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EUROPE

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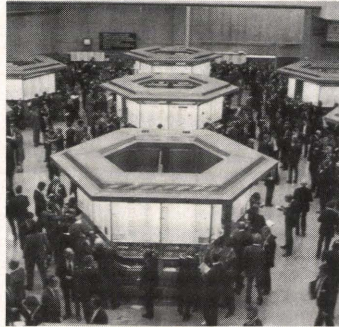
EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



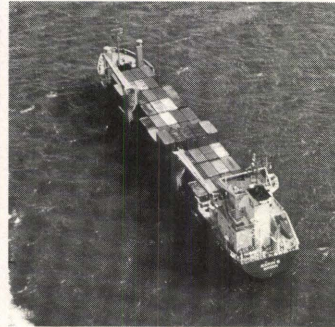
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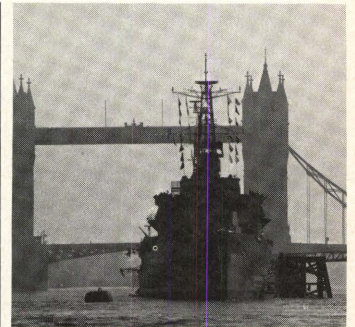


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PUBLISHER'S LETTER

Only lately—after decades of damage without much thought for the future—has the importance of preserving a healthy environment become a vital issue, one that was a major topic in the U.S. presidential elections and one that, as readers of *EUROPE* will have noticed, also has increasingly preoccupied us.

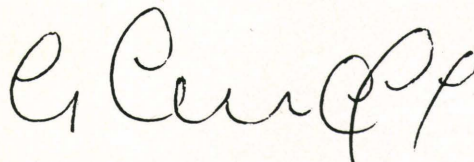
Concern about the environment is leading to a change in thinking in most of the industrialized world. President-elect George Bush wants to give the Environmental Protection Agency cabinet status, for example; conferences on various aspects of environmental protection have been taking place all over the world this past year; and, just recently, the E.C. ratified the Vienna Convention and Montreal Protocol on reduction of chlorofluorocarbon production to protect the thinning ozone layer.

Pollution knows no frontiers, and Europeans are fighting it more and more through the E.C. institutions. The problems facing us will not go away unless all countries really are willing to work together to combat growing pollution and serious damage to our planet. As our article in this issue on toxic waste exports suggests, however, agreement is still a long way off, and waste-producing countries still need to set limits and ways to safely dispose of such waste.

Meanwhile, the E.C.'s 1992 program is moving along at full speed and continuing to attract international attention. In an interview with the *MacNeil/Lehrer NewsHour's* Michael D. Mosettig, author Michael Calingaert discusses his new book on the implications for U.S. companies of 1992, noting that they must be aware of the changes the plan will bring and adjust their business operations in Europe accordingly. In another article, James David Spellman writes that the scramble for a piece of the European market before 1992 becomes a reality has prompted a vast wave of mergers and acquisitions, headed by the Americans and the Swiss.

Meanwhile, Paul Kemezis analyzes the Europeans' attempt to break into the American market with an invention of their own—videotex. After earlier failures, European videotex companies are hoping that Americans will use their personal computers to receive information on everything from business data to shopping and entertainment guides. The system has proved a great success in France, which is leading the way in the industry.

In other stories, Barbara Starr talks about growing efforts to harmonize Europe's defense industry; Sarah Hogg, finance editor of London's *The Independent*, comments on Britain's extraordinary economic performance this year in our member state report; and our "Dossier" this month looks at the E.C.'s framework science and technology research program to establish a European scientific area.



Giancarlo Chevallard

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October, 1988

AROUND THE CAPITALS

AMSTERDAM

Cleaning The Environment

In October, the Dutch Parliament voted to give an additional 100 million guilders—to be shared equally by the Dutch Environment and Agriculture Ministries—for improvement of the environment, and called on the two Ministers responsible to come up with a “tangible package of measures” to save the Dutch environment from growing acid-rain problems and other pollution. Prime Minister Ruud Lubbers noted that the “sneaking decay of the environment was worse than a high budget deficit,” adding that the environment was “out of balance” and that “no time should be lost in improving the situation.”

Cees Schuyt, a well-known Dutch sociologist, has voiced concerns that the E.C.’s efforts to create a single internal market by 1992, which would imply free movement of traffic, people and goods, also might well lead to “the free pollution of soil, air and water” in the entire Community. As it is, the Dutch Ministries of agriculture, the environment, transport and public works are being flooded with requests for measures to protect the environment.

The Netherlands counts innumerable organizations that defend nature and are concerned with environmental pol-

lution, and they all receive government subsidies and contributions. The largest of these is the Society for the Preservation of Nature, counting 280,000 members and working on an area of 60,000 hectares. Its committee includes scientists, bankers and board members of large companies. Its newly appointed chairman, Pieter Winsemius, is a former Dutch Environment Minister.

Winsemius, a great pioneer in raising Dutch consciousness of environmental dangers, has noted that work is going in the right direction. He pointed out that Dutch surface water had been considerably improved and that effective measures had been taken to combat air pollution in the Rhine River estuary, where major Dutch oil refineries are situated. He admitted, however, that other problems, such as depletion of the ozone layer, the greenhouse effect and acid rain, needed urgent attention.

