ascertained now, according to 't Hart, is that healthy seals that have been inoculated with the vaccine will

not get the disease. The vaccine is not, however, a medicine that will work on all seals, whether sick or healthy, as it has shown no positive effects on the seals already sick.

Dr. Osterhaus notes that Greenpeace International is working on a study to try to find out to what role North Sea pollution plays in causing the disease, or in generally making the seals weak and vulnerable to such diseases. The organization also is drafting a project to be submitted to the E.C. in quest of financial aid.

The Pieterburen sanctuary plays an important role in finding out more about the epidemic. Created in 1971, it was designed to treat some 100 seals a year, including some 30 baby seals who had lost their mothers in storms. Most seals would leave after treatment, which usually lasted half a year. It is financed by 30,000 donors and receives an annual subsidy of about 100,000 guilders,

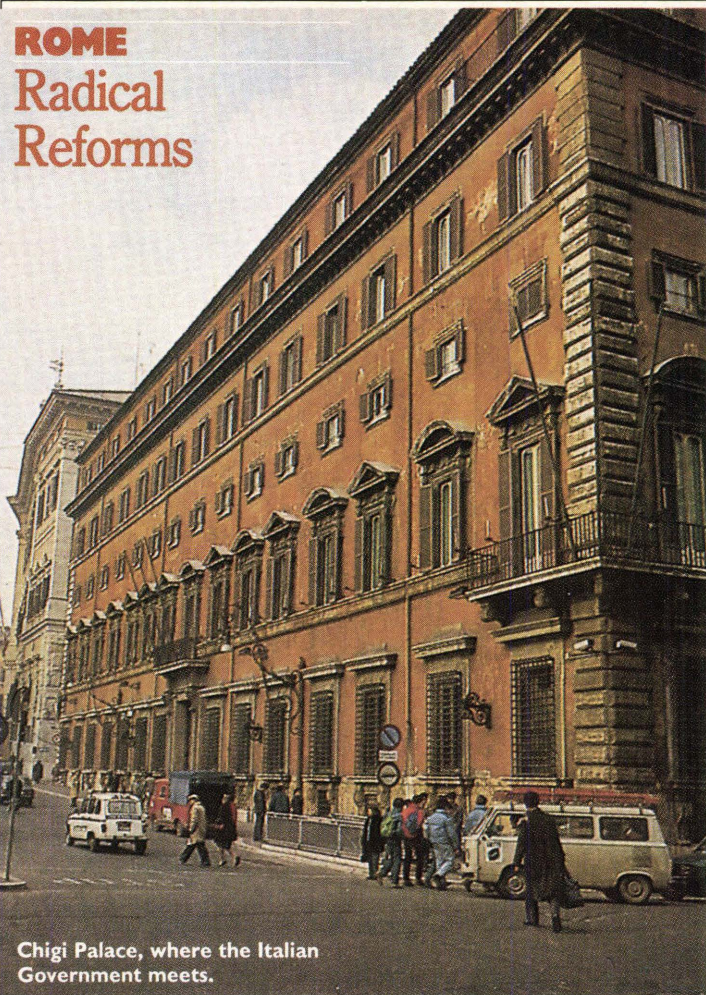
about \$47,000, which this year was increased by \$4,700 to help face the epidemic. People also can "adopt" a seal for about 1,000 guilders a year, and receive news about their adopted seal whenever they inquire.

Leni 't Hart says that, in her opinion, pollution is a major cause of the epidemic, and that vaccines will not improve the situation in the long run. What is needed is an international solution for the protection of the environment.—NEL SLIS

Due to a canine distemper virus, seals have been dying in large numbers off the coasts of the Netherlands, the Federal Republic of Germany and the United Kingdom this summer. Dutch and British research institutes have now come up with a vaccine that will prevent the disease in healthy seals.



ROME Radical Reforms



Chigi Palace, where the Italian Government meets.

Seen from abroad, Italian politics might look forbiddingly complicated. Governments come and go, ministers change jobs and political parties are always talking about new alliances. So much so, that some foreign observers simply decide that despite the frequent changes of personnel, "nothing ever really changes in Italy" and so why bother to keep up with the details? Perhaps this is an oversimplified approach, but there also is probably a grain of truth to it.

As the summer draws to a close, however, there are two new developments that could have a profound effect on the contours of Italian politics. The first is that at long last the state has decided that it needs a more flexible modern structure, drawing on the model of the private sector. This is anything but a small change to contemplate, especially in a country where the state sector was based on a logic imposed by the founding fathers of the Republic in the middle of the

19th century—one that remained essentially the same even after the monarchy was abolished after World War II. Despite decades of protest against the state's unwieldy bureaucracy (and a widening gap between efficient, dynamic private enterprise and the sluggish governmental sphere), nothing has changed. That is, until now.

Partly, but only partly, spurred by the approach of 1992, the Government coalition headed by Christian Democrat Ciriaco De Mita has finally decided that too much bureaucracy is penalizing Italy in the international arena. The time has come to adopt a more business-like style. The first signals of a new approach came last spring, when ASI, the government space agency, was created. This was the first state enterprise with some private-sector characteristics: It can sign contracts and sell services, and pay scales are based on merit rather than trade-union rules.

Then, early this summer, an-

other signal: the reform of ICE, the Istituto de Commercio, in which the government essentially dissolved the agency so that it could be recreated from the bottom up along private-sector lines. Today, some once unthinkable things are beginning to be possible. State employees can think of moving around just as workers in the private sector can while still maintaining job security.

The success of these two maneuvers has led the Government to dream of reforming the entire state system. The model, it is no secret, is the United States, with, of course, modifications for Italian peculiarities and a more generous

social welfare system. It will not be easy, however: The trade unions head the list of the government's obstacles—and the unions are worried.

The second major development came in Rimini in late August during the annual meeting of *Comunione e Liberazione*, a cultural and social organization inspired by the thinking of Pope John Paul II that has gained wide consensus among Catholic conservatives. At first, it looked like just another summer convention at a seaside resort. But then, Bettino Craxi, secretary of Italy's Socialist Party and former head of Government, decided to stir things up.

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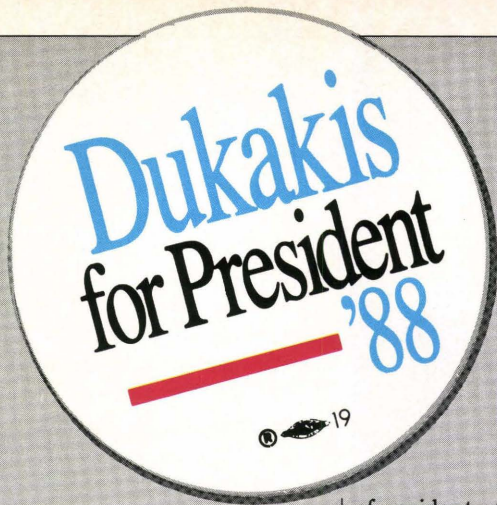
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He sent his right-hand man, Claudio Martelli, on a diplomatic mission, the result of which was a warm embrace between the two groups—and this caught everyone by surprise. In fact, Craxi has been carrying out a radical transformation of his party, moving it well away from the left. He has shed the party's hammer and sickle symbol, replacing it with a more neutral red carnation, and is now making a clear break with Marxist thought and ideology. Nevertheless, this stunning opening to the Catholic right has shaken the Christian Democrats, who have always depended on the church and the Catholic vote.

Does it all mean a new balance of power? While it is too early to tell whether Craxi's move will succeed, it is likely that the Rimini convention will mark a change in the complexion of Italy's governing elite. For some time, *Comunione e Liberazione* and another important conservative Catholic think-tank, *Opus Dei*, have been at odds with the intellectually powerful Jesuits. The latter, who have had the job of shaping the new ranks of the Catholic elite in their private schools, have long been open to negotiating with the Communist Party. And now the Communists, who are losing votes and power, are moving toward a German-style social democracy. Craxi hopes to benefit from the confusion, splitting the party of his rival De Mita by capturing its conservative wing—and at the same time attacking the Communists to weaken them further.

But the Jesuits may be the real losers if they fail to maintain their influence as the dominant force in Italian Catholic thought. It does not require all that much imagination to foresee, and perhaps not too far in the future, a radical shift in the Catholic establishment, no longer directed by the moderate and often progressive Jesuits, but by the very conservative *Opus Dei*. The consequences would be far-reaching.—NICCOLÒ D'AQUINO



ATHENS

Getting Out The Vote

Conventional wisdom in the cafés around Greece has it that the U.S. presidential race will be a tight contest. So supporters in Athens of Democratic candidate Michael Dukakis have launched a campaign to ensure that as many Greek-Americans as possible will vote in the November election. The newly founded "Friends of Michael Dukakis" organization is scouring the villages of southern Greece for returned migrants, who often tend to settle close to the old family home, as well as the Ionian islands off the country's west coast. They hope to net around 15,000 voters from the countryside in addition to an estimated 40,000 more in Athens, Salonica and other cities.

Stickers proclaiming "Mike Dukakis for President" can be seen on cars, café windows and on baggy T-shirts for the fashionable young. One Athenian factory is turning out Dukakis decals by the thousand for use on crockery, coasters and cigarette lighters, in accordance with a traditional Greek demand for political memorabilia at election time.

On the island of Lesbos—also known as Mytilene—where Dukakis' grandfather was born, the mood is one of restrained optimism. The village of Pelopi, on a mountainside in the north of the island, now boasts signs in English and Greek saying: "Welcome to the

hometown of Michael Dukakis." A similar sign marks the Dukakis family home, where the current owner, Jacobos Manolis, 82, makes a point of wearing a Dukakis button. At the town hall is a register

of residents that goes back to the 1870s and includes both Dukakis' grandfather Stylianos and his grandmother Olympia, their names recorded in faded copperplate Greek handwriting. They left the island before the turn of the century for Edremit, a town on the nearby coast of Turkey, where they opened a grocery store. The house where Panos Dukakis, the Governor's father, was born, still stands.

There is nobody left in Pelopi by the name of Dukakis, but the villagers say they must all be distantly related to the presidential candidate, who came on a brief afternoon visit 12 years ago. They have renamed the main street after him and are already looking forward to seeing him again—at the inauguration. Two jumbo jets would suffice to take them all to Washington for the occasion. If Dukakis does not make it, he will in any case be given a plot of land in the village for a summer home, where he can grow his own fruit and vegetables.

In the town of Mytilene, the island's capital, live three second cousins of Dukakis, probably his closest relatives in Greece. They recall being told as children how the Governor's father ran away to stay for a few months with his uncle on the island during World War I before making his way to the United States, where he joined his elder brothers. Soon afterward, the rest of the family made their way to Massachusetts. The cousins proudly recall their grandfather's prescience in realizing that the family's future lay in America

and in finding teen-aged Panos an English teacher to get him started on what turned into a medical career.

Unlike Washington-based American politicians of Greek extraction, most of whom have developed a broad network of contacts in Greece and visit regularly, the Massachusetts Governor has only made one trip there. But that also included a visit to the northern city of Larissa, a sprawling center for the agricultural region of Thessaly, from where his mother came. More distant cousins there remember that he was deeply impressed by seeing the house where she, the daughter of a bookkeeper who came down to the plains from a mountain village in Epirus, was born. And that, they say, was the moment when Dukakis seemed to discover his Greek roots.—KERIN HOPE

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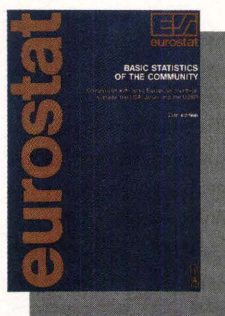
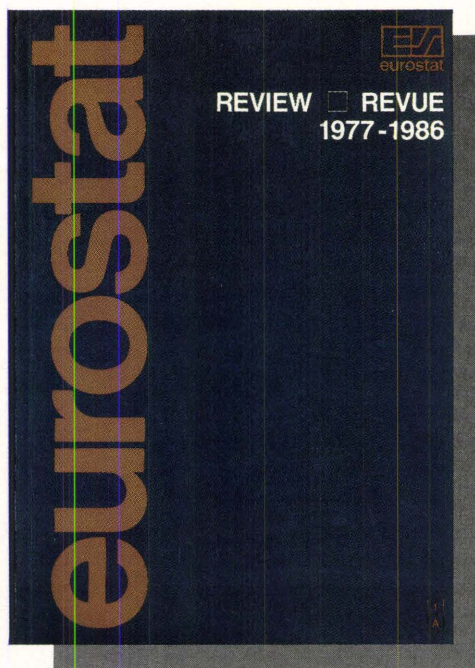
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1992

**EUROPE
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EUROPE WITHOUT BORDERS: ANSWERS TO SOME QUESTIONS

ADDRESSING SOME OF THE CONCERNS ABOUT THE E.C.'S 1992 PROJECT.



The E.C. Commission recently produced the following paper to allay fears in the United States that the 1992 plan will lead to a "Fortress Europe."

The ongoing process of completing the single European Community market entails the elaboration and adoption of a vast legislative program. This is a complex and lengthy process, and it is not possible at this stage to give definitive answers to many of the questions on the matter that are put to the Commission. Many of the replies are, of necessity, provisional and reflect the current situation and thinking in the Community.

1. What is the "1992 program"?

The 1992 program aims to sweep away the remaining obstacles to the free movement of people, goods, services and capital within the Community. The concept of a large single market, unhampered by national divisions, is not new—it was envisioned by the six European countries that launched the process of European unification in 1951. That process was clearly a political endeavor, but the means chosen were economic. Much progress toward economic integration has been achieved, but a number of difficult barriers remain between the (now 12) E.C. member states. Concerned about economic and technological stagnation in the E.C. and to give a new impetus to European integration, European leaders in

1985 launched a major drive to create a true common market by the end of 1992.

2. How will the program be accomplished?

The Commission, the E.C.'s executive body, in a 1985 "White Paper" outlined almost 300 pieces of legislation to remove physical, technical and fiscal barriers between member states. They would, for example, scrap time-consuming border controls, prevent differences between technical regulations from hindering intra-E.C. trade, and bring national value-added and excise tax systems closer together. All of these proposals must be approved by the Council of Ministers, which is composed of representatives of the 12 E.C. member states. Upon adoption, they become law that applies throughout the E.C., enforced by the European Court of Justice.

3. What are the benefits of a single market?

First of all, it brings the E.C. one step nearer its ultimate goal of unification, thus consolidating the economic and political stability of Europe. More immediately, the removal of internal trade barriers will give a significant boost to the E.C. economy. The 1992 program will create a huge, unified market of 320 million consumers, with goods, services and capital moving across national borders as easily as they do across state borders in the United States.

This will reduce costly red tape and allow business to produce for an E.C.-

wide market, without having to adapt to a variety of national technical standards or health and safety regulations. Manufacturers will be able to achieve economies of scale, and the business environment will become more competitive as sectors such as air transport and financial services are liberalized and government purchases are opened up in new sectors to suppliers throughout the Community.

A recent study sponsored by the Commission to evaluate the economic benefits of the 1992 program projected that the creation of a unified market would add about 5 percent to the E.C.'s gross domestic product. In the medium term, the study found, the program also would add as many as 2 million new jobs and keep average consumer prices 6 percent lower than in a divided market. The 1992 program also will help technological development, with companies operating on a E.C.-wide market better able to afford the necessary research and development.

On a more personal level, E.C. citizens will have the right to live or work in any member state without the restrictions that now affect certain professions. It will be easier for them to find work because university diplomas, apprenticeship courses and vocational training acquired in their home country will be recognized throughout the Community. Furthermore, they will be able to travel to other E.C. countries without facing police checks and other formalities at national borders.

4. What hardships will be created by the 1992 program?

Since the single market will lead to a more competitive environment for existing companies, they will have to adjust their activities to this new environment. Certain sectors will face more important changes than others because of liberalization: transport, telecommunications and banking are examples.

Less developed regions or those suffering industrial decline will need some economic and social assistance to soften the impact of the changes and to assist in making the needed adjustments. The E.C. aims to reduce disparities between the various regions: This is why the E.C. Heads of State or Government decided in February 1988 to strengthen structural funds to ensure the necessary economic and social cohesion of the Community.

5. What benefits will the 1992 program have for the United States and U.S. businesses?

A strong European economy contributes to a healthy world economic and trading system. The United States stands to gain

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because of the close E.C.-U.S. political and economic partnership. U.S.-E.C. trade amounted to about \$146 billion in 1987, and the E.C. is the United States' biggest export market. U.S. investment in Europe (\$126.7 billion in 1986) will benefit from a strong European economy, as will E.C. investment in the United States (\$157.7 billion).

U.S. businesses are well placed to exploit the benefits of a unified market. First of all, their subsidiaries incorporated in the E.C. will profit from the removal of barriers to the same extent as purely European companies. American companies are already used to operating in both a global and a large domestic marketplace, so may have less trouble adapting to the new environment than indigenous companies.

U.S. exporters will find themselves selling into a single market with a generally uniform set of norms, standards and testing and certification procedures. They will no longer have to face 12 different sets of requirements or intra-E.C. border controls. In cases where the E.C. has not yet adopted standards, it looks to standards already established by the International Standards Organization (ISO) for guidance. It should be stressed that, in general, E.C. standards are close to the internationally agreed ISO and International Electrotechnical Commission standards.

Of course, the increased competitiveness of European industry could affect the market share of third-country firms both within the E.C. and abroad. But U.S.

companies are highly competitive in the global marketplace, and are in a good position to seize the opportunities of the European single market. In fact, many people in the E.C. are afraid that the main beneficiaries of the internal market could well prove to be the Japanese and American companies operating in Europe.

6. How will the 1992 program promote external trade?

In overall terms, completion of the single market will stimulate the world economy as the E.C.'s greater competitiveness leads to faster growth and a rise in imports, coupled with the commercial benefits brought about by the existence of a single market.

The E.C. has eliminated all internal tariffs and has a common external tariff system. Its average weighted tariff on industrial goods is 4.5 percent, about the same as that of the United States, and among the lowest within the General Agreement on Tariffs and Trade (GATT). The E.C. has played a leading role in the GATT, and is actively participating in the current Uruguay Round of GATT negotiations aimed at liberalizing trade and "rolling back" protectionist trade barriers.

The E.C. has developed a common trade policy, with regulations covering such areas as dumping (closely following the GATT dumping code), a system of trade preferences for developing countries and customs rules for goods entering the Community.

The remaining national quantitative restrictions will have to be removed as part

U.S.-E.C. trade
totaled \$146 billion
in 1987, and the
E.C. is the United
States' biggest
export market.

of the creation of a single market or as a result of the extension of the common trade policy. The E.C. has begun the process of rolling back by offering in the Uruguay Round to drop national import quotas on a range of goods. This process will continue as the round progresses.

The E.C. has and will continue to maintain a liberal trading policy. Accounting for 20 percent of world trade (compared with 14 percent for the United States) and with about 10 percent of its GDP dependent on exports to third countries (compared with about 5 percent for the United States), it has more interest than any of its trading partners in maintaining the "one world" trading system.

7. How will trade in services be opened up?

Although services account for a major share of world trade, they are subject to little, if any, international regulation. In fact, multilateral negotiations on the subject are under way within the framework of the Uruguay Round. The general approach in the Europe of 1992 will be that service providers such as banks or insurance companies that are approved in one member state will be allowed to operate under similar conditions throughout the Community.

In the banking sector, a recent E.C. Commission proposal calls for reciprocal access for newcomers to the E.C. market. As far as established firms are concerned, consideration is being given to what the position should be once the single market is completed, in particular in regulated

sectors such as banking. As yet no decisions have been taken.

The E.C. is perfectly willing to open up its services sector provided its major trading partners are prepared to do likewise. Accordingly, the E.C. attaches great importance to the work of the relevant negotiating group in the Uruguay Round, which it hopes will lead to the opening of markets in this sector. Clearly, in this context the E.C. cannot deprive itself of negotiating leverage by making unilateral concessions in this sphere.

8. Will U.S. companies be able to compete for government purchases and contracts?

The creation of a single market will fully open up public-sector markets, which heavily favor national suppliers, to suppliers throughout the Community. The 1992 program envisions that the rules that already exist will be better enforced, and that procurement will be opened up in areas not now covered such as water, transport, energy and telecommunications.

European subsidiaries of U.S. companies will have the same access to government purchases and contracts as any E.C. company. U.S. suppliers from outside the E.C. will continue to be governed by the GATT Code on Government Procurement. Signatories to the code have agreed to provide mutual nondiscriminatory access to public procurement markets in specified sectors. For the sectors not covered by the GATT code, the E.C. is ready to extend the guarantee of equal market access to achieve a balance between advantages and obligations.

Discussions are under way in the Uruguay Round to expand the GATT code to areas that are not now covered.

9. How can interested parties in the United States make their views on prospective new E.C. legislation known to the E.C. authorities?

The E.C.'s decision-making machinery is very transparent, probably one of the most transparent in the world. Commission proposals to the Council are published in the Official Journal and there is ample time for any interested party to comment on these proposals before they are adopted by the Council, a process that on average takes 18 to 24 months.

In addition, the Commission in many instances announces its plans, in the form of communications to the Council, even before a formal proposal is made. The Green Paper on Copyright published in June 1988 is such an example.

The openness of the decision-making process makes it easy for interested par-

ties to follow and gives them the opportunity to make their views known. The United States is particularly well placed in this respect since, in addition to a large and effective U.S. Mission to the E.C., the private sector is well represented through the U.S. Chamber of Commerce in Brussels.

10. Will the 1992 program create a new monetary system and common currency?

No, but that is a complementary goal. The E.C. in 1979 established the European Monetary System (EMS) in an effort to minimize the erratic currency fluctuations that had impeded trade and discouraged European firms from undertaking major investment projects. It is based on a system of fixed but adjustable exchange rates, resting on a variety of intervention and credit mechanisms.

This system has been technically improved over the years. European leaders in the coming months are going to discuss the possibility of further improvements. The basic assumption is that the EMS will evolve to encompass a European central bank managing a common reserve system. This would mean the creation of a common currency. No date has been set at this time for achieving this goal.

11. Will this all really take place by 1992?

So far, the Commission has presented more than two-thirds of the proposals outlined in its 1985 White Paper and the Council has adopted more than one third of all the proposals. By the end of 1988, the Commission will have presented 90 percent of its proposals to the Council, thus giving economic operators and policymakers a virtually complete picture of the envisaged program.

Treaty reforms approved by E.C. member states to streamline decision-making took effect in mid-1987, increasing the chances for meeting the 1992 target. These reforms, encompassed in the Single European Act, allow the Council to take decisions by majority vote in many cases that formerly required unanimity. However, unanimity is still required for the approximation of tax rates on products and services (VAT and excise duties).

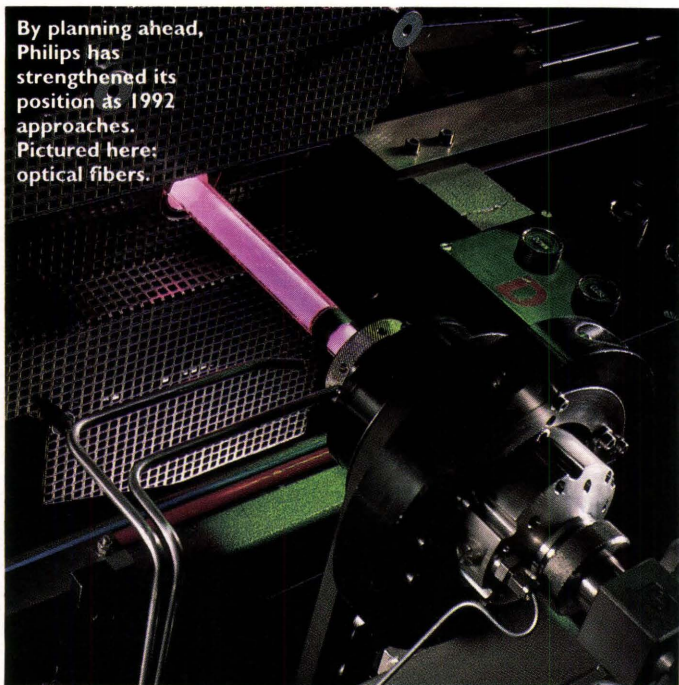
But even if work remains to be done as 1993 approaches, the process of building a single market has achieved a momentum that cannot be reversed. In fact, the business community is becoming increasingly aware of the new reality, and groups and firms are positioning themselves to take full advantage of the opening up of the market. €

1992

EUROPE WITHOUT FRONTIERS

BUSINESS/1992

By planning ahead, Philips has strengthened its position as 1992 approaches. Pictured here: optical fibers.



COURTESY PHILIPS PRESS OFFICE

EUROPE IN 1992 AND BEYOND: PHILIPS LOOKS TO THE FUTURE

A BUSINESS PERSPECTIVE ON THE SINGLE MARKET PROJECT.

CEES BRUYNES

In recent months, there has been a dramatic surge of interest, in business and political circles, both in the United States and abroad, in "Europe 1992," the program calling for the creation of a fully integrated European market by December 31, 1992. I would like to share some thoughts on this subject from my perspective as a "Philips man" in the United States. Philips has been a major force behind the movement toward European integration from its very beginnings. In fact, a plan created by Philips

called "Europe 1990: An Agenda for Action," was the catalyst for the current 1992 program.

The sheer complexity of the task of creating a single European market is staggering. As of today, within the E.C., there are 12 countries, 10 cultures, nine official languages and 12 different types of currency. To the casual observer, the E.C. presents an impossibly fragmented picture of a dozen separate markets, averaging some 25 million people each, separated by borders, border controls, border taxes, border subsidies, nationalistic policies and protected industries.

This fragmentation has prevented European industry from capturing the kind of industrial economies of scale enjoyed by its trading partners, the United States and Japan, with their huge home markets. The cost of this non-Europe, to consumers and industry alike, is enormous. The recently released two-year Cecchini study showed that the E.C. loses at least *\$250 billion a year* as a result of market barriers that impede productivity and competitiveness. Apart from such direct costs as advance value-added taxes that must be paid on goods at Europe's frontiers, there are the billions of dollars that have been wasted in developing different versions of products to meet a hodge-podge of national standards.

Philips and other European companies, for example, invested a total of \$10 billion to develop Europe's 10 different telephone switching systems. This compares with \$3 billion spent in the United States to develop a common system and \$1.5 billion in Japan for a single system. In the area of professional licensing—another jumble of regulations—someone recently calculated that to qualify for work as an accountant in all 12 nations, one would have to go to school for 50 years.

Europe's potential nevertheless remains extraordinarily impressive. A fully integrated E.C. would contain 323 million consumers, compared with 244 million in the United States and 122 million in Japan. The combined gross domestic product of E.C. countries last year was \$4.2 trillion, almost equal to that of the United States (\$4.4 trillion) and considerably more than the combined total for Japan, South Korea, Taiwan, Hong Kong and Singapore (\$2.7 trillion). As a single entity, the E.C. would constitute the largest trading bloc in the world, with more than 40 percent of all foreign trade. The E.C.'s trade balance with America turned from a deficit to a surplus in 1983. Since then, the surplus has grown from \$12.9 billion in 1984 to \$27.1 billion in 1986, the last year for which figures are available.

According to the study to which I referred earlier, Europe—and, in turn, its industrialized trading partners—stand to

benefit enormously from the creation of a single European market. Fusing the economies of the member states would add 5 percent to the gross domestic product and create up to 5 million new jobs. Tearing down all barriers to the free movement of goods, services, people and capital within the E.C. could result in a drop in consumer prices of as much as 6 percent or more.

For European industrial integration to succeed, however, it must be anchored on the solid bedrock of monetary union as well: a strong European monetary system, the widespread use of the European Currency Unit (ECU) and the establishment of a European central bank—these are the foundations for stable and balanced monetary relations on which European integration must be built.

The formation last year of the Association for Monetary Union of Europe—whose chairman is the president of Phil-

ips, C.J. van der Klugt—is a positive step in this direction. More widespread use of the ECU as a broad-based European currency would contribute to greater stability in the international exchange markets. Philips believes so firmly in this proposition, in fact, that in its annual report this year key financial data are given in ECU.

“PHILIPS, A LONG-STANDING AND ACTIVE SUPPORTER OF EUROPEAN INTEGRATION, AND A COMPANY WITH COMPETITIVE EXPERIENCE IN THE GLOBAL ARENA, HAS BEEN PREPARING FOR YEARS FOR THE ADVENT OF 1992.”

Clearly, restoring Europe's industrial and fiscal health will serve to bolster not only Europe, but the entire global economy. A strong Europe will provide a willing—and able—trading partner for the industrialized nations of the world. To accomplish the task of integration, the E.C. Commission drew up a list of some

300 measures that had to be taken to remove all trade barriers. Already, European industry has begun to sit up and take notice. Merger activity is rising to a fever pitch in anticipation of the need to gain a strong foothold in what now appears to be a growing reality—the so-called United States of Europe. Italian entrepreneur Carlo De Benedetti gave the name “Europe 1992” to the company he formed with other investors in a bid to take over Belgium's Société Générale. The Federal Republic of Germany's Bundesbank has bought Bankamerica's 100 branches in Italy. In France, the Compagnie Générale d'Electricité, the telecommunications giant, acquired ITT's European operations, while Thomson, the French electronics company, bought Telefunken GmbH of the Federal Republic of Germany.

Mergers, acquisitions and joint ventures are consolidating operations, reduc-

ing employment levels and otherwise slashing costs to prepare for the more competitive era ahead.

Philips, a long-standing and active supporter of European integration and a company with a long history of competitive experience in the global arena, has been preparing for years for the advent of 1992. As early as 1972, Philips began consolidating operations and restructuring our production facilities, with the result that we have eliminated some 80 factories to date. In place of a large number of small facilities, we have been organizing our global operations around a number of large, highly efficient factories

capable of handling volume production for world markets.

In addition, we have been restructuring our operations along product lines. This will permit centralized planning and coordination from our product divisions in Eindhoven, Netherlands. At the same time, our national organizations, with their strong ties to local markets in some 60 countries around the world, will continue to be valuable assets as we plan for future growth.

On the technology front, we have been further strengthening our own massive research and development infrastructure by entering into joint research ventures with others, such as our \$1-billion MegaSubmicron project to develop semiconductors with Siemens A.G. of the Federal Republic of Germany. We also are heavily involved in such cooperative European technology programs as ESPRIT and BRITTE, which have brought together researchers in industry, at universities and technical institutes in an unprecedented collaborative network.

With each passing day, the prospect of achieving a single European market by 1992 appears to be more and more a certainty. It is necessary, however, that we temper our enthusiasm with some caution. A healthy global economy can exist only when there is true reciprocity in the trading arena, and only when access to home markets is made available by all countries on an equal and even-handed basis.