These problems, he said, were in large part due to the ever increasing traffic flows in the overcrowded Netherlands and the high groundwater levels in the delta area. He did add, however, that industries had become more cautious and that government policy was now much more aware of the pollution danger. “It is beginning to be seen as a priority,” he noted, and went on to point out that the Netherlands was well advanced in cleaning up the environment, “far more so



The dangers and effects of environmental damage are now seen as a priority recently allocated additional funds toward cleanup efforts.

than in our neighbors Germany, Belgium, France and the United Kingdom.”

Ed Nijpels, the current Environment Minister, wants to introduce tax breaks for those car owners who install catalytic converters in their cars. This is an aspect of environmental policy in which he is up against not only the E.C.’s automobile industries but also national governments. These major players, wanting to protect their car industries, are reluctant to go along with this plan as it would drive up car prices and distort competitive conditions if the other E.C. member states did not conform.

Nijpels has said that he wants to introduce these tax breaks anyway, and he is trying hard to force the E.C. Commis-

sion to harmonize environmental legislation to avoid rifts between those countries that are very environmentally conscious and those that are less so.—NEL SLIS

LISBON

Environmental Concerns

In October, Europe’s Greens put Portugal on their hit-list of environmental offenders. They staged a sit-in—or, rather, a float-in—on the overturned hull of the *Reijin*, a giant Japanese vehicle carrier, which, after an explosion on board, had sunk off Portugal’s northern coast last winter.



COURTESY ROYAL NETHERLANDS EMBASSY

the Dutch Government, which

protesters when the pounding surf cracked the hull, and the Portuguese Government decided that the scrap must be handled onshore, not offshore, before a break-up of the vehicle carrier in winter swells threatened to send the cars drifting in unpredictable directions.

The environment and its problems have begun to seriously concern Portugal. Since 1986 there have been more official efforts to right the worst wrongs: Wildcat housing is being torn down, hunting seasons are tighter and farming and desertification problems are under review. Nevertheless, officials often grumble in private that they cannot go as far as they would like because of lobbies whose members would have to spend more than they choose on systems to filter their waste or reduce the noise of their machines.

Even so, E.C. membership is forcing the Portuguese to see the environment in a less smoggy light. Noise abatement laws, for example, are in force, although the Department of the Environment still does not have enough resources or inspectors to go around with noise meters and place a fine on violations. The Department went after 2,000 people last year, a hopeful start to a process that implies re-educating a population accustomed to urban noise.

A visible part of that educating process is that the Portuguese also are beginning to learn to complain either to the authorities or the perpetrators, such as motorists who gun their engines while at a standstill. One can now see residents rapping on the car window and instructing the driver to stop—or face a visit from the Environment Department.

Official, as well as public, consciousness is slowly rising. The *Reijin* outcry went some way toward persuading the authorities that decisions cannot be taken in isolation, and that everyone needs to worry about the environment.—DIANA SMITH

These ecological militants converged on the chilly, misty north coast to protest a decision by the Portuguese authorities to scuttle the *Reijin* and its cargo of many thousands of Japanese cars, cluttering the Atlantic floor and, say Greens, adding to ocean pollution with all that rusting metal.

These high-profile protests gave a jolt to the Portuguese Government, which is not used to being depicted as an ecological villain. It appeared not to have thought through the consequences of dumping a giant vessel and its cargo in the depths, which had seemed like a simple way of getting rid of scrap metal that did not belong to Portugal and whose owners no longer wanted it. The course of nature helped the

COPENHAGEN

Union Influences

A small group of young Danes, working for McDonald's in Denmark, is challenging one of the strongest conventions of the Danish labor market—the closed shop—by refusing to join one of the unions affiliated with the Danish Trade Union Congress. This act has provoked picketing in front of a number of McDonald's restaurants in Denmark for months, and although customers buying hamburgers have not been discouraged to any serious extent, the incidents are rapidly acquiring symbolic importance.

While U.S. unions have seen a sharp drop in membership and importance, Danish unions have steadily increased in membership, and the vast majority of Danish employees are union members. The unions are closely linked to Denmark's largest political party, the Social Democrats, and also publish newspapers and operate television stations to spread the word. Pension funds also are controlled by them, providing financial clout and influence in the Danish economy.

The Danish Government is now trying to limit that influence by passing a law that permits union members to refuse to let their union dues be used to finance the Social Democratic Party and its media. While this may be a start, the real power of the unions is the recognized right to negotiate collective wage agreements for more than one million Danes, and that power base is still intact. Moreover, although the unemployment insurance associations are formally independent institutions, they are controlled by the unions, making it difficult in practice for non-union members to receive unemployment benefits, although these are subsidized by the government. And through the pension funds controlled by them, the unions also exert influence on Danish businesses:

One of the funds openly admits that it attaches prime importance to preserving jobs rather than maximizing return on investment, and all the union-controlled funds consider their role to be political.

While they thus are in a strong position, not all prospects for the unions are rosy, however. The McDonald's case illustrates two of the major problems. One is that dues are becoming very high—about \$100 a month is the norm. The other is that it is difficult to mobilize support in the service industry, where workers often want part-time jobs and are prepared to accept lower pay in return for flexibility. Even in industry, the tendency is toward more decentralized negotiation and, in the long run, the larger Danish companies may want to negotiate on an individual basis like their U.S. counterparts.

The white-collar union, HK, has recognized this trend and has developed a completely new concept, the 24-hour union, where the union takes care not only of the working conditions and aspects of its members, but also of their leisure activities, by offering various entertainment and educational facilities. But even in a country accustomed to the all-encompassing embrace of the welfare state, that idea does not really take root.—LEIF BECK FALLESEN



PARIS

The Economy Recovers

In France, people are used to mailing a letter at 7 P.M., knowing that it will be delivered in the same city at 7 A.M.

the next day. Indeed, there are three mail deliveries a day in big cities. The morning newspaper arrives even in the most isolated villages in time to be read with *café-au-lait* and croissant. But this fall, the mail became the most visible service to deteriorate in a round of strikes by public-sector employees. As one newspaper editorial lamented, dropping a letter in a mailbox was taking as much chance as sending a message across the ocean in a bottle.

While the postal workers staged weeks of strikes, nurses marched by tens of thousands in white coats and surgical masks. Metros and buses operated on minimum service in Paris and virtually shut down for weeks in France's second city of Lyon. The public employees who dole out pension, unemployment and health care checks, staged spot walk-outs. And the lights flickered, elevators jammed and computers glitched when electricity and gas utilities joined the autumn of anger.

Who could blame the government employees? After two years of an unsympathetic conservative Government, the Socialists were back, governing under a Socialist President. And, since an important block of Socialist support comes from the 5 million state workers, it was natural to assume that public-service wage demands would be met.

But Prime Minister Michel Rocard quickly set the unions straight: A Socialist Government would not be an easy mark for uncontrolled hand-outs to workers. Wage increases and employment schemes had been the priority when the Socialists came to power in 1981, and the results for the French economy were disastrous. This time, Rocard promised, caution and restraint would dictate economic policy, and political motivation would take a low priority behind responsible management of the budget.

But, ironically, the Government had a hard time keeping that promise because of what

should normally have been good news. New figures were released showing dramatically improved prospects for the French economy. After years of wrestling with inflation and ballooning unemployment, there was an economic turnaround. Prices were predicted to rise by less than 3 percent by the end of 1988, unemployment fell by the largest monthly percentage in a decade and the forecast for economic growth, set originally at just over 2 percent, leaped to 3.5 percent.

One analyst surmised that the Government faced "an explosive mixture," trumpeting that the economic crisis was over and recognizing that things were not rosy for workers. "But when the Government claims that it is still important to continue a program of economic constraint, it is asking for a lot of understanding from a political constituency that has been impatiently living with economic constraint since 1983."

Despite the awkward timing, the diagnosis that the ailing French economy was making a speedy recovery could only be gratifying news for the Government. The rigorous policy of constraint that a previous Socialist Government had prescribed five years ago finally started to pay off, although it was a fragile recovery. The Government argued in talks with the nurses and other state employees that more restraint was preventive medicine, although many observers predict that the spoonful of sugar will be generous increases once the economy is fully healthy.—BRIGID JANSSEN

LUXEMBOURG

Banking After 1992

The practice of soliciting cash from the public and investing the proceeds in a wide range of equities and other stocks, as operated in Britain through unit and invest-

ment trusts and in America by mutual funds, is nowhere near as well developed in other countries.

This is about to change, however. From October 1, 1989, the E.C. directive on undertakings for collective investment in transferable securities (UCITS) will come into force, allowing fund managers to operate freely throughout the 12 E.C. countries on the basis of a single authorization from one member government. If that date sounds some time off yet, it must be remem-



bered that significant share portfolios are not assembled overnight and that the pacesetters a year from now are likely to be those institutions with an investment package ready to put before the public. In Luxembourg, already about 500 funds have been established with up to 150 awaiting authorization, and the rapidly swelling flow of funds toward the Grand Duchy is sending ripples of unease through the London market.

Why Luxembourg? The short answer is what one London banker calls, with some envy, "a very friendly taxation system." Under legislation approved in 1983, Luxembourg established a legal and regulatory framework for the creation from scratch of a brand new mutual fund industry providing, as its center-piece, exemption from income taxes for fund operators and exemption from withholding taxes on dividends. The effect was that between 1981 and June of this year the net assets of Luxembourg funds involved in collective investment rose by a spectacular 10 times to something

BONN

Christmas Celebrations

The United States has Thanksgiving, Greece its Easter Festival and Germany has, above all else, *Weihnachten*, or Christmas. Every German understands that the Oktoberfest and Carnival are times of gaiety, while *Weihnachten* is a quiet and inward occasion, very much a family affair.