This is a message that must not be lost on the Japanese, who have historically resisted entry into their home market by other nations. As for the strong protectionist forces at work in the United States, we commend President Ronald Reagan for the courage he has shown in restraining those forces to date. Let us hope that his successor will continue his efforts. Protectionism, wherever it exists, can only give aid and comfort to those who would urge protectionism in Europe. And that is a game no one can win. €

Cees Bruyines is chairman and president of North American Philips Corporation.

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For information on the 1992 internal market program, copies of the regulations, background information on the E.C. or assistance regarding specific opportunities or potential problems, contact:

Single Internal Market: 1992 Information Service

Office of European Community Affairs
U.S. Department of Commerce
Room 3036
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Charles Ludolph or Francine Lamoriello, tel. (202) 377-5276

In addition, Trade Development industry experts assigned to this 1992 program are indicated below. Write to the U.S. Department of Commerce, Washington, D.C. 20230:

Textiles and apparel. Michael Hutchinson, Office of Textiles and Apparel,
Room 3119, tel. (202) 377-2043.

Service Industries. Fred Elliott, Office of Service Industries, Room 1128, tel. (202) 377-3575.

Information Technology, Instrumentation and Electronics.

Myles Denny-Brown, Office of Telecommunications, Room 1001A, tel. (202) 377-4466.

Chemicals, Construction Industry Products and Basic Industries.

Thomas Gillett, Office of Basic Industries, Room 4045, tel. (202) 377-0614.

Auto and Consumer Goods.

Bruce Miller, Office of Automotive Affairs and Consumer Goods, Room 4324, tel. (202) 377-2762.

Construction Projects and Industrial Machinery. Kay Thompson, Office of the DAS for Capital Goods and International Construction, Room 2001B, tel. (202) 377-2474.

Aerospace. Marci Kenney, Office of Aerospace Policy & Analysis, Room 6877, tel. (202) 377-8228

For advice or information about any aspect of exporting to the E.C. contact an International Trade Administration district office—tel. (202) 377-2000 for a list—or speak to an ITA European country desk officer: **Belgium/Luxembourg**—(202) 377-5401; **Denmark**—(202) 377-3254; **France**—(202) 377-8008; **Federal Republic of Germany**—(202) 377-2434; **Greece**—(202) 377-3945; **Ireland**—(202) 377-4104; **Italy**—(202) 377-2177; **Netherlands**—(202) 377-5401; **Portugal**—(202) 377-3945; **Spain**—(202) 377-4508; **United Kingdom**—(202) 377-3748.

The European Community distributes free brochures and sells official documents and studies on the 1992 program: **Delegation of the Commission of the European Communities**, Office of Press and Public Affairs, Public Inquiries Section, tel. (202) 862 9500 between 10:00 A.M. and 4:00 P.M. Monday through Thursday.

For further information on European standards, the National Bureau of Standards has prepared a more extensive survey of the E.C. initiatives on standards and other related materials. These can be obtained by contacting: **GATT Inquiry Point/Technical Office, Office of Standards Code and Information, National Bureau of Standards**, Administration Building, Room A629, Gaithersburg, MD 20899, tel. (301) 975-4040; and National Center for Standards and Certification Information, National Bureau of Standards, Administration Building, Room A629, Gaithersburg, MD 20899, tel. (301) 975-4040; GATT Hotline: (301) 975-4041.

Additional U.S. government contact points are: Michael Brownrigg, **U.S. Department of State**, Europe/Regional, Political and Economic Affairs, Room 6519, Washington, D.C. 20520, tel. (202) 647-2539; Andrew Stoler, DAUSTR for Europe and Mediterranean, USTR, 600 17th Street, N.W., Washington, D.C. 20506, tel. (202) 395-3320.

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COMPUTER AIDED DESIGN CATCHES ON

GREATEST PROBLEMS TODAY ARE HOW TO IMPLEMENT THE NEW TECHNOLOGY AND INTEGRATE SYSTEMS.

STANLEY PORT

Ten years ago, a computer aided design (CAD) market barely existed in Europe. By 1986, however, the market size had mushroomed to \$2 billion and on to \$2.2 billion in 1987. But how have the suppliers, the beneficiaries of this explosive growth, developed during the decade? And what are the likely effects of a more sophisticated user base on the industry?

The term "CAD supplier" is best reserved for those companies that develop or integrate the applications software with suitable hardware, and then supply and continue to support the end-user either directly, or indirectly, through distributors or dealers.

Even by this definition, the nature of CAD suppliers varies enormously. In terms of size, there are giants such as Hewlett Packard, Control Data, IBM, McDonnell Douglas and Siemens. For such companies, CAD accounts for only a fraction of their total businesses. Then there are companies like Computervision, Intergraph, GE-Calma, Mentor Graphics and Daisy Systems that started as entrepreneurial concerns in the field of CAD and have grown substantially. However, there are also many small companies that individually make important contributions within niche markets, even though they might comprise little more than a handful of people. Some 70 percent of all European CAD revenues now flow to U.S.-owned suppliers.

A few years ago, nearly all of these companies' customers were looking for

Stanley Port is the author of a report, "CAD Market in Europe," available from Frost & Sullivan in London. Reprinted from *CAD/CAM International*.

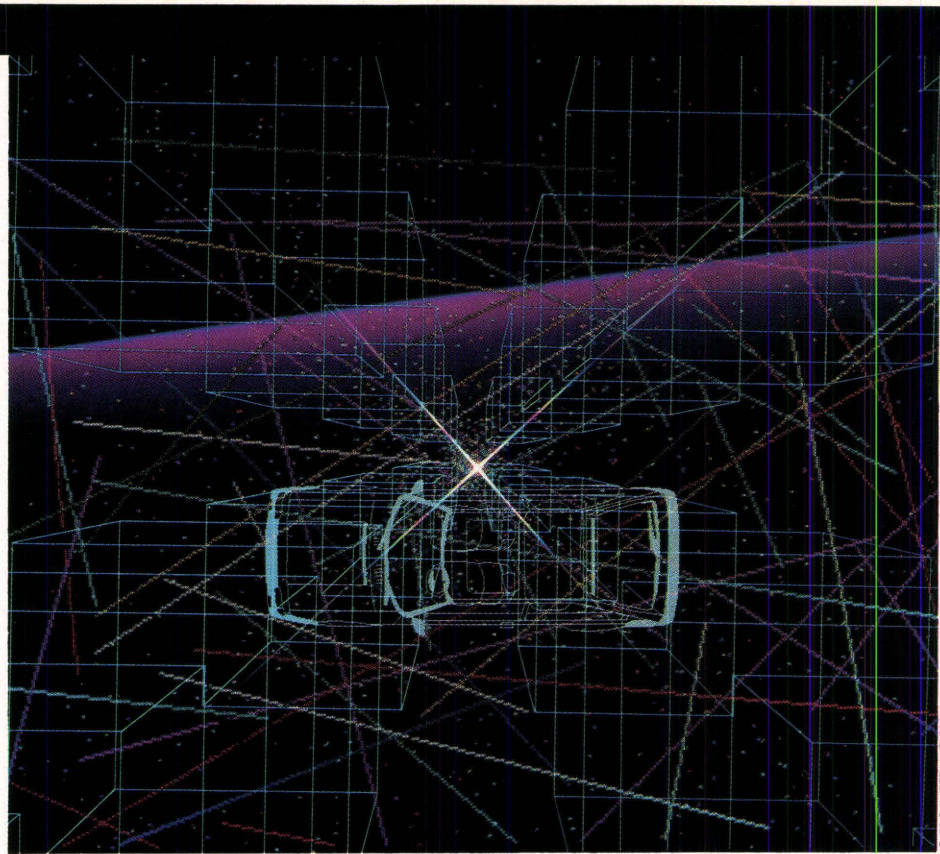
their first CAD systems. Support and maintenance of existing customers and maintenance of existing customers represented only about 14 percent of total revenues. Naturally the vendors were then mostly searching for new users.

Today a significant proportion of these customers are second-time buyers, in particular existing customers who need upgrades. They are now more knowledgeable, more hard pressed and more skeptical. As a result, they are clamoring for systems that are easier to use, for better integrated systems, and for better links to manufacturing. Support and maintenance now represent about 26 percent of total revenues. To survive, the vendors must pay far more attention to their existing user base.

Five years ago, nearly all CAD systems were host-based. Most ran on multi-user machines such as DEC Vax, Prime or Data General minis. A few larger companies had installed systems based on mainframes. Today, all this has changed with the emergence of CAD packages running on personal computers and workstations. The breakdown in terms of current sales appears to be: mainframe systems, 11 percent; minis 33 percent; workstations 38 percent; personal computers (PC) 18 percent. Based on revenues, these figures of course understate the numbers of workstation and personal computer "seats." For instance, PC-based systems represent about 37 percent of the total number of CAD seats now being installed.

The moderate cost and relative simplicity of PC-based systems has certainly introduced CAD to the masses. Some of these systems represent excellent value for many first-time users whose ambitions lie mainly in computer drafting. As PC hardware and software improves over the course of time, the frontiers of what can be achieved by users are continually being pushed back. On the other hand, more ambitious users who perhaps have requirements for volume drafting, simulation, analysis or modelling, may be better served by workstation-based systems. These offer faster response and better networking capabilities. The applications software may be somewhat more expensive, but recent price-cutting by workstation vendors has narrowed the price gap between workstations and PCs.

Many first-time users opt for a PC system, seeing it as a low-cost entry to gain some CAD experience, before gravitating quickly to a second-generation system. It is, however, much better to do the homework first and implement the right system for the circumstances right off. This



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Buyers are clamoring for systems that are easier to use, that are better integrated and that provide improved links to manufacturing.

is because most resources are not committed merely to the hardware and software, but to training, support, the building of user experience, and, even more important, to the creation of a design database.

Meanwhile, mini-computer and main-frame systems continue to be sold, albeit in fewer numbers. And much of the money spent on these systems goes toward upgrades of existing machines. Inertia among the large CAD user companies will ensure that these machines do not disappear overnight from the CAD scene. They remain the best solutions for certain situations, for example where several designers need simultaneous access to large project or product databases.

These situations tend to occur in industrial plant design, facilities management, mapping and some manufacturing applications. In the course of time, workstations and PC systems seem likely to encroach even on these areas. The longer term future of minis and mainframes in CAD appears to be mostly as database servers within large, multi-vendor networks of workstations and PCs.

Market Development

In terms of revenue growth, the market was galloping ahead at up to 50 percent growth each year during the early and mid 1980s. This has changed. The mar-

ket is not actually on the wane, but growth in money terms appears to be down to a more sedate 9 percent average in Europe.

This figure is real growth. Add, say, 4 percent for inflation to reach the amount by which revenues in local currencies should increase. Vendors who measure their sales in U.S. dollars must take into account the dramatic movement in exchange rates. Thus a vendor reporting an apparent growth in dollar sales of less than about 28 percent over last year in reality may be nursing a reduction in its market share.

The United Kingdom's gross domestic product (GDP) is only 14 percent of the total GDP of West European countries, yet a healthy 24 percent of CAD sales are in the United Kingdom. CAD sales in Germany now exceed those of the United Kingdom, though the growth rates in many countries do not vary much from the average. Sales in Italy exploded a few years ago, but growth there has slackened. The market in Spain is still small, but shows signs of blossoming.

Real annual revenue growth of 9 percent may seem sedate, but of course this must be achieved in the face of cut-throat competition among the large number of active vendors. This has led to price cutting of both the hardware and the software, and so any revenue growth

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IN TERMS OF REVENUE GROWTH, THE MARKET IN EUROPE WAS GALLOPING AHEAD AT UP TO 50 PERCENT GROWTH EACH YEAR DURING THE EARLY AND MID 1980S, BUT NOW APPEARS TO BE HAVE SETTLED DOWN TO A MORE SEDATE 9 PERCENT AVERAGE IN REAL TERMS.

must stem from an even more rapid growth in unit sales.

At first sight, customers have benefited from lower prices. Closer inspection shows that this may at best be a short-term benefit only. As prices fall and margins are shaved, a growing number of system vendors are finding that they can no longer afford to sell directly to the end-user. More sales, particularly in middle and lower-cost systems, are necessarily made through middle-men such as distributors and dealers. The best that can be said is that the quality of these organizations varies.

Shaved price margins also can result in system developers cutting their research budgets. Much research and development today merely aims at catching up with the technical leader, rather than leap-frogging it, or moving into novel areas of CAD technology. This has led to a market loaded with too many look-alike systems, few of which perhaps truly fit the users' real requirements.

Indirect selling means that the system developer is divorced from the customer. The effects on the developer must be countered by undertaking far more high-grade market research. This is not laundry detergent market research—but in-depth study that inquires into the real needs of various classes of users and how these can be provided.

It is perhaps inevitable that a host of incompatible CAD systems should have been developed during the early history of the technology. However, it has become a scandal that different members of the design team, contractors, subcontractors and component suppliers should continue to experience so much difficulty in enhancing CAD information. Collectively, CAD vendors should have done far more to help.

CAD has to be integrated more closely with various computer applications and information technologies that surround it. The closer we examine integration, the

deeper the subject appears. System vendors are not doing enough in this direction either, but users must not expect the fruits to be handed to them on the cheap.

The market is certainly becoming a more difficult proposition for the vendors, forcing them to restructure. This is hardly a new development, for several technically excellent but financially weak British vendors have been acquired by American companies in recent years. PC system vendors have been purchased by larger companies, and in recent months we have even seen Computervision—the largest CAD vendor in the European market—swallowed by Prime Computer.

Such restructuring is bound to continue, with the likelihood that before long there will be just a handful of very large firms, each with plenty of financial resources, and a large number of fairly small companies operating within niche markets. To survive, companies will not only have to be technically competent, but will need to demonstrate excellence in marketing as well as in training and supporting users.

Better education

Today the main problem faced by most user companies is not how or where to acquire suitable hardware and software. Their greatest problem is how to implement this new technology, how to manage it within their offices and how to integrate systems for various applications. It seems obvious that if suppliers can do much more to assist their customers to get the best out of their systems, then all parties—not least the suppliers—must benefit. Better education is the key. The proportion of total revenues arising from support and maintenance is likely to rise by 1991 to above 30 percent as an average throughout the CAD market. If integration is to become much more than a pipe-dream, this figure may have to be still higher. €

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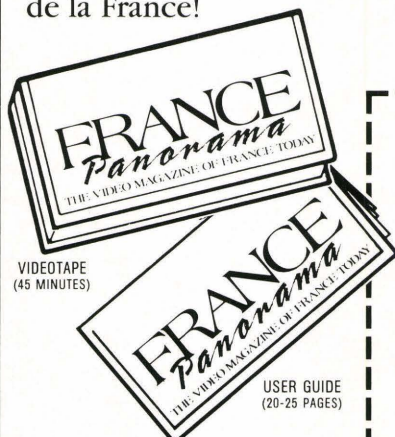
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EUROPEAN POLITICAL COOPERATION

THE
E.C.'S
FOREIGN
POLICY
MECHANISM
IS
GAINING
CLOUT.



The European Council is comprised of the Heads of State or Government of the E.C. member states, their Foreign Ministers and the E.C. Commission. There is one such meeting per presidency of the E.C. Council of Ministers (each presidency covers a period of six months) covering both E.C. and EPC subjects.

European Political Cooperation (EPC) is the process of information, consultation and common action among the 12 E.C. member states in the field of foreign policy. Its aim is to maximize their influence in international affairs through a single coherent European approach. It is the essential counterpart to progress toward European unity in the E.C. framework.

EPC is not static, but a process that continues to develop and evolve. Its origins go back to the 1950s, when cooperation on foreign policy was seen as an integral part of building a new Europe after the war, a Europe that could speak with a single voice to the rest of the world. But it was only in 1970, when the

Foreign Ministers approved the "Luxembourg Report," that the basic procedures of EPC were established. Since then, the process of cooperation has gradually been developed, expanded and formalized in a number of stages, culminating in the entry into force of the Single European Act (SEA) on July 1, 1987. The Single Act puts EPC on a treaty basis for the first time, although it remains quite distinct from the structures and procedures of the E.C.

The key features of EPC are:

- a commitment to consult and cooperate on foreign policy issues and to work toward coordinated positions and joint actions;
- a commitment to consult before adopting national positions on foreign policy

issues of general interest;

- decision-making by consensus among governments;
- the confidentiality of consultations;
- direct contacts between Foreign Ministers, allowing speed and flexibility;
- only two working languages (English and French) at meetings below ministerial level.

Structure and organization

The EPC process works at the following different levels:

- *European Council*. This forum is comprised of the Heads of State or Government of the E.C. member states, their Foreign Ministers and the E.C. Commission. There is one such meeting per presidency (each presidency covers a period

of six months), covering both E.C. and EPC subjects.

• **Foreign Minister Meetings.** These ministers hold at least two EPC meetings per presidency as well as one informal week-end. Emergency ministerial meetings can be called at 48 hours' notice. EPC subjects also are frequently discussed by Ministers in the margin of E.C. Council meetings.

• **The Political Committee:** This consists of senior Foreign Ministry officials of the member states and manages the day-to-day business of EPC, acts as a clearing-house for routine decisions and prepares the Ministers' discussions. It holds regular monthly meetings, and emergency meetings if required.

• **Group of European Correspondents.** This group consists of one official from each member state's Foreign Ministry. Its function is to monitor the smooth functioning of EPC.

• **Working Groups.** There are altogether some 15 to 20 working groups in all that hold regular meetings at expert level. On average, each group meets two to three times per presidency.

The Presidency

The country holding the presidency of the E.C. Council also is in charge of EPC. The presidency's functions within EPC include the following:

- arranging and chairing meetings;
- setting agendas;
- proposing joint actions;
- drafting common statements;
- acting as the spokesman for the Twelve in international fora and in meetings with third countries;
- representing the Twelve in relations with the European Parliament.

Since the beginning of 1987, the presidency has been assisted by a small Secretariat based in Brussels. This is made up of the head of the Secretariat, appointed by Ministers, and five officials seconded from Foreign Ministries on a rotation basis, as well as support staff. It helps to reduce the administrative burden on successive presidencies and to ensure continuity. EPC meetings are held either in the presidency capital or in the Secretariat.

The 12 Foreign Ministers, the Commission and the EPC Secretariat are linked by a confidential telex ("Coreu"), which provides rapid and secure communications at all times. This network allows for the exchange of views and information and to decide on action, especially in cases of urgency, without holding special meetings.

Relations with the E.C.

EPC is not based on the treaties establishing the European Communities and it has a quite separate institutional structure. However, EPC and the E.C. together form an integral part of the European identity projected to the outside world. It is clearly essential that the policies developed in EPC and the external policies of the Communities should be consistent and therefore mutually supportive. EPC and E.C. policies are thus placed within a coherent political vision.

The Commission is fully associated with EPC and is represented at all EPC meetings.

EPC commits E.C. member countries to consult and to cooperate on foreign policy issues and to work toward coordinated positions and joint actions.

Relations with the European Parliament

The European Parliament is closely associated with EPC. The presidency regularly informs the Parliament about subjects discussed and ensures that the Parliament's views are taken into account by EPC. This means specifically that:

- the presidency's Foreign Minister makes a speech in Parliament at the beginning and end of his period in office;
- the presidency attends a monthly "Question Time" in Strasbourg (where the Parliament meets once a month) and coordinates joint answers to questions from Members of the European Parliament;
- each presidency takes part in two "colloquies" (information and confidential discussions) with the Parliament's Political Affairs committee.

Cooperation in international fora

Cooperation in international fora is an important aspect of EPC. This is particularly true of cooperation in the CSCE

framework (see below) and the United Nations, which includes:

- regular consultations between the Twelve's missions in New York, Geneva and Vienna, including those at expert level;
- an annual speech by the Foreign Minister of the E.C. presidency in the name of the Twelve and the E.C. at the U.N. General Assembly;
- endeavors to secure common voting on resolutions;
- joint statements and common explanations of vote.

Cooperation with third countries

The member states' missions in third countries cooperate closely both on political questions and other issues. Ambassadors have regular meetings, often inviting prominent figures, such as their host Foreign Ministers, to attend. They draft joint reports, recommend common policies and undertake joint actions in the name of the Twelve (such as on human rights). Usually the presidency acts on behalf of the Twelve in such cases, but sometimes the so-called "Troika"—involving the preceding, present and succeeding presidencies, as well as the Commission—is used in order to emphasize their common approach.

In many capitals, regular meetings take place between consular, commercial and administrative specialists. Areas of practical cooperation include health, schooling, consular and legal assistance. In certain countries, cooperation on emergency communications and emergency evacuation plans helps ensure that dangers to E.C. citizens living or traveling in third countries are kept to a minimum. Cooperation on the evacuation of E.C. citizens from Aden in South Yemen in 1986 was a good example of this.

Overall, the Twelve's missions put across to foreign governments and to the media in third countries the reality of European cooperation on a day-to-day basis.

What subjects does EPC cover?

All foreign-policy issues of general interest are discussed in EPC, particularly those of direct concern to Europe. Issues under discussion include:

East-West relations and the CSCE process.

These central questions, of vital importance to all Europeans, are almost permanently on the EPC agenda. The Twelve are committed to strengthening stability and security in Europe at lower levels of armaments and to enhancing mutual trust

and understanding. The Twelve discuss every aspect of East-West relations, including the wider issues of security policy, but military and defense questions are not discussed in EPC, as these matters are for other fora, such as the North Atlantic Treaty Organization and the Western European Union.

The Twelve have played a key role in the CSCE process, including in the negotiations leading to the Helsinki Final Act. Their delegation coordinated closely at the follow-up meetings in Belgrade and Madrid, as well as in meetings on specific aspects of the CSCE process. At the CSCE follow-up meeting in Vienna, the Twelve, with other Western countries, have submitted important proposals notably on the human dimension. These are designed to allow all the citizens of Europe to benefit from the commitments made at Helsinki.

Regional issues.

• **Middle East.** The Twelve have for many years followed developments in the Middle East closely and in particular the Arab-Israeli dispute. They have consistently supported a peaceful solution to this dispute based on two fundamental principles, which were outlined in the 1980 Venice Declaration and subsequent statements: the right of all states in the region, including Israel, to exist within secure frontiers; and the right of the Palestinian people to self-determination, with all that this implies. The Twelve believe an International Peace Conference on the Middle East would provide the suitable framework for negotiations between those directly concerned.

The E.C. provides aid and economic assistance to the territories occupied by Israel since 1967. The Twelve have developed their relations with the Arab countries through the Euro-Arab dialogue.

The Twelve are committed to U.N. efforts to bring about an early negotiated settlement to the Iran-Iraq conflict on the basis of full implementation of Security Council Resolution 598. They are particularly concerned by the danger of the conflict spreading and by the threat posed to freedom of navigation in the Gulf.

• **South Africa.** The Twelve are committed to contributing actively to the total dismantling of apartheid by peaceful means and its replacement by a genuinely democratic, non-racial system of government in South Africa. The Twelve have outlined the steps that the South African Government should take to allow the necessary national dialogue to start: In particular, the state of emergency must be

The EPC process continues to develop and evolve. Its origins go back to the 1950s, when cooperation on foreign policy was seen as an integral part of building a new Europe after the war.

lifted, all political prisoners freed and the ban on political parties lifted.

To support this policy, the Twelve have introduced a code of conduct for E.C. companies operating in South Africa, designed to ensure that E.C. companies lead the way in abolishing apartheid from the workplace and improving wages and conditions for black workers.

Member states and the E.C. provide considerable aid to those who suffer as a result of apartheid, both inside and outside South Africa. This aid is designed to strengthen the economic independence and self-sufficiency of South Africa's neighbors and to help South Africa's majority community, particularly in the field of education.

The Twelve also have introduced a series of restrictive measures designed to underline their concern, to help maintain international pressure on the South African Government and to bring home to the white community the fact that fundamental change is inevitable and that delay will only make this process more difficult.

• **Central America.** The Twelve support efforts to achieve a peaceful resolution to the region's conflicts on the basis of the Contadora Group's objectives. They believe that a solution must emerge from the region itself and must guarantee peace, democracy and respect for human rights, along the lines proposed in the agreement reached in Guatemala on August 7, 1987. To support the process of negotiation and reconciliation, the Twelve have established a political dialogue with the countries of Central America and the Contadora Group, which takes place annually, in principle at ministerial level. In parallel, the E.C. is providing economic assistance designed to encourage regional cooperation and integration.

• **Afghanistan.** The Twelve have repeatedly condemned the Soviet occupation of Afghanistan. They have called for the rapid and unconditional withdrawal of all

Soviet troops to allow the Afghan people to decide freely their own future. They supported the U.N. Secretary-General's efforts to bring about an early negotiated settlement. They welcomed the conclusion of the April 1988 agreements, which represent an important step toward a solution of the Afghan crisis.

Other regional issues.

- Asia (such as developments in Cambodia, Sri Lanka, the Philippines);
- Africa (such as the Horn of Africa, the Front-line states, Sudan);
- Cyprus;
- South America (such as developments in Chile).

Other issues.

• **Human Rights.** Respect for human rights is one of the key elements in the Twelve's relations with third countries. The Twelve make every effort to promote and protect human rights and fundamental freedoms. When abuses occur, they often intervene with other governments to underline European concerns and press for full respect for human rights.

• **Terrorism.** The Twelve have adopted an active policy in the fight against international terrorism. They have consistently made clear their total abhorrence of this scourge and their unwillingness to maintain normal relations with countries that are involved in supporting terrorism. They have agreed not to make any concessions under duress to terrorists or their sponsors. They have taken measures, both jointly and individually, to back up this policy and to bring home to those who use terrorism that such acts can only damage the causes that they purport to support. In their efforts to combat international terrorism, the Twelve cooperate closely among both themselves and with like-minded third countries.

• **Non-proliferation.** The Twelve attach importance to preventing the proliferation of nuclear weapons and work closely together to this end. They strongly support both the activities of the International Atomic Energy Agency in this field and the international agreements in force designed to ensure that the trade in nuclear materials and equipment is used exclusively for peaceful purposes.

Other areas of cooperation.

Under this heading would fit activities such as ways of pooling resources to maximize the cost-effectiveness of the

Continued on page 47.

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BABIES: U.S., EUROPEAN APPROACHES TO PARENTAL LEAVE

COMPARING THE DIFFERENCES IN PROPOSED LEGISLATION.

KINNEY ZALESNE

IN recent decades, American and European women have made substantial progress in employment. Direct and indirect discrimination are illegal, positive action is growing and, in theory, jobs are open to both sexes when possible. Yet, as any comparison of men's and women's salaries, job stability or promotion rates will show, women still hold inferior worker status. Because they are the primary childcarers, women bear a "double burden" of work and family that is simply larger than that of men. In their capacity as mothers, unfortunately, women are impeded from real economic equality.

Both the United States and the E.C. have recognized the seriousness of this problem. Each has made some improvements in the form of childcare and parental leave, although official legislation remains scanty. In the United States, childcare is left almost completely to employer initiative, with only nominal state and federal assistance. The E.C. is preparing a "recommendation" on the sharing of family and occupational responsibilities that urges member states to improve childcare facilities, although no E.C.-wide legislation exists.

Parental leave has received more government attention, however. In the United States, only six states have passed family leave laws, but a federal bill now before Congress is stimulating active debate around the country. All 12 E.C. member states provide at least some parental leave scheme, but the E.C. has not yet passed any E.C.-wide legislation.

Parental leave advocates in both communities, therefore, look curiously to what the other is doing. This summary will outline the key differences between draft legislation in the United States and the E.C., and will highlight those parental leave tactics in each that the other might want to adopt.

Histories of the Legislation

In the United States, parental leave began with the "Schroeder Bill" in April 1985, when Representative Pat Schroeder (D-CO) introduced H.R.2020, the Parental Leave and Disability Act of 1985. H.R.2020 was then reworked into H.R.4300, the Parental and Medical Leave Act of 1986, and introduced on March 4, 1986, by Rep. William L. Clay (D-MO). The Senate considered a similar bill, S. 2278.

In June 1986, the Committees on Education and Labor and Post Office and Civil Service approved the Parental and Medical Leave Act, but time ran out before it could be brought to a vote. Clay and Schroeder re-introduced it in 1987 as the Family and Medical Leave Act of 1987 (HR 925), and Senators Dodd (D-CT) and Specter (R-PA) introduced a similar Parental and Temporary Medical Leave Act (S 249) in the Senate. In November of that year, the House Committee on Labor and Human Resources passed a bipartisan compromise version of HR 925. Senator Dodd revised his bill to include similar compromises.

In the E.C., a proposal for a directive—a directive being a legally binding instrument that requires member states to achieve certain standards within their own national legal systems—was submitted to the Council of Ministers in November 1983 and amended in November 1984, to take account of the opinion of the European Parliament. Technical aspects of the amended proposal were discussed in detail by the Council of Ministers under the Italian and Luxembourg presidencies, and significant progress was made. As of July 1988, however, the proposal remains blocked on political rather than technical grounds.

Difference in Goals

The American draft legislation on parental leave targets two separate issues. First, it recommends *family leave*, which

includes time off for parents to care for very young children (what the E.C. calls "parental leave"), as well as short periods of leave for urgent family matters, such as the illness of a child or spouse or, in the House version, an elderly parent. Elder care, incidentally, is an issue neither the Senate nor the E.C. has taken separately,

Parental leave advocates in the U.S. and the E.C. are looking carefully at what each side is proposing.

though the House's attention to it has garnered significant extra Congressional support. Second, the American bill provides *medical leave*, which allows an employee time off for any serious, temporary health condition—such as pregnancy—that prevents him or her from working.

Bill opponents in the United States have suggested that family leave is duplicitously wrapped up inside medical leave so as to avoid calling it a "women's issue." A spokesperson for the legislation insists that disability and family care are as closely linked in reality, however. Both are issues for every American who works, or has a working family member. Neither a temporary disability *nor* the temporary, urgent needs of one's family should cause one to lose one's job, proponents say. A responsible society should allow its workers job security *and* time for personal care.

Draft legislation in the E.C. targets a slightly smaller field. Its proposal aims only at what the United States calls family leave—that is, time off for parents to

Kinney Zalesne, a law student at Harvard, completed this study during a training course at the E.C. Commission in Brussels. The views expressed are personal to the author.

Proposed E.C. legislation calls for a minimum of three months of parental leave per worker per child.



care for very young children, and time off for urgent family matters, such as the illness of a child or spouse, or the death of a near relative. Unlike the U.S. scheme, maternity leave and other forms of temporary disability leave are still regulated state by state. American medical leave proposals are quite modest by European standards. For the purposes of comparing U.S. and E.C. parental leave, then, the rest of this discussion will concentrate on the family leave aspects of the U.S. bill.