Many features of modern Christmas celebrations derive from the post-medieval era. A copper engraving of 1509, for example, serves as the first documented evidence of a decorated Christmas tree: The evergreen pine, which, brightly decorated and candle-lit, is found in all homes during this holiday, represents the family tree—a Germanic myth. Since about 1800, Christmas trees have been popular with the upper classes, although they did not become a common custom until the 19th century.

Furthermore, Christmas is seen as a feast of peace, which explains why gifts are exchanged on this occasion, since these also represent symbols of peace. Until the Reformation, this exchange took place on December 6—St. Nicholas Day, named after the charitable 4th-century bishop who had a soft spot for children. Although that event was moved to December 24, German children today still find small token presents in shoes or boots, which they leave out the night before St. Nicholas Day.

German Christmas preparations begin early and are almost a ritual. The brown dough for the typical ginger bread is prepared as soon as the leaves begin to fall, because it needs a long time to mature. Soon after comes the dough for the obligatory *Stollen*—the image of a babe in swaddling clothes. The Advent period, in which the four Sundays before Christmas are celebrated, is a quiet preparation

for Christmas. An Advent wreath, usually made of evergreen, is traditionally decorated with four candles—usually red ones because it is the color of joy—of which one additional candle is lit on each Sunday before Christmas Eve.

This richness of symbols, which is only partially of Christian origin, is also proving to be good business. Shopping centers are richly decorated with Christmas trees and *Christkindl* markets are held on the main squares offering tree decorations, elaborate candles, toys, handicrafts, cookies, steaming sausages and plenty of rides and amusements for the children. What is more, during the four weeks before Christmas, even the rigid German store opening hours are relaxed to accommodate all shoppers: On Saturdays, shops remain open until 6 P.M. Since closing hours in Germany are regulated by laws that stipulate

amounted to \$2,148 billion and this year promises to exceed that figure. Favorite toys last year were stuffed animals, model trains and games, while sport and leisure articles, as well as television sets, video and cassette disc recorders, were the most favored adult gifts.

While Christmas shopping is a joy to the adult in Hamburg, which boasts many avenues crammed with stunning shops, the merchants of the city also have thought of a particularly luring attraction for the children who do not wish to be dragged along. They have hired pleasure boats on Hamburg's Alster River, adorned them with Christmas decorations and show youngsters fairy-tale films or, under instructions, help them bake Christmas cookies while their parents brave the crowds.

In the fairy-tale town of Rothenburg-ob-der Tauber, it

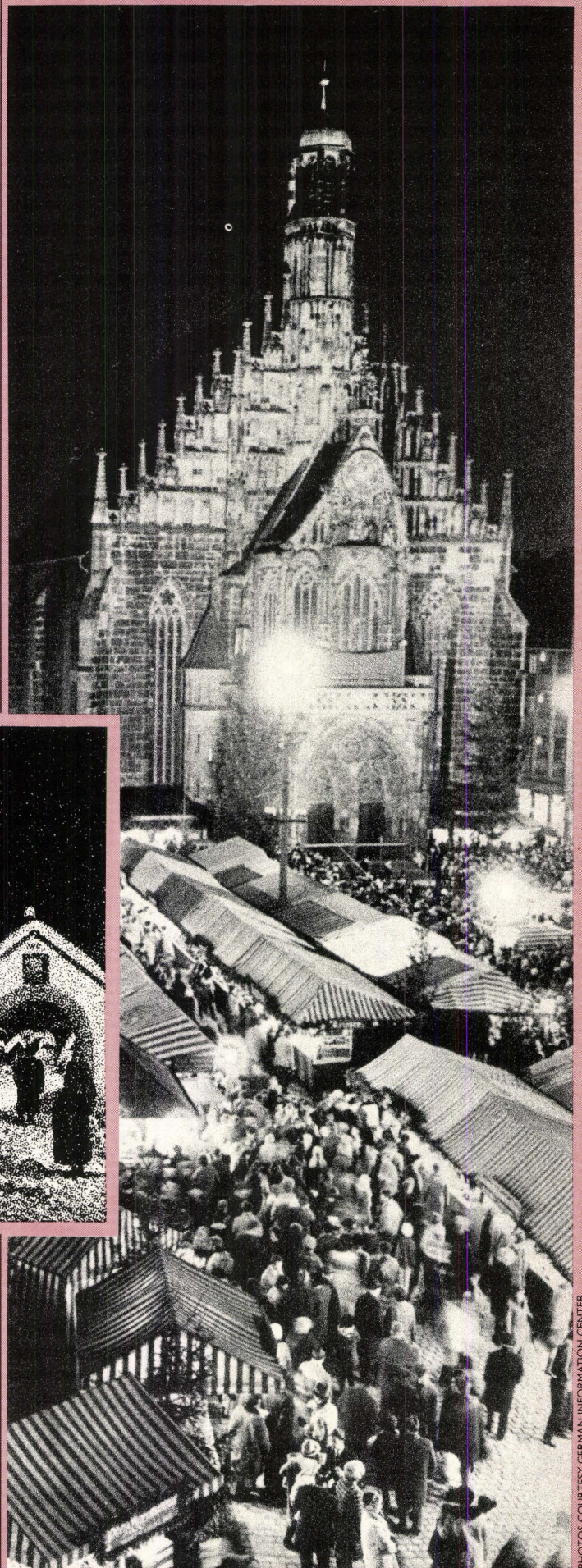
Christmas preparations and celebrations are serious business in Germany. The "Christkindlmarkt" in Nuremburg (far right) is renowned worldwide. In many German small towns and villages, such as in Ramsau, Bavaria (right), old traditions are maintained.



that all retail shops must be closed weekdays after 6.30 P.M. and on Saturdays at 2 P.M. (excepting the first Saturday each month, when they may remain open until 6 P.M.), this is quite remarkable.

According to Klaus Prah, spokesman of the Retail Shopkeepers Association in Hamburg, Germans do most of their shopping in November and December. Last year, Hamburg's sales during that time period

is Christmas all year round at Käthe Wohlfahrt's *Christkindlmarkt*. The store, modeled to look like an outdoor Christmas market, offers over 35,000 Christmas articles—the world's largest collection of Christmas decorations. Shopping in this make-believe outdoor village can last a whole afternoon, if only because leaving it would mean waking up from a fairy-tale dream.—WANDA MENKE-GLÜCKERT



PHOTOS COURTESY GERMAN INFORMATION CENTER

approaching \$50 billion at the last count.

Earlier this year, the 1983 law was replaced by new legislation tailored specifically to the UCITS directive, but retaining the key tax concessions. At present, only Luxembourg and Britain have approved UCITS legislation, but in the case of Britain, the new regulations include rigorous tax stipulations that the City of London fears will put the British funds at a serious competitive disadvantage when the promotional blitz begins next year. British investors can enjoy some tax perks by using funds based in the Channel Islands, but these will be unable to qualify for the UCITS privileges from next year and the guessing in London is that most of them will switch their operations to Luxembourg. So far, the rush to set up funds in Luxembourg has come from the Federal Republic of Germany, the United States, Japan, Switzerland and the Scandinavian countries.

The swiftness with which the Luxembourg Government has moved to exploit the UCITS directive is impressive and says much for its determination to seize a leading role when the E.C.'s financial services sector is opened up into a single market by 1992. But "early pace-setters are not always good stayers and there is more than one horse in the race," comments a London banker, who goes on to make the point that the more successful Luxembourg is in luring funds over the next year or so, the greater the possibility that the other E.C. member states will seek to neutralize its advantages. This could happen in two ways: Either Britain and others will allow commensurate breaks to their own funds or the Community will establish a common set of banking and investment regulations that will force Luxembourg to toe the line.

Much of the same could happen with respect to Luxembourg's jealously guarded bank secrecy practices. A bank official in the Grand Duchy agrees that these are "real threats"

and it is certainly true that the Luxembourg Government will fight hard to oppose any erosion of its privileges—in which crusade it will ironically have the backing of Britain over some issues.

But in the long run it seems probable that Luxembourg will have to fight its corner on the performance of its fund managers and without the benefit of any significant tax concessions. This does not seem a major deterrent. The Luxembourg funds have proved relatively conservative investors in recent years and this served them well during the worldwide stock market crash last year. "The record bears comparison with any in Europe over a three-year to five-year view and shows real flexibility," says a British banker, adding that "in any case, the speed with which Luxembourg has risen to the UCITS challenge is going to do a lot to enhance its reputation."—ALAN OSBORN

BRUSSELS

A Sabena Merger?

A fine of \$120,000 is no big deal for a company with revenues approaching \$100 million a year, but this penalty, placed on the Belgian airline Sabena by the E.C. Commission in November was meant more as a "warning shot" than a punishment, said the Commission.

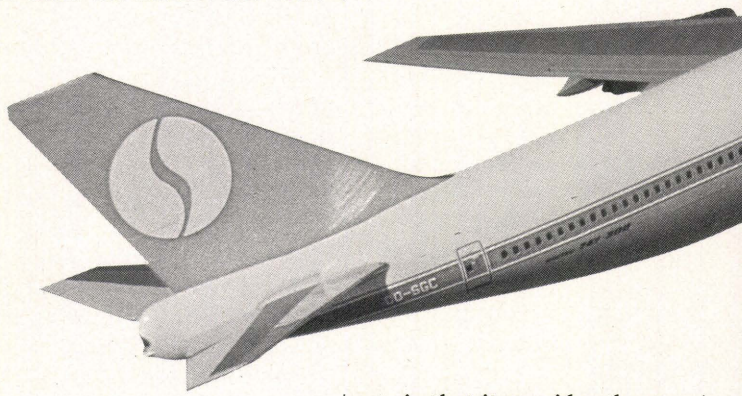
The reason for the penalty was that Sabena had been found to violate E.C. competition rules by refusing to list the Brussels-London flights of a small Irish airline on its computer reservation system. The warning in this case was mainly directed at the operators of other major airline reservation systems, who, the Commission believes, also contravene its rules. These were drawn up earlier this year to eliminate practices that, in the words of an E.C. official, "exist to protect the major carriers from competition." The fine on

Sabena has hardly sent shockwaves through the European airline industry, but has served as an uneasy reminder to the major carriers of both the powers and the determination of the E.C. to liberalize civil aviation within the Community.