Differences in Content

Time Periods. The U.S. legislation originally proposed 18 weeks off per worker per birth or adoption of a child, all to be taken before the child reaches two years of age. It proposed the same amount of leave for other urgent family matters. Congressional debate has now lowered it to 10 weeks. With the agreement of par-

ent and employer, such leave may be taken part-time and extended proportionately. The E.C. draft directive calls for a minimum of three months per worker per child, also to be taken over two years or taken part-time and extended proportionately. Leave for family reasons, such as the serious sickness of a child, is left up to each member state.

Preservation of Rights. In both the E.C. and the U.S. leave schemes, employees returning to work would be entitled to their previous positions, or ones with like seniority, status, employment benefits, pay and other terms and conditions of employment. Both draft legislations maintain health insurance coverage during the period of leave.

Pay. In the E.C. directive, pay for parental leave would be optional or left up to each member state. If an allowance is granted, it must be taken from public

funds. Employers pay only for leave for family reasons. In the United States, sponsors regard paid leave as a long-term goal. The current bill recommends unpaid leave, but at the same time it establishes a commission to examine means for salary replacement. (Compensation would be funded by contributions from employers and employees.) The current unpaid leave clause of the bill is less burdening to employers, but such legislation can actually benefit workers wealthy enough to afford unpaid leave. This is the "yuppie bill" criticism leveled at the legislation from the beginning. Parental leave advocates hope to reach more U.S. families.

Transferability. One key difference between U.S. and E.C. legislation is non-transferability, a requirement upon which

Continued on page 47.

EUROPEANS EAGER TO SEE SHUTTLE BACK ON TRACK

UNMANNED PLATFORM DUE FOR LAUNCH IN 1991.



By piggy-backing on the American spacecraft, the Europeans have developed their own highly sophisticated manned space flight program. Above, a "Discovery" launch in 1985.

PAUL KEMEZIS

The restart of the space shuttle flights this fall will not just be a crucial test for the U.S. space program: Due to one of the most successful international scientific cooperation efforts in history, hundreds of European scientists and aerospace officials also have a major stake in getting the shuttle flying again.

By literally piggy-backing on the American spacecraft, the Europeans have developed their own highly sophisticated manned space-flight program. They have scored a resounding success with the Spacelab research module, designed and built in Europe and flown aboard the shuttle by both the U.S. and European space agencies. A series of European-sponsored Spacelab flights before the January 1986 *Challenger* accident actually moved Europe ahead of the United States in microgravity research, the key first step to setting up industries in space. Although no one is close to producing commercial quantities of semiconductor crystals or protein crystals in space, the Europeans clearly have a leg up.

While the U.S. microgravity effort has faltered since the crash, the Europeans have kept up their research capabilities through unmanned experiments and are now eager to fly again. The current National Aeronautics and Space Administration (NASA) shuttle manifest calls for several European-related flights in 1991 as well as the first Japanese-sponsored

Spacelab flight, also in 1991.

Some Europeans had feared that the Americans, realizing the steady European advance, might squeeze flight chances for foreigners once the shuttle was back in service. But even with some recent slip-page due to shuttle restart problems, the Europeans believe they are being treated fairly by NASA schedulers, says Ian Pryke, head of the European Space Agency (ESA) office in Washington.

A key ESA effort in 1991 will be the launch and later retrieval by the shuttle of the Eureka (or European Retrievable Carrier) unmanned platform. Eureka will contain several long-term microgravity experiments designed as a transition to facilities aboard the permanent space station now planned for construction in the late 1990s. The Americans have no similar "interim" facility, especially since Congress this year turned a cold shoulder to a privately sponsored space-industry project. As a result, the Europeans are now likely to have a much better idea than the Americans on how to use the permanent station, once it is in operation.

The space station itself will be a major step forward for the European manned space flight program. Unlike the shuttle, where they are paying guests even on their own Spacelab module, the Europeans will own part of the space station and have a say in its management along with the United States, Japan and Canada. This new type of relationship was agreed on earlier this year, after the Europeans were satisfied that they would be protected against possible U.S. demands to make military use of the station. "It was very important to get the accord right," says Pryke. "It will be the benchmark for future space cooperation accords, all others will refer back to it."

"There will still have to be a ship captain who says 'steer left' or 'steer right,'" says Douglas Norton, chief of international programs at NASA for the United States. "But the clear intent is to strive for consensus in operating the station."

Under the accord, ESA, through its Columbus program, will supply an experimental module similar to Spacelab, a man-tended free-flying (MTFF) platform that can dock at the space station and be released again, and a separate polar observation platform. Japan also will build a research module, and Canada will supply the total foreign contribution to the station up to \$8 billion, compared to \$16 million committed by the United States. Each participant will have an allotment of space aboard the station, which it will divide up among its own experimenters.

The shuttle disaster, along with contin-

ued political debate in the United States about the need for the space station, has had a major side effect in Europe. After years of debate, the ESA members decided in November 1987 to pursue both the space station development with NASA and their own "Hermès" manned space-flight vehicle. The shuttle-like craft will be launched by an improved Ariane 5 rocket that also is in the first development stages. Hermès, due for its first flight in 1998, will initially be used to service the MTFF, but it would eventually enable the Europeans to build their own space station, especially if the U.S. project was canceled or delayed by new problems with the shuttle.

Pryke concedes that the Europeans do not have the resources to quickly pull a European space station program out of the hat if the Americans dropped out. "We would have to put a lot on hold," he says. Nevertheless, he sees the November accord as a fundamental policy decision that finally commits ESA to an autonomous manned space program.

The basic reason for the European success in manned space research goes back to the start of the U.S. shuttle program in the early 1970s. The Americans put most of their effort and money into getting man into space on the shuttle and left it mainly up to the Europeans to figure out what he should be doing once he got there. The basic Spacelab concept arose from this and this focus has given the Europeans an advantage ever since. But they have done several other things right, and this has not gone unnoticed by the Americans.

The high quality of the European work became obvious after several shuttle flights. European researchers, especially during the German-sponsored D-1 mission in October 1985, scored near-perfect success records with their in-flight experiments, while American researchers were getting failure rates of 30 percent and more with theirs.

After the *Challenger* accident, when NASA had time to reassess its program, a commission headed by U.S. astronaut Bonnie Dunbar was asked to study the problem. Dunbar, who had flown on the D-1 mission, turned in a report in June 1987 that praised the European approach to space research while panning the NASA microgravity effort.

The "Dunbar Report" said the U.S. microgravity research effort was badly managed, with a poor system for selecting experiments and contract conditions that drove away industry participation, especially after the promise of quick financial payback faded. It also found NASA had allocated too little money to develop

hardware for conducting experiments in space. NASA officials concede that the early decision to put the bulk of U.S. experiments in the open shuttle bay—where they could not be tended by the crew—instead of in the enclosed Spacelab module, was a major error.

In contrast, the report said the Europeans had wisely concentrated on building a state-of-the-art laboratory instead of several scattered experiments. This meant they had dependable, reusable hardware, which was now all the more valuable since the shuttle disaster had limited access by researchers to space. Also, the European governments had borne more of the cost of space research, making it easier for independent researchers and companies to use the facilities. The report cited Germany as a model to follow, with its "Intospace" program that gives industrial users easy access to Spacelab. Following up the Dunbar Report, NASA has begun to plan extra Spacelab missions, including an International Materials Laboratory flight in 1991.

Beyond just good management, the key to European success has been steadiness. While there have been major debates in ESA about which projects to support, and not all countries have followed the strong German lead in supporting microgravity work, the overall program is politically sound. The Europeans persevered with the Ariane launcher to see it become a major economic asset when the shuttle faltered, and they now seem determined to do the same with manned space research.

In contrast, the U.S. space station, which will require over \$2 billion in expenditures in 1989, is an easy target for Congressional budget cutters. This is especially so because a large portion of the U.S. space science community feels the station is a drain on other types of space research. The U.S. program has been kept moving in large part by initial Soviet successes with the primitive MIR space station. But this drive also is faltering as the Soviet program hits problems, such as the troubled re-entry of a space craft in September, and the MIR shows few actual research gains despite glowing Soviet promises.

Ironically, embattled NASA officials see the signing of the space station accord with ESA, Japan and Canada as a major new advantage in their struggle to keep the project going. "It will be a lot harder for Congress to cancel a project with this kind of international commitment," says NASA's Norton. €

Paul Kemezis is assistant publisher of *New Technology Week*.



Rises in exports of about 4 percent and an increase in consumer spending by around 3.5 percent have contributed to make 1988 the year in which German growth could be the highest since 1984. Pictured here: Neuschwanstein Castle in Bavaria. Next page: the stock exchange in Dusseldorf.

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GERM

ECONOMIC PERFORMANCE THIS YEAR

DAVID MARSH

Booming exports and continuing solid consumer demand are helping the West German economy turn in a better than expected performance this year. With gross national product (GNP) now likely to expand by 3 percent in 1988, roughly twice the rate projected at the beginning of the year, the improved short-term prospects have relieved some of the perennial international pressure on the Bonn Government to do more to stimulate growth.

Depending on the policies followed by the new U.S. Administration taking office next year, the respite may, however, not last all that long. There are worries that this year's renewed rise in exports, which has been spurred by the German mark's relative weakness on the foreign exchanges in the last few months, is delaying a necessary fall in the country's huge foreign trade surplus. This has grown above all with partner countries in the E.C., which now accounts for more than half of total West German trade.

The new U.S. President is likely to be forced to take tough action to curb the continuing large U.S. current-account deficit. And the persistent West German surplus could be storing up fresh international monetary problems for the future.

For the moment, though, Bonn is enjoying a victory over the pessimists. The Government's 1988 economic forecast of growth of 1.5 percent to 2 percent was widely regarded as over-optimistic when published in January in the wake of the October stock market crash. The world economy this year, however, has proved far more robust than foreseen. West German consumers are likely to increase overall spending by around 3.5 percent, exports are foreseen to rise by at least 4 percent in real terms, and industry has thrown off its immediate post-crash de-

pression. The result is that West German growth this year could be the highest since 1984.

Pressing structural problems of creeping inflexibility in Western Europe's largest economy have by no means been overcome. In spite of—and also partly because of—its position as one of the world's richest countries, as an economic powerhouse the Federal Republic has clearly lost steam over the past few years. The country has so far shown reluctance to adapt an economic and social structure that served it well during the "miracle" post-war building in the 1950s and 1960s, but that may be less suited for the more complex and competitive world of the 1990s.

In particular, the center-right coalition of Chancellor Helmut Kohl is now grappling with the challenges of reforming the costly social-security and health-care systems. The rising expense for employers and employees to help fund pensions and social care is one of the reasons why labor costs have risen to the second-highest in the industrialized world (after Switzerland)—helping prompt a substantial outflow of capital investment by industry into less regulated countries elsewhere in the E.C. or the United States.

The healthier 1988 economic picture nonetheless has brought a much needed political boost to Kohl's trouble-fraught coalition. The Chancellor was re-elected with a reduced majority at the helm of the Christian Democrat-led (CDU) Administration in the January 1987 general elections. After weathering 18 months of almost continual political bickering in the three-party coalition, which also includes the Bavarian Christian Social Union (CSU), and the liberal Free Democratic Party (FDP), Kohl has seen the standing of his party in the opinion polls drop below that of the opposition Social Democrats (SPD).

Since the economy will be the key to

the outcome of the next election at the end of 1990, Kohl is pinning hopes on a continuation into next year and beyond of this year's improved economic performance. Detracting from his own problems, the Chancellor has been given some consolation by disarray over economic policy in the ranks of the SPD, which has yet to find its way back to the economic competence it displayed under ex-Chancellor Helmut Schmidt.

Considerable doubts persist, however, over whether the West German economy, after performing more sluggishly than most other industrialized countries so far this decade, has the necessary vigor to keep up this year's growth rate. The outlook, therefore, is for no speedy diminution either of unemployment, which is likely to average around 2.3 million this year, or of the country's massive current-account surplus, which represents a major factor behind present disequilibrium in the world economy.

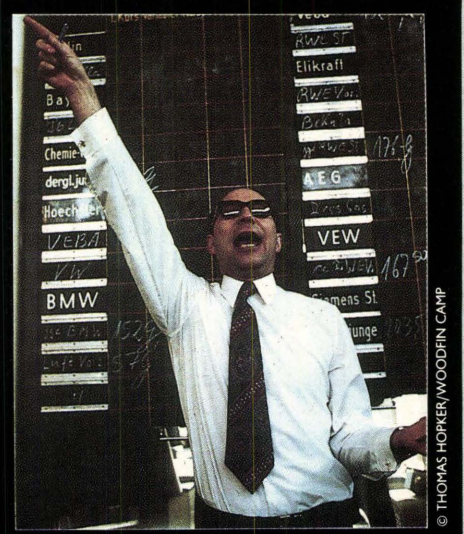
Kohl's Government, which took over after the break-up in October 1982 of the 13-year-long coalition between the SPD and FDP, has prided itself on achieving steady growth accompanied by near price stability. It is true that the economy is now in its sixth year of gentle upswing from the 1981-82 recession that proved to be the undoing of Schmidt. But growth averaged only a little more than 2 percent between 1983 and 1987. And expansion dropped to only 1.7 percent last year as the result of the influence of the dollar's fall last year on exports, which make up around one-third of total GNP.

Thus the better performance of the economy this year can be directly linked to the reversal of the dollar's 1987 slide after it hit a record low of 1.58 German marks at the end of December. The dollar's rise to highs above 1.90 German

David Marsh is the *Financial Times*' bureau chief in Bonn.

ANY

BETTER THAN EXPECTED.



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marks during this summer—and, more importantly, the relative decline of the mark against E.C. currencies—has been a considerable support to exports.

Germany chalked up a trade surplus of nearly 60 billion marks (about \$32.6 billion) in the first six months of 1988, with exports to other industrialized countries rising by 6 percent and those to other members of the E.C. by no less than 9 percent. The current-account surplus in the first half-year was 40 billion marks, unchanged from the figure in the same period last year. It looks unlikely that the current account will be much less than the 81 billion marks recorded in 1987, which was down only 4 billion marks from the record 85 billion marks in 1986.

German exporters have been helped considerably this year by the lack of any realignments in the European Monetary System (EMS). The EMS allows trade among eight E.C. countries to be carried out at semi-fixed exchange rates. Its last change of parities was in January 1987. Along with the strong showing of the British pound, which is outside the EMS exchange-rate mechanism, exchange-rate stability in Europe has resulted in a real inflation-adjusted devaluation of the German mark in view of Germany's lower-than-average inflation rate of only about 1 percent.

Showing how the Federal Republic's trade has shifted more toward Europe, the trade surplus with most European countries widened considerably in the first six months. West Germany registered surpluses of 10.2 billion marks with Britain (compared with 8 billion marks in the same period last year), 9 billion marks with France (compared with 7.9 billion marks last year), 5.4 billion marks with Italy (3.8 billion marks), 2 billion marks with the Netherlands (400 million marks) and 5.5 billion with Belgium and Luxembourg (4.8 billion). The trade surplus with the United States over the period narrowed sharply to 7.1 billion marks from 11.8 billion in the first six months of 1987. But with the imbalances in Europe growing, it would be surprising if the pressures for the revaluation of the mark within the EMS do not start to grow in coming months.

These pressures also reflect the view held in some other E.C. capitals—particularly in Paris and Rome—that West Germany's *de facto* dominance of the EMS is forcing a restrictive economic policy on to Europe as a whole. In the view of some E.C. policy makers, the EMS has subjected other countries to German-style anti-inflationary discipline—but also has kept growth below levels needed to curb E.C. unemployment.

Between 1976 and 1980, the German economy grew faster than the average of European industrialized countries. But, showing how the economic *Wunder* has turned into a whimper, economic performance since then has fallen behind the European average in every year except 1984. Even more tellingly, in only three years since 1971—in 1976, 1979 and 1980—has German growth exceeded the average of all industrialized countries (including North America and Japan) grouped in the Organization of Economic Cooperation and Development (OECD).

As a result, unemployment in the Federal Republic, stagnating since 1983 at about 9 percent of the dependent labor



The dollar's rise this summer and the relative decline of the German mark against E.C. currencies have been a considerable support to exports.

force (according to the OECD definition), has risen faster since the second oil shock in 1979 than in any other industrialized country apart from Britain. In view of the Federal Republic's share of around one-quarter of the E.C. GNP, Bonn has been reminded periodically, above all through some highly critical reports from the OECD, that higher domestic growth would not only help its European partners—but also solve some of its own worries, for instance over the long-term funding of the pensions system.

Gerhard Stoltenberg, the Finance Minister, has tried to bolster longer-term growth prospects with a three-tier tax-cut package intended to put back spending power into taxpayers' pockets and restore incentives throughout the economy. A total of 14 billion German marks of tax cuts came into effect this year—

providing one of the reasons for the current buoyancy of consumer incomes—with a further total of 19 billion marks of net reductions planned to come into force in 1990. The tax cuts, along with increasing payments for unemployment benefits and social security and continuing high subsidies for agriculture, transport and declining industries, however, have given Stoltenberg considerable problems over controlling budget spending.

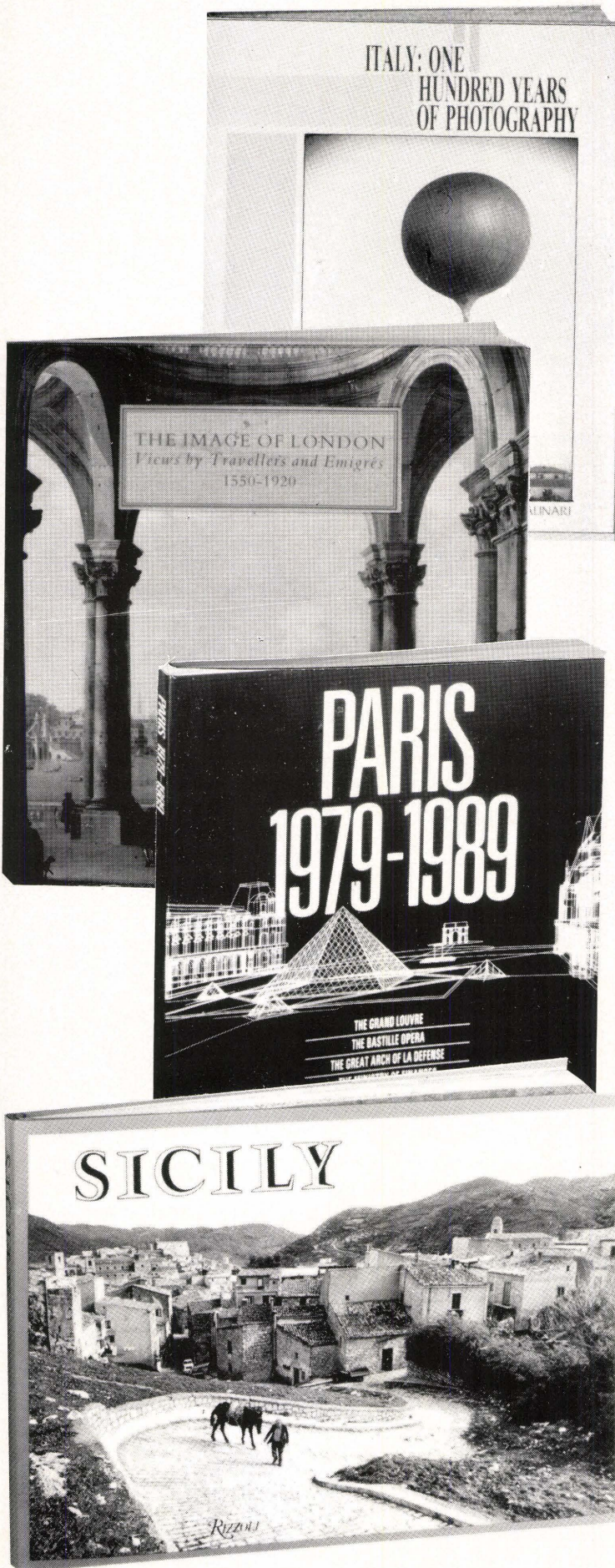
This year's federal deficit is likely to total a record of around 38 billion marks. It has been inflated by extra payments to the E.C. decided at the beginning of this year, as well as a virtual wiping out of annual profits paid to the government by the Bundesbank, the central bank, which had to write down substantially its foreign exchange reserves after the dollar's plunge in the final months of last year.

Stoltenberg, who won the confidence of the financial markets in his first years in office after 1982, has seen his political reputation tarnished over the past 12 months as a result of a political scandal in his home state of Schleswig-Holstein, where he has chaired the Christian Democrats since 1971. To improve confidence in his handling of the budget, Stoltenberg plans to reduce the federal deficit next year to around 32 billion marks by bringing in unpopular tax increases on petrol, tobacco, insurance policies and gas supplies. The 8 billion marks in tax increases have been criticized within and outside the Government as likely to dampen next year's growth, and most forecasters see a slowdown in 1989.

Another factor posing a question mark over economic buoyancy in 1989 is the Bundesbank move to tighten monetary policy during the past few months. The Bundesbank has already raised the discount rate to 3.5 percent from the record low of 2.5 percent at the end of last year. Especially if the mark's weakness persists, the Bundesbank will have no compunction in tightening credit further in coming months to counter inflationary pressures.

Partly because prices of imported goods and raw materials have been increased by the lower mark, consumer price inflation is likely to rise moderately to around 2.5 percent next year. Such a rate would be welcomed as impressively low in most countries. But in stability-minded Germany, the Bundesbank is given considerable public support in making inflation public enemy No. 1. The next 12 months, therefore, are likely to see a deliberate Bundesbank effort to rally the mark—a policy that could well prompt new trials within the EMS after a year of unexpected calm. €

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U.S.-GERMAN RE THOUGH EVOLV REMAIN STRONG

BIRGIT BREUEL

The German-American relationship was for a long period substantially characterized by the specific turning toward Germany by the United States in the shape of its military protection and the Marshall Plan. After defeat in war, the Germans sought a new identity and found it in a social pattern that was completely directed toward the American pattern.

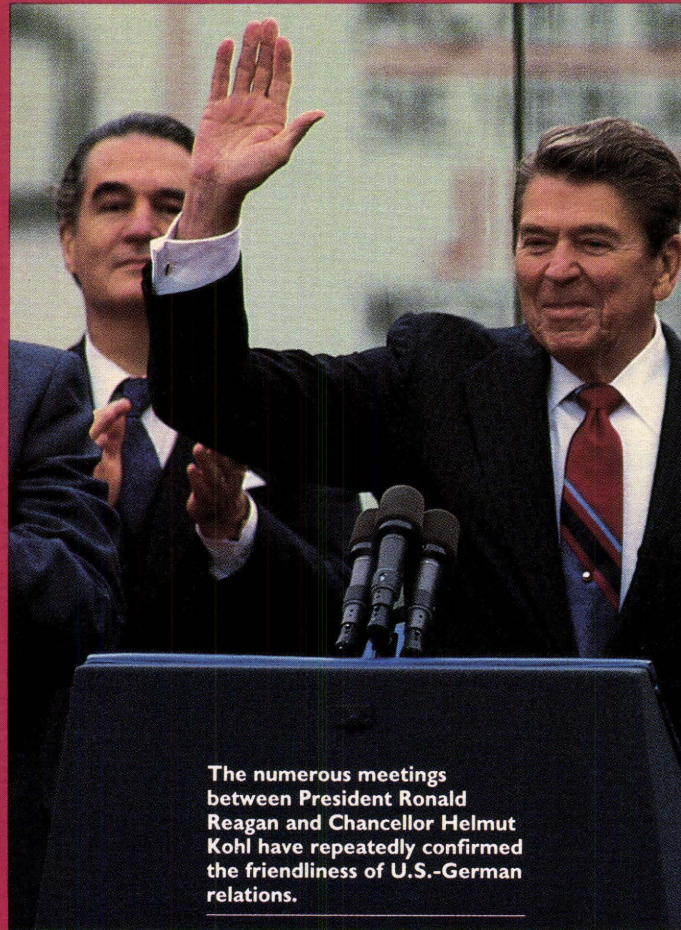
But times and attitudes changed. A second stage of development followed the period of adaptation. The turmoil of the late 1960s and early 1970s, arising first and foremost out of the Vietnam War, also meant that many young Germans had lost their ideal. Just as in the 1950s the United States served as the model, equally in the 1970s did country have a totally negative image in the eyes of many young Germans. One could argue at length about the reasons.

It is true that the United States has not always been applauded for its world-wide presence and the role of responsibility it had adopted in the world. The result was that parallel to the development in Germany, there developed a certain tendency in the United States toward isolationism and a shift of economic interest in the direction of the "five small tigers" of the Southeast Asian region. This was particularly true for the South and the Southwest of the United States, where the economic future was concentrated. On both sides, many people began to feel that the U.S.-German relationship as a whole was endangered.

In the 1980s, however, the United States and Germany have begun to assess their relationship toward each other realistically, neither romantically embellished nor in a disillusioned fashion. Germany has discovered its new identity,

Birgit Breuel is Finance Minister of the federal state of Lower Saxony.

TRADE
BETWEEN
THE TWO
COUNTRIES
TOTALED
\$42 BILLION
LAST YEAR.



The numerous meetings between President Ronald Reagan and Chancellor Helmut Kohl have repeatedly confirmed the friendliness of U.S.-German relations.

which sees itself neither as an imitation nor as a rejection of the United States. Not that this is disturbing: Rather, it represents a real chance for German-American cooperation. It is a question of discovering the common traits just as much as the differing strengths of the two nations in order to make them flourish as complementary to each other.

The relations without a doubt have changed, but they were friendly and have remained friendly. The numerous meetings between U.S. President Ronald Reagan and German Chancellor Helmut Kohl have repeatedly confirmed this. The worries expressed from time to time in the United States that the Federal Republic

and Europe might withdraw from the Western alliance can only be explained against the background of recent history and are thus, at the same time, also to be seen as clearly groundless.

Europe also is discovering its own identity at the present time. This can be seen particularly in the area of security policy: The immediate worries of the Americans in this area are not necessarily also the *immediate* worries of the Europeans, although at the same time both partners stand firmly committed to the Atlantic alliance and there can be no doubt whatsoever in respect to this alliance. The European and German worry is: The shorter the range of their nuclear weap-

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ons, the more European (and, in the final analysis, the more German) are the dead. It is therefore necessary and correct to stress the common interests in an alliance of partners.

This also is true for the policy toward the Eastern Bloc, which also is often viewed with mistrust in the United States. In this, the mistrust was never justified. Germany always stood firmly committed to the Western alliance, and precisely because of this fact was in a position to send out important impulses toward the continued development of the East-West rapprochement.

In another respect, too, the German identity is developing parallel to an iden-

tity of the Europeans. Europe is growing together and is developing its own position as a political, economic and cultural unit between the great powers. This is no isolationism of specific opportunities that can be grasped by Europe and America, each for itself, and that can be brought to optimal results by mutually complementary activities.

German-American Economic Relations

The significance of the United States for the German economy is unmistakable. Last year, U.S. citizens nationwide bought goods from Germany worth 50 billion German marks (about \$28 billion). In the same period, Ger-

many made purchases from the United States worth 25 billion German marks; in this, the United States took sixth place on the list of German imports.

Almost half of Germany's exports consisted of motor vehicles. Machinery and chemical products are other important export. For their part, the Americans are highly successful in Germany in the sale of office machines and computers, as well as electronic appliances, in the field of air and space transport vehicles and also in the chemicals sector. Moreover, the fact that the United States is the most important foreign investment area for the German economy, with 30 percent of German direct investment, indicates the

extent to which the German economy measures the importance to it of the American market.

With such close and intensive involvement it is only natural that, just as in a family, there is some friction from time to time. Behind such criticism is the wish, but also the hope, that a change will come about in the other party. With justification, the United States points out to Germany that the E.C. must relax its import barriers, particularly in the agricultural sector. The view that this is necessary is becoming more and more clear within the E.C., too. The Community is confident that its agricultural policy decisions from the beginning of this year will contribute to a resolving of the especially sensitive agricultural problems.

In the field of agriculture, but also in the problem areas of trade such as telecommunications and the Airbus project, the Federal Republic was and is striving in its relationship with the United States to play a constructive and mediatory role. Its decisive rejection of the introduction suggested by the E.C. Commission of a surcharge on vegetable oils and fats, along with some other member states, has contributed noticeably to an improvement in the atmosphere of the relations.

In connection with the creation of a unified European internal market by 1992, the E.C. also must reach an agreement on its future joint foreign trade policy. This will be no easy undertaking, as the present foreign trade "protectionary" measures of the individual E.C. member states produce effects of varying intensity. Even in Europe there are supporters of protectionism who envisage dire consequences for the E.C. economy without protective-fence policies and are therefore demanding a common exterior rampart upon the creation of a European internal market. The Federal Republic of Germany will stand firm in its resistance to such plans and notions. €

NEWS OF THE E.C.



The "Youth for Europe" program, which has just been adopted by the E.C. Council of Ministers, will finance exchanges for young people between the ages of 15 to 25 so they can spend time in other E.C. countries and cultures.

SOCIAL ISSUES

COUNCIL ADOPTS "YOUTH FOR EUROPE" PROGRAM

The Council recently adopted the "Youth for Europe" program, the aim of which is to stimulate and improve the exchanges of young people within the E.C.

Commission Vice-President Manuel Marin, responsible for education and training, expressed his satisfaction over the adoption. "We have to face the fact," he said, "that the approach of 1992 will require of all the member states and all E.C. citizens open-mindedness to our partners. This program, by its very nature, and the fact that it is tailored for young people, is bound to make a major contribution to such open-mindedness." At the same time, he expressed regret that the Council had halved the 30 mil-

lion ECU originally asked for by the Commission to 15 million ECU over three years (1989-91), even though 10 of the member states had supported the Commission's proposals or even considered them too economical.

The Commission nevertheless will be able to make use of the 3.5 million ECU entered in the 1988 budget to prepare and launch the program during the second half of this year. This will bring the total program budget to 18.5 million ECU.

As adopted by the Council, the "Youth for Europe" program will finance exchanges involving some 25,000 to 30,000 young Europeans between the ages of 15 and 25, according to Commission estimates. The program enables young people to spend at least a week in another member state and immerse themselves in the economic, social and cultural realities of the country visited.

The "Youth for Europe" scheme is the third in a series of programs adopted with the aim

of allowing young people to live, work or study in a member state other than their own. This latest program complements other schemes, such as ERASMUS—designed to enable university students to spend a year of their university studies in another member state—and COMETT, which encourages greater cooperation and exchange between universities and industries in research and technology, and represents an important element in the E.C.'s ambition to create a "People's Europe."

PROGRESS REPORT ON "PEOPLE'S EUROPE"

Alongside the work toward the achievement of the E.C.'s single economic market in 1992, the program of a "People's Europe" is vital to achieve the social aspects of a frontier-free Europe and to provide motiva-

tion for the citizens of the E.C. to help in its creation.