The E.C.'s first steps to open up the airline business were agreed a year ago and basically provide carriers with some limited ability to cut fares while allowing new companies to enter the market and exist-

will need to be convinced: Already for some time now, the company's long-term strategy appears to have been conducted on the basis that massive changes in the organization and operations of Europe's major air carriers will flow logically from the wave of fierce new competition about to break on the industry.

Sabena has some unique as-



ing carriers to extend their routes. Even if the recent fine is something more than a "warning shot," it falls far short of the total liberalization sought by the Commission.

The energy shown by the present Commission in pressing for an end to all restrictions and regulations in this most heavily protected of European industries may not necessarily carry over to the new team taking office in Brussels at the beginning of 1989, but it would be a rash airline man who bet on it. For, if the proposed European single market is to be fully achieved by the end of 1992, freedom in the skies will certainly have to form a part of it.

An almost inevitable consequence of this market will be the disappearance of "national" air carriers in their present form and the emergence of "truly Community airlines, on whose behalf rights would be traded with non-E.C. countries at E.C. level," says Stanley Clinton Davis, the E.C. Commissioner responsible for transport policy. It is not a development of which Sabena

sets in that it provides the major air bridge between Europe and Africa and is said to operate the largest catering and servicing organization in the Community. More important, it has carried out an enormous aircraft investment plan in recent years, which, by the early 1990s, will give it the most modern fleet in the E.C. with five new European Airbus aircraft and 23 new 737-series medium-jet airliners. Nevertheless, it will remain surrounded by far larger operators—like British Airways, Air France and Lufthansa—who all have significant domestic operations to sustain their competitive challenge.

The logic for Sabena is clearly in a full or partial merger with similar-sized airlines, such as the Dutch airline, KLM, Scandinavia's SAS, or Swissair. For several years now, Sabena has courted these and others, including Air France and Lufthansa, earning itself a reputation as "the industry's most willing bride," to quote an SAS executive. The Belgian Government, which holds 54 percent of the Sabena equity, is no keener than anyone else to see its national treasure "taken over." At

Sabena's annual meeting in June, its chairman Carlos van Rafelghem said that he ideally would like to see an association between the Belgian airline, KLM and Swissair.

Negotiations between the

three companies—and others—have been conducted intensively throughout the fall with little to indicate the ultimate result. Meanwhile, partly because of the change in gov-

ernment in Belgium from a center-right to a right-left coalition, but perhaps more importantly in order to lessen the scope for a foreign predator to build a controlling shareholding in secret, the long discussed plans to float off the government's holding in Sabena to private investors have been put into cold storage.—ALAN OSBORN



European airline liberalization may bring about "truly Community airlines." In preparation for this possibility, Sabena is discussing merger options with several other European carriers.

COURTESY SABENA-BELGIAN WORLD AIRLINES

ROME

Secret Voting

Italian political attention lately has been mainly focused on two topics: the abolition of the so-called "secret

ballot" in the Italian Parliament and the sudden overtures in the already good relationship between Italy and the Soviet Union.

The end of the secret ballot—a practice almost unknown in other Western countries that allows senators and representatives to "disobey" their own parties' strategies and policies by casting their vote incognito—has been greeted favorably by the majority of Italian public opinion. By taking recourse to the secret ballot, the so-called *franchi tiratori* (which could be translated as snipers on the loose who belong to the Government coalition) have in the past been able to defeat laws proposed by the Government, or to turn down international

DUBLIN

Changing The Law

The Irish Government will have to change its 19th-century laws criminalizing homosexual acts following a judgment by the European Court of Human Rights. This ruled that the Irish laws infringed on the right to privacy of the plaintiff, Senator David Norris, a founder of the Irish Gay Rights Movement.

Norris, who also is a member of Ireland's tiny Jewish community and a well-known Joyce expert who lectures in English at Trinity College in Dublin, began his case 11 years ago in Irish courts. It aroused considerable interest in a country in which the overwhelming Catholic ethos has until recently found the whole idea of "gay rights" somewhat distasteful.

Indeed, the Norris case, which claimed that the criminalizing of homosexual acts—even those in private—was an infringement of his rights to privacy under the Irish Constitution, was thrown out by judgments in the High Court and the Supreme Court, which made explicit reference to con-

demnations of homosexual acts in Christian teaching. The then Supreme Court Justice, Tom O'Higgins, now a judge at the European Court of Justice, said in 1982, when rejecting Senator Norris's case, that the Irish Constitution, which has a preamble invoking the Blessed Trinity, should be consistent with Christianity.

The case then moved to the Commission on Human Rights in Strasbourg, where a similar case, referred from Northern Ireland, had succeeded against the British Government a year earlier. The chances of success looked promising for Norris because the anti-homosexual laws dating from the last century were similar in both the Republic of Ireland and Northern Ireland.

The British Government had wished to bring Northern Ireland into line with the more liberal law in England and Wales, which allowed homosexual acts between consenting adults in private, but had backed down in face of a determined "Save Ulster from sodomy" campaign led by the redoubtable Reverend Ian Paisley. Following the Strasbourg verdict, the amended law was introduced in Northern Ireland. On the face of it,

therefore, the Norris case had a favorable precedent.