Since the program was actively launched in 1985, significant tangible achievements have already been made, such as the introduction and use of a European flag and the European passport (now issued by all member states save the United Kingdom and the Netherlands, who should introduce it at the end of this year); a number of educational programs for school children, students and young workers to encourage them to study and work in member states other than their own for certain periods; mutual recognition of diplomas in an effort to harmonize the E.C.'s varying educational systems and standards; and various other social programs.

While the progress so far has certainly been encouraging, the Commission has pointed out that much remains to be done, and has outlined plans for future action to foster a European identity among the E.C.'s citizens and also to make them

aware of their rights as such.

In the view of the Commission, a major tool toward social integration is information. The best possible use should be made of this tool to provide information about the E.C.'s aims and activities in all fields. This will help to foster mutual understanding, an insight into other cultures and, most important, involve the citizen in building the future of Europe.

In order to achieve this, the Commission has pointed out that increased cultural activity must be a priority area in the drive toward a People's Eu-

rope. The promotion of an audio-visual policy figures very prominently in this area, key components being an integrated European multilingual television information system, support for non-documentary cinema and television productions and rising to the challenge of high-definition television.

In the area of rights for the European citizen, the Commission has proposed a directive on voting rights in local elections for E.C. nationals living in an E.C. country not their own and the introduction of a possible charter of citizens' rights.



The introduction and use of the European flag has been one of the most tangible achievements to date of the Council's proposal for a People's Europe.

SCIENCE AND TECHNOLOGY

COMMISSION CALLS FOR GREATER SUPPORT OF "SPRINT" PROGRAM

The E.C. Commission adopted this summer a proposal on the main phase of the SPRINT program for the period 1989-93, which will have a budget of 130 million ECU to reinforce and add a new dimension to the activities already undertaken during the current experimental phase, which expires at the end of 1988. SPRINT stands for Strategic Program for Innovation and Technology Transfer, and is an important element within the framework of the E.C.'s R&D activities to master technological change and win the race for innovation and competitiveness in this field.

The current phase has demonstrated the added value and

benefits to be gained by setting up intra-E.C. networks bringing together technology transfer, innovation experts and the integration of R&D results in new products and services. According to Karl-Heinz Narjes, Vice-President of the E.C. Commission responsible for industrial affairs and research and science, SPRINT lies at the heart of the technological transformation of the European economy.

The second phase of SPRINT should concentrate on three main areas, namely:

strengthening the European infrastructure for innovation services, by establishing or consolidating intra-E.C. networks of technology transfer and innovation support professionals;

supporting pilot projects on innovation transfer that focus on the application of existing technologies to receptive sectors, situated preferably in the less developed or industrially declining regions of the Community;

improving the environment

ENVIRONMENT

COMMISSION CALLS FOR ACTION PROGRAM ON FORESTRY

In an effort to establish a strategy for the harmonious development of the forestry sector in the E.C., the Commission sent a proposal for a four-year action program to the Council of Ministers outlining principles and aims.

While the E.C. has not been inactive in this area until now, previous spending on the forestry sector has mainly been within the context of other agricultural schemes. Woodland in the E.C. plays an important role, however, making up about 40 percent of the E.C.'s total agricultural area, or roughly 20 percent of the total land area. These figures, and the fact that the forestry sector is a very important source of indefinitely renewable raw materials, and

the provider of employment to about two million Europeans, makes it a vital component of the E.C.'s rural economy.

The proposal is based on the consensus reached in discussions that the E.C. should give sustained action to foster the protection, development and optimum utilization of its forests. The E.C. produces only half the timber it needs, although its requirements are expected to rise by 30 percent in the year 2000. Action at the E.C. level therefore seems warranted.

The means to be used to achieve some of the goals include reforestation of agricultural land, the development of woodland in rural areas by increasing environmental conservation, protection of the soil and maintenance of water balances and natural habitats. Special attention will be paid to areas destroyed by pollution, fire or other natural disasters. Promoting forestry also will improve the local economies in the E.C. by helping create jobs.

for innovation by making the processes involved better known and increasing coordination between the member states and the E.C. Commission. Efforts still need to be made in identifying obstacles to progress, measuring achieved results, evaluating the instruments and the effectiveness of innovation promotion policies, in order to allow for the better coordination of these policies.

E.C. ADOPTS FIVE R&D PROGRAMS

The E.C. Council of Ministers this summer adopted five research programs, each running for a period of two to five years, that will cost the E.C. an estimated 326 million ECU. Areas of research will include improvements to road safety, development of computers capable of learning and the assessment of the risks involved in the genetic manipulation of plants.

The SCIENCE program, short for Stimulation of the International Cooperation and Interchange Need by European Research Scientists, has been set up to promote the exchange of research workers within the E.C., and will receive the largest part of the allocated budget. It will finance research projects, twin laboratories in different member states and provide grants to researchers to enable them to work in E.C. countries other than their own. SCIENCE will further fund research into superconductivity, which is expected to find important applications in transport and deep-sea and space exploration.

DRIVE, or the program for Dedicated Road Infrastructure for Vehicle Safety in Europe, hopes to make road traffic flow smoother and safer within the Community. The need for this program are the high numbers of deaths and accidents in the E.C., increasing traffic congestion and the pollution caused by exhaust gases. DRIVE's research will aim to improve analysis of

traffic accident data, the evaluation of road conditions and pollution, as well as radar and traffic management and signaling systems. A further aspect of the program is standardization to ensure compatibility of national systems in this area. The program will cover a three-year period and receive 60 million ECU from the Community.

Pre-competitive research for the third program, DELTA (Development of European Learning through Technological Advance), will last two years and receive 20 million ECU in E.C. funding. Its aim is to harness information technology and telecommunications to the development of teaching methods suitable for retraining people as often as necessary during their working life. The research program will cover word and image processing, new techniques of data storage, direct broadcasting by satellite, artificial intelligence and so on. DELTA also will pay particular importance to drawing up European standards.

In both DELTA and DRIVE, every project will involve at least two participants from different E.C. countries, one of whom has to belong to a commercial enterprise. Half of the costs will be met by the E.C. with companies, universities and research institutes making up the rest.

The Common Bureau of References (CBR) program also will have standardization at its center. The aim of this program, which is backed by 59.2 million ECU and will cover a five-year period, is to create a scientific basis for the E.C.'s standardization policy, and will involve researchers from the E.C.'s industrial companies, scientific laboratories and universities.

The fifth program, in the field of biotechnology, is an amendment to the research and training program in this field, in which the amount allocated by the E.C. until the end of 1989 has been increased by 20 million ECU to allow Spain and Portugal to join in on it, allow for greater assessment of the risks such research involves and enable researchers to process more data electronically.

ESPRIT II LAUNCHED WITH 158 APPROVED PROJECTS

Six hundred and fifty proposals were submitted to the Commission for the second phase of the ESPRIT program, of which the Council of Ministers approved 158 for contract negotiation.

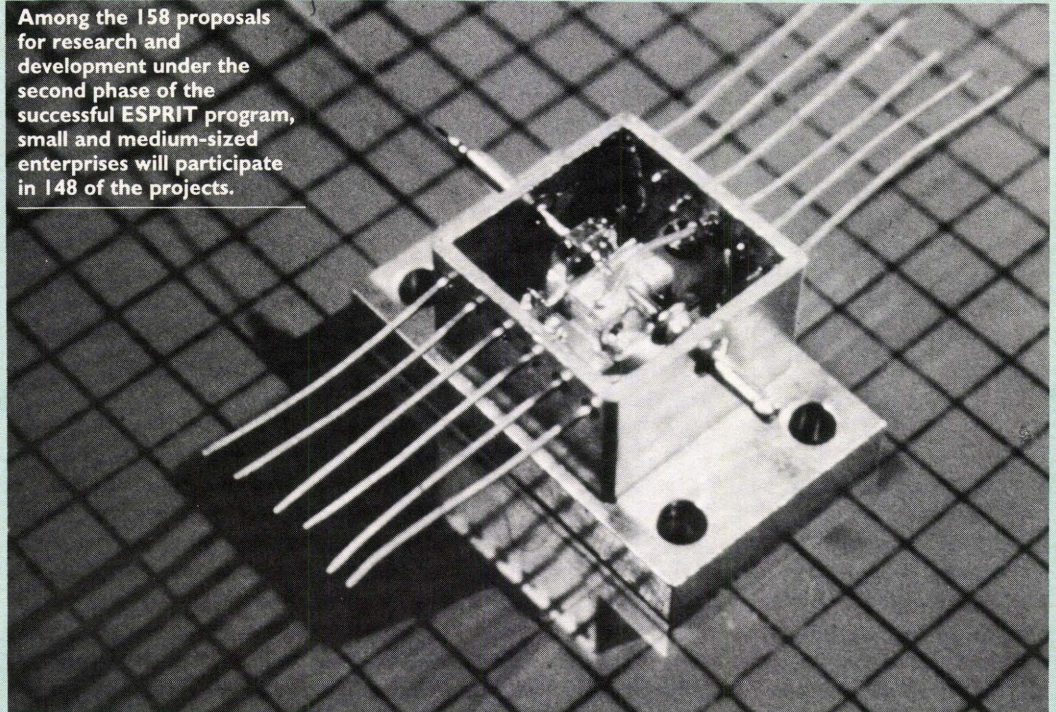
Overall E.C. funding for the second phase was set at 3.2

billion ECU, of which half will be provided by the E.C. and the other half by the participants of the scheme. A notable feature is that small and medium-sized enterprises (SME) will participate in 14% of these—or 90 percent—implying a substantial increase over the already high level of SME participation in the first phase of ESPRIT.

Some of the projects selected are follow-ups to the results of ESPRIT I, such as work on mini-supercomputers (which should be finalized under the new pro-

gram), as well as the work on improving industrial production by getting computers to communicate with each other. Other proposals will move into new directions, such as computer systems that will be able to control equipment and appliances in private homes, the establishment of Europe-wide software certification procedures and developing computerized work stations that simultaneously use voice, writing, data and charts.

Among the 158 proposals for research and development under the second phase of the successful ESPRIT program, small and medium-sized enterprises will participate in 148 of the projects.



BUSINESS & ECONOMICS

E.C. IMPOSES ANTI-DUMPING DUTIES ON JAPANESE PRINTERS

After an investigation by the E.C. Commission found that Japanese manufacturers were dumping daisy-wheel computer printers on the European market, the Commission decided to impose provisional anti-dumping duties ranging from 23.4 percent to 43.2 percent on the companies concerned.

The investigation, which covered the period from April

1986 to March 1987, revealed dumping margins of 21 percent to 22 percent, and found that imports of daisy-wheel printers from Japan had brought the Japanese share of the E.C. market to 74 percent in 1986. The investigation further established that this increase in volume of Japanese printers coincided both with a decline in the profitability of such products of E.C. origin and a downward trend in the prices of these products.

Since printers form an essential part of the electronic data processing industry, it is vital for the E.C. to maintain this market. The Commission therefore found it in the E.C.'s interest to put an end to the Japanese dumping measures, and considered that European

manufacturers should be able to raise their selling prices substantially to cover manufacturing costs and increase profit margins. The imposed duties should be high enough to make up for the price gap.

DEVELOPMENT OF EUROPEAN INFORMATION MARKET

With the growing importance of electronic information services, the E.C. Council of Ministers approved an action plan for a European information services market that will receive 36 million ECU in funding over a two-year period.

The funds will be used to co-

finance pilot projects aimed to develop advanced information systems in collaboration with companies across Europe. More than 700 responses have already been received by the Commission following its call for expressions of interest, and the recent Council decision now will enable the first projects to commence in early 1989.

Commission Vice-President Karl-Heinz Narjes, responsible for information and technology, said that the program would speed up the integration and growth of the European economies since it would help create new ways to locate and use information at the workplace and draw on the vast amounts of information still inadequately exploited.

Priority areas for the program are road transport information, tourism information,

image banks and standards information as well as intelligent interfaces to electronic information services. It also will set up a European Information Market Observatory, which will track trends in the information market, improve quality of market data and provide better decision-making tools. The program also will aim at better exploitation of publicly held information by the private sector, overcoming legal, administrative and technical barriers, and simplifying information access methods and support for users of such services.

The European electronic information services market currently employs some 100,000 people and generates some 1.25 billion ECU per year. This figure is expected to increase to over 10 billion ECU within the next decade.

E.C. Commission Vice President Karl-Heinz Narjes welcomed the Council's approval for a European information services market, noting that its access to inadequately exploited information would help speed economic integration.



SLIGHT FALL IN UNEMPLOYMENT FOR 1989

Unemployment in the 12-nation E.C. is expected to decline marginally in 1988 and 1989, according to the E.C., which has forecast a rate of unemployment of 11.3 percent for all of 1988 and of 11.1 percent for 1989. The economy should grow by 2.6 percent this year, and by 2.3 percent next year, according to Commission estimates. These rates are lower

than those forecast for the United States and Japan.

Domestic factors will be the principle engines of growth within the Community. Investment is expected to rise by 4.8 percent in 1988 and by 4 percent in 1989, while private consumption should increase by 3.3 percent and 2.7 percent, respectively, largely as a result of lower taxes and savings. The Commission believes that the completion of the internal market, set for 1992, will add roughly 1 percent per year to the growth rate.

AID AND DEVELOPMENT

EIB LOAN FOR PORTUGUESE INDUSTRIAL, INFRASTRUCTURE SCHEMES

The European Investment Bank recently announced a loan of 177 million ECU for investment in Portugal's tourism and transport industries and environmental protection.

Among projects in the industry and tourism sector, loans were earmarked for the construction of a 172-room hotel in Lisbon that will offer conference, restaurant and other ancillary facilities; the construction of a plant that will produce medium-density fiber panels, thereby gaining maximum benefit from the extensive local pine resources and creating some 75 permanent jobs, and a further 200 indirectly related employment opportunities. The EIB also concluded two global loans with Portuguese banks, who will lend (with approval from the EIB) to small and medium-sized enterprises, and to other financial institutions that will use the loans to fund ventures in industry, tourism and other related services.

The EIB gave a 20-year loan of 3.1 billion escudos (\$20.1 million) to Portugal as part of an environmental protection program, under which waste water collection and treatment and disposal facilities will be built between Lisbon and Estoril.

Loans approved for transport infrastructure work will be channeled mainly into ventures improving the national road network, by removing bottlenecks on main arteries, facilitating access to more remote regions and upgrading road links to Spain and other E.C. countries. A loan of 5 billion escudos also was given to the regional government of the Azores to improve communications on and between the archipelago and mainland Portugal. The Azores is one of the E.C.'s most remote and least developed regions, and it is important to broaden and modernize its economic base.

COMMISSION FINANCES REFUGEE AND DISPLACED PERSONS PROJECTS IN CENTRAL AMERICA

Under the Esquipulas II agreements to establish stable and lasting peace in Central America, communiqués were signed by the E.C. and the Central American countries in Managua this summer, in which the E.C. stated its willingness to increase aid for refugees and displaced persons in those countries. As part of this policy toward Central America, the Commission has decided to finance five particular projects.

In Guatemala, the E.C. has given 2.5 million ECU to a development project in resettlement

areas, which will consist of establishing basic social infrastructure—access roads, water supply, education and health facilities, introducing small livestock farming and craft activities, as well as producing cereals, food crops and coffee.