Meanwhile, the Irish Government lawyers argued that, unlike in Northern Ireland, the laws in question were not enforced in the Republic against adults who engaged in homosexual activity in private. Lawyers for Norris, however, argued that he suffered from nervous strain from the uncertainty of prosecution and from the stigma of his private actions being officially described as "criminal."

The finding in favor of Senator Norris has naturally been welcomed by the various gay groups in Ireland and, as no further appeal is possible, the Irish Government is obliged to change the legislation or risk being expelled from the Council of Europe—under which the Commission and Court of Human Rights operate.

This is not the first time that the Strasbourg Court has found against the Irish Government, which has been obliged in the past to change its laws relating to legal aid and to illegitimacy following unfavorable judgments. A case to force the Irish Government to change the constitutional ban on divorce failed two years ago in the Court of Human Rights,

however, which ruled that its Convention did not lay down a definite right to re-marry. A ruling in favor of divorce would have placed the Government in a dilemma, for an attempt in 1986 to remove the constitutional ban in a divorce referendum was outvoted two to one.

Changing the law on homosexuality will not require a constitutional referendum. The backlash that might be expected from ultra-Catholic organizations can be fended off by the plea that there is no choice if Ireland is to remain in the Council of Europe, of which it is a founding member. In the past, Ireland has used the Convention of Human Rights to have Britain condemned by the Commission for illegal use of torture against Republican suspects in Northern Ireland, a verdict later reduced by the Court of Human Rights to "inhuman and degrading treatment."

For Senator Norris, the importance of the favorable outcome in Strasbourg "will not be confined to gay people but will be an important move toward a more tolerant vision of our society. A gain in the dignity and rights of one group enhances the dignity and rights of everyone."—JOE CARROLL

The Sacred Island

The island of Patmos, renowned as the place where St. John wrote the Book of Revelation, has a special status among Greece's 200-odd inhabited islands. By parliamentary decree, it is officially a Holy Island and the fortified monastery, founded in memory of the New Testament visionary, still flies the yellow-and-black flag of the Byzantine Empire. This year, the monastery of St. John the Divine celebrated its 900th anniversary with a flurry of scholarly activity that was capped by a visit from the ecumenical Patriarch Dimitrios, head of the Eastern Orthodox Church.

The Patriarch's seat is in Istanbul, Turkey, a hangover from Byzantine times. At times of tension between Greece and Turkey, when it seemed that the Patriarchate might be uprooted, there were suggestions that it should be moved to Patmos. For the monastery, founded by the Blessed Christodoulos in 988 A.D. with special permission from the Emperor Alexius, had become a place of refuge during Ottoman rule in the Aegean and grown wealthy by running its own merchant fleet, which often sailed under the protection of the Pope. But the rapprochement in the Aegean has brought a marked improvement in relations between Turkish authorities and the Orthodox Church, enabling Patriarchate officials to assure that Patmos will remain simply a place of pilgrimage.

Patmos was packed with visitors for the anniversary celebrations, welcoming among them an international group of Patmologists—scholars who study the monastery's unique collection of centuries-old manuscripts and books—and a group of environmentalists, who both held conferences to mark the anniversary.

The island's population doubled to around 5,000 on the



St. John is said to have written the Book of Revelation at the monastery of St. John the Divine on the Greek island of Patmos.

weekend of the Patriarch's arrival. Almost everyone on the island turned up at the harbor to welcome Dimitrios as he came down the gangplank of a Greek cruise ship, followed by more than 50 Orthodox bishops and representatives of other Christian churches, their robes fluttering in a stiff Aegean breeze. To loud applause, the Patriarch reaffirmed Patmos' role as a sacred island where piety should be encouraged and tourism restrained to maintain Patmos' traditional form as a gift for all humanity.

Patmos' reputation for tranquillity has encouraged both Greeks and foreigners to buy and restore traditional man-

sions in the village clustered around the monastery, which is set on a hilltop dominating the island. Despite its remote location—10 hours by steamer from Athens—as well as a ban on discotheques and nude swimming, however, the island is now starting to attract large numbers of visitors; tourism is the main source of income for residents and an airport is planned. Nevertheless, since the monastery and its 30 monks are included in all decision-making for the island, it seems likely that hotel construction will be limited.

Throughout the Patriarch's visit, crowds followed him around the island, packing the

chapels and courtyards of the monastery where he spoke and overflowing out of the cave where, in 95 A.D., St. John is said to have heard a great voice as of a trumpet telling him to record what he saw. Dimitrios used that occasion for his sharpest sermon of all, speaking out against wasteful materialists who abuse the environment and warning that the Book of Revelation described the world after it had been looted and ruined by man. His answer to the problem was a return to more ascetic values, not just to attain spiritual perfection and freedom, but also to save the creation.—KERIN HOPE



COURTESY SOVIET EMBASSY

Soviet leader Mikhail Gorbachev.



COURTESY EMBASSY OF ITALY

Italian Premier Ciriaco De Mita.

agreements that only needed to be ratified. Countless Italian Prime Ministers have had to resign because of this way of voting, and the secret ballot has been considered one of the main causes for the continuous changes of Governments: There have been over 40 Governments since the beginning of the Italian Republic at the end of World War II.

The hope is that from now on, since representatives and senators will be obliged to vote openly and respect their own party's wishes, there will be fewer surprises and longer-lasting Governments and Prime Ministers. On an international level, this move will undoubtedly improve Italy's image and its international relationships. Domestically, too, there should be an improvement in the trust between congressmen and their constituencies. Until now, members of parliament could not be tracked by their electors, who also never knew for sure how their representatives and senators had voted.

The introduction of the open ballot, a real milestone in the history of Italy, has not been easy. The left- and right-wing parties fought it alike, for the secret ballot had been a prime tool in provoking governmental crisis. In order to adopt the open ballot, Christian Democratic Prime Minister Ciriaco De Mita had to compromise in the end, agreeing that the secret ballot would be maintained on specific issues, such as amendments to the Constitu-

tion.

Meanwhile, the new openness in the Soviet-Italian relationship has been looked upon with interest and some undeclared concern by some of Rome's traditional allies, in particular the United States. De Mita's willingness to give credit to Gorbachev's *perestroika*, without, of course, casting any doubt on the Atlantic alliance, seems to have the support of several other West European countries: French President François Mitterrand and West German Chancellor Helmut Kohl both are taking the same view.

Possible agreements between Moscow and Rome have been pinpointed in the economic field. The starting point of this new era has been *Italia 2000*, the huge Italian trade fair in Moscow that took place during De Mita's visit to the Soviet Union and at which all the top political and business representatives—among them Fiat's Gianni Agnelli, Montedison's Raul Gardini, Fininvest's Silvio Berlusconi and IRI's Romano Prodi—were present. The fair is to become permanent and many important contracts have been signed between the two countries. Gorbachev even suggested that an Italian astronaut be invited to fly in a Soviet spaceship. Italian satisfaction at this positive visit and exchange was evident in De Mita's statements afterward, which termed the "East-West detente as mutually beneficial."—NICCOLÒ D'AQUINO

MADRID

High-Level British Visits

Visitors to Spain who want to find out what is fashionable on the diplomatic front can usually get a good idea by checking out the Corte Ingles, the country's most successful department store and biggest privately owned business. This fall, Corte Ingles stored goods from Great Britain featured nationwide. And why not? Official visits by British Prime Minister Margaret Thatcher in September and Queen Elizabeth II in October gave Britain such a

high profile that Corte Ingles could even overlook Thatcher's promotional visit to chief competitor Galerías Preciados, bought last year by a British firm.

For Spanish commentators, the two visits—especially that of Queen Elizabeth, the first ever to Spain by a reigning British monarch—served to cement friendly bonds between the two former naval empires whose best-known encounters were distinctly unfriendly. During a five-day tour hosted by her third cousin, Spain's King Juan Carlos, Queen Elizabeth visited Madrid, Seville, Barcelona and Majorca. She also stopped at El Escorial, the

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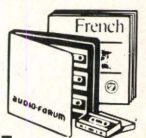
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COURTESY BRITISH EMBASSY

Queen Elizabeth II's visit to Spain in October was the first ever to that country by a British monarch, showing that, despite some differences, relations between the two countries are generally good.

mountain palace from which the Spanish King Phillip II planned his attempted conquest of England with the Invincible Armada 400 years ago.

But if the two countries have had some historic clashes, their monarchs have frequently been closely linked—often by marriage. The first time the two royal houses met at the altar was in 1170, when Princess Eleanor of England married Alfonso VIII of Castile. The latest was when King Juan Carlos' grandmother, the former Princess Ena of England, married Alfonso XIII and became Queen Victoria Eugenie of Spain.

Relations today are generally good but only slightly less complex, and there are plenty of friendly differences. Britain and Spain are both allies in the North Atlantic Treaty Organization (NATO) and military ties could be strengthened by Spain's expected acceptance into the Western European Union. Still, in an interview on Spanish national television, timed to coincide with her two-day visit, Thatcher made clear her reservations about the anti-nuclear arms policy of Felipe González, the head of

Spain's Socialist Government. For, while Spain technically does not allow nuclear weapons on its territory, in its waters or in its airspace, it does not ask NATO allies whether or not passing ships and aircraft are so armed.

Thatcher and González also display different visions of the European Community's future. González favors a more active E.C. role, especially in providing funds to develop the economically poorer regions of Spain, Portugal, Greece, Italy and Ireland. Thatcher is much more wary of the growth of the European bureaucracy, and preaches against a central monetary system because she believes it could infringe on individual national sovereignty.

Despite much mutual admiration, there are nagging stereotypes to be overcome in both countries. The old Spanish image of the British as oh-so-gentlemanly pirates has been challenged by the invasion each year of more than 7 million British tourists, many of them on package tours seeking an excessive combination of sun, beaches, cheap booze and sex. At the same time, English excellence is recognized. The Corte Ingles, for