With financial assistance of 180,000 ECU, the Commission is further assisting in the Ixcán area of Guatemala. This project was implemented by a French non-governmental organization, with the purpose of training a number of refugees and displaced persons to encourage livestock farming, which will provide families with an income and better diets. The program also includes health checks and vaccination of livestock.

In El Salvador, the project involves the resettlement of refugees, of whom 4,300 were repatriated from camps in Honduras at their request last year. They have been resettled in their places of origin, and will receive help to re-establish agricultural production, livestock farming and social infrastructure. The United Nations High Commission on Refugees (UNHCR) gave emergency aid to the families upon their arrival, and the Commission has given 1 million ECU to the project.

A project in Honduras, co-financed by the Catholic Committee Against Hunger and For Development, provides technical training for Salvadoran refugees living in camps in Honduras. This includes production and repair workshops, sewing, shoe-making, light mechanical work and the like, and will give them skills while waiting to return to their home country as well as meet many of their non-food needs. The Commission will contribute 230,000 ECU.

In Nicaragua, the Commission is investing 200,000 ECU in health programs for returning refugees from Honduras, and will cooperate with a Belgian non-governmental organization in improving health care and providing training for local medical staff and stocking up medical dispensaries. The program is carried out in coordination with the Ministry of Health and the UNHCR.

IMPROVED TARIFF PREFERENCES FOR DEVELOPING COUNTRIES IN 1989

Commission proposals this summer for the Generalized System of Preferences (GSP) for 1989 increased the amounts of exports under this system by 9 percent and will provide for relief from almost 1 billion ECU of customs duties.

The GSP provides for duty-free access for all manufactured products from developing countries that do not receive preference on a contractual basis, (as do, for example, the 66 African, Caribbean and Pacific members of the Lomé Convention) and includes industrial sectors as sensitive as those of footwear, textiles, steel and petrochemical products. In agriculture, the E.C. has accorded reductions of import duties on nearly 400 products, such as canned pineapples, coffee, unmanufactured

tobacco and so on.

The purpose of the GSP is to help developing countries to industrialize, and as such, the E.C. has maintained a policy of differentiation for industrial products, in order to enable it to assist those countries that especially need help. The Commission has therefore proposed the selective exclusion of certain products or countries that have shown their competitiveness by supplying over 20 percent of total E.C. imports in question, such as methanol from Libya, clocks and watch cases from Hong Kong, iron and steel wires from South Korea.

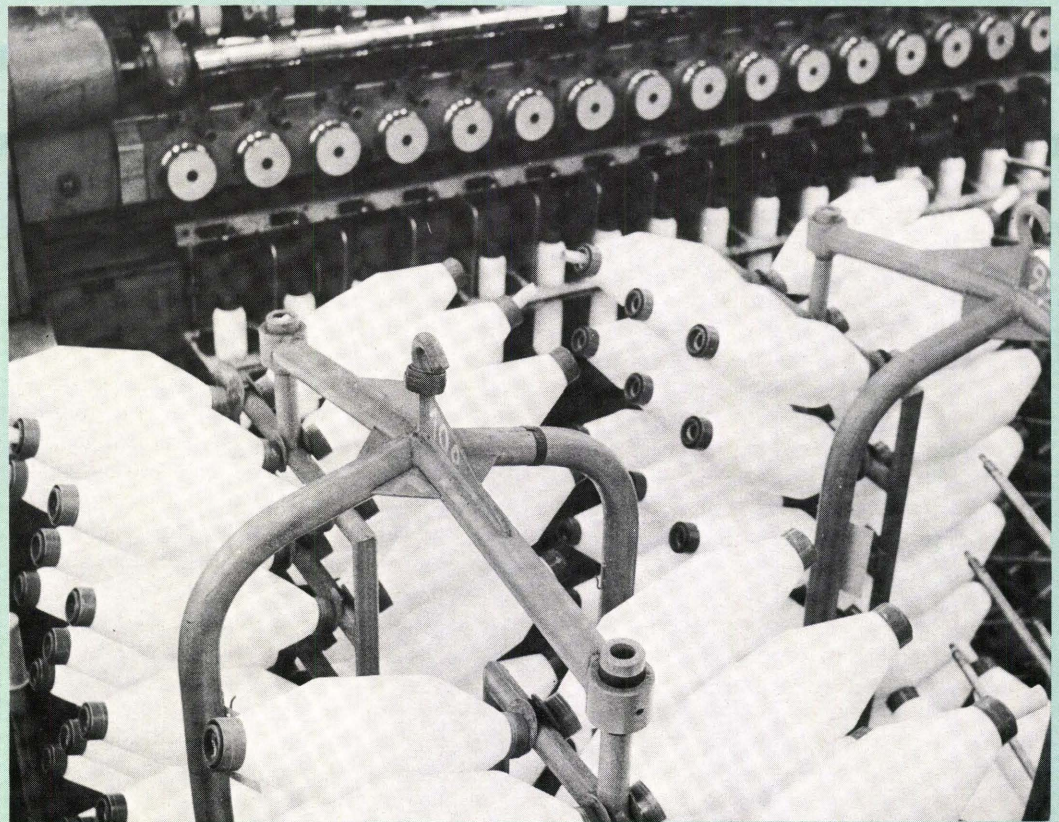
In the area of textiles, the Commission in 1987 adopted a new scheme for Multi-Fibre Arrangement textile products, essential features here being differentiation with regard to products and/or countries that have become fully competitive and re-evaluating the preferential amounts for other products and/or countries. In textiles, differentiation affects those countries that have reached a certain level of development, and

have averaged 10 percent or more of E.C. imports of a particular category over three years.

Under the proposal for 1989, preferential amounts for each product and country in textiles would be equivalent to 0.2 percent of total 1985 E.C. imports for dominant textile suppliers, or state-trading countries, and 1 percent of such imports in the case of other suppliers. In the case of China, although one of the leading developing textile supplier countries to the E.C., the exclusion system has been made more flexible due to its low per capita gross national product.

In agriculture, the Commission has proposed reducing the GSP duty rates in 1989 for certain products, such as processed tobacco products, mushrooms (excluding cultivated mushrooms), okra, pawpaw chutney and lime juice. For the least developed countries, the GSP duty rates, as proposed, are zero on pineapples, dried figs and grapes, and frozen strawberries. €

Under the proposal for 1989 tariff preferences, preferential amounts in textiles would equal 0.2 percent of total E.C. imports for state-trading countries and 1 percent for other suppliers.



BABIES

Continued from page 30.

the Commission has insisted, but the United States has not discussed at all. In the E.C. proposal, leave must be non-simultaneous and non-transferable—that is, taken only when the other parent is unavailable to care for the child and only in the employee's own three-month entitlement. In other words, it may not be taken up wholly or mainly by one partner, as is currently allowed in Denmark and the Federal Republic of Germany. In those countries, women generally use all or most of the leave available to both partners. This can backfire on improved hiring practices for women. (Certain feminist groups on both continents have opposed parental leave in this context: If women take leave and men do not, for whatever reason, women workers will be segregated unfavorably.) The E.C. demands non-transferability so that fathers are encouraged to "use it or lose it"—take up their family responsibilities or lose the right to any leave at all.

Substitution. U.S. sponsors also have outlined means of substituting parental or medical leave for vacation leave, or for other time off, whether at the request of the employer (House version only) or of the employee. The E.C. feels strongly about the sharing of professional and family responsibilities, however, and does not want to see parental leave shifted around.

Threshold. The question of who must comply with parental leave has been debated seriously. The original U.S. bill proposed a compromise to exempt businesses with less than five employees, later raising it to 15. Now a House compromise has raised the threshold to 50 during the first three years of enactment and subsequently to 35. The Senate has compromised at 20. The equivalent E.C. legislation sets no precedent for this kind of exemption, and case law has even established that such a threshold in national legislation is unlawful.

Debate over this issue has been telling. In the United States, thresholds were determined only quantitatively, since legislators considered that the type of industry or the age of the business was irrelevant to health and family duties. Only in the newest compromise have employers been permitted to deny leave to employees in the top 10-percent salary bracket, if they can show a business necessity. In the E.C., debate has centered from the start around these "key employee" and the "serious difficulties" tests. If the worker was indispensable to the undertaking, or if the company was too small to provide leave without substantial harm,

exceptions should be made, some member states argued. The argument has not been resolved thus far.

Practical Applications

In the E.C.: An employee having a baby takes her 12-20 weeks of paid maternity leave and then, if she wants, three months of parental leave. These months are unpaid unless her member state subsidizes them (as only Denmark, Italy and the United Kingdom currently do). The child's father also may take 3 months of parental leave, but not simultaneously, and if one or the other chooses to forego the leave time, it is not transferable. Upon return, both parents are reinstated to their former or equivalent positions.

In the United States: An employee having a baby takes 13-15 weeks of unpaid medical leave for childbirth and then, if she wants, 10 additional weeks of unpaid family leave. The child's father may also take 10 weeks, unpaid, and when each of them returns, each is also fully reinstated. Of course, any employer may provide more than these federal guidelines. Paid maternity leave is often included in individual benefits plans in the United States, for example, and this new federal legislation is not meant to interfere. It is meant only to set minimum standards.

The Debate

Costs. On both sides of the Atlantic, opposition to parental leave is headed by business and industry. Costs of holding on to employees' jobs and benefits while they take leave—especially paid leave—will be prohibitive, say employers. Yet they have been slow to project concrete figures. The most recent estimate from the General Accounting Office projects \$188 million, which, by business standards, seems manageable. In the E.C., a study carried out by the Equal Opportunities Commission in Britain claimed that parental leave as proposed would add only about 0.01 percent to employers' total wage costs. (The estimated cost of parental leave in Sweden, whose program is the most generous of any in Europe, was 1.5 percent of the total 1984 wage and salary bill.)

Meanwhile, parental leave advocates in both the E.C. and the United States have determined that society actually spends more without parental leave. When child-bearing women take leave without a guarantee of return, they require \$108 million more in public income assistance, U.S. researchers say, than they would if they returned to their former posts. Their employers also suffer from decreased productivity and from the costs

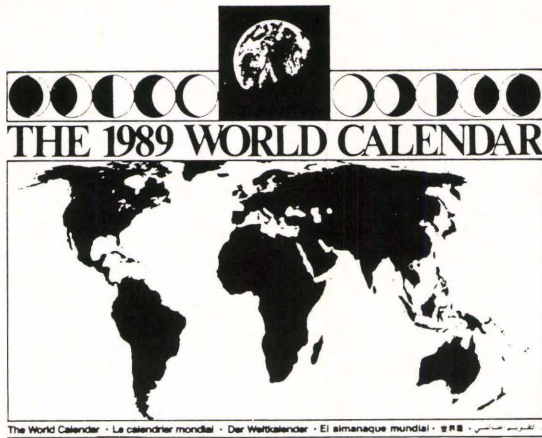
of recruiting, rehiring and retraining. Employers need to see the long-term logic, leave supporters argue. A March 1988 study, *Unnecessary Losses: Costs to Americans of the Lack of Family and Medical Leave*, concluded that these welfare transfer and retraining costs add up to \$715 million per year, compared with the \$188 million parental leave itself might require.

And the other gains of parental leave? The E.C. has long argued that market flexibility, including the temporary jobs created for unemployed workers, will stimulate the economy and give special encouragement to the young. The E.C. also reminds its legislators just what they are paying for: progress toward equality of opportunity, betterment of the family and so on. These are established, if not priority, goals of the E.C. as set forth in the founding Treaty of Rome and as developed in E.C. equality legislation.

Philosophical Objections. Cost figures and equality ideals notwithstanding, parental leave opponents in the United States and the E.C. still share one overriding reservation: Legislatures should be kept out of labor-management relations. The social partners and market forces should determine benefits without the well meaning but clumsy intrusion of government, they say.

At some point, the parental leave debate comes down to two basic questions. Is it (or childcare or other social assistance for workers) really necessary? And, if so, will it come without the prodding, clumsy though it may be, of government? The answer at first seems unequivocally yes. As long as women lose seniority, benefits and jobs every time they have a child, they will suffer disadvantaged status in the labor market. The strength of women's employment, of family relationships and of shared societal responsibilities depends on a policy that allows family care as well as job security.

Will these standards be achieved then without government intervention? Employers are slowly learning that parental leave is cost effective, but too slowly. Too many employers need government "urging" just as they once did for child labor laws and health and safety regulations. In the same way as these once controversial laws did, parental leave will provide minimum employment standards to address a serious societal problem. The cost of intervention must be weighed against the improvements it buys. In any case, the United States and the E.C. will have to rise to the family/work challenge. Every working parent and every child raised by one depends on it. €



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EPC

Continued from page 28.

Twelve's Foreign Ministries; judicial cooperation; improving the services provided by the Embassies overseas; coordinating protocol arrangements and procedures.

What does EPC achieve?

Impact on national policy. The commitment to consult and coordinate lies at the heart of EPC. The officials responsible for developing foreign policy nationally are in close and regular contact. Consultation and cooperation with colleagues at all levels from the member states are now natural and instinctive. Before making decisions, individual countries take full account of the policies and interests of their European partners.

At expert level. Regular meetings of expert groups and of the Political Committee not only ensure close personal relations between members of the Foreign Ministries, but also allow the Twelve to reach a common assessment of international issues as a basis for developing joint policies. There is a similar process in this countries, where the Twelve's Embassies regularly exchange information and views on the country to which they are accredited.

Public diplomacy. The Twelve have publicly established a joint position on most major international issues. These common positions are designed to bring out the key elements of any questions and, if possible, to offer the parties to a dispute a potential area of middle ground. For example, the Venice Declaration on the Middle East, made in June 1980, established two of the principles on which any solution of the Arab-Israeli conflict must be based and those principles remain entirely valid.

The Twelve's Declaration on Human Rights of July 1986 has provided a touchstone for European policy on this issue, which is increasingly in the public eye and to which the Twelve pay particular attention when considering their relations with third countries.

Quiet diplomacy. The Twelve also use their numerous contacts with third countries to pursue, on a confidential basis, the policies agreed by EPC. The most important area for such quiet diplomacy is human rights: The Twelve frequently intervene confidentially with foreign governments on humanitarian issues on occasions when public declarations are judged counter-productive.

Joint action. The Twelve also may take joint action in situations in which this is appropriate and realistic, and in which

other means have not had the desired results. In 1985 and again in 1986, the Twelve introduced measures vis-à-vis South Africa, both positive (aid to victims of apartheid) and restrictive economic measures. Following terrorist incidents, measures were taken in April 1986 against Libya and in November 1986 against Syria; the Twelve's political commitment to encouraging peace and regional cooperation in Central America is reinforced by E.C. support for economic integration among the countries of the region.

Links with third countries and regional groupings. The Twelve have close links, whether informal or institutionalized, with many third countries and groups of countries. These contacts are normally the responsibility of the presidency or, in some cases, the Troika. They cover not only other European and Western countries but also regional groupings such as ASEAN, the countries of Central America, the Gulf Cooperation Council and the Arab League. The Twelve are increasingly seen as a coherent entity with which third countries want to discuss foreign policy issues: This allows the Twelve's views to be heard widely and at a high level, thus maximizing their impact on world affairs. €

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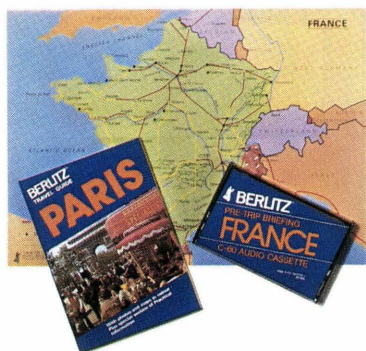
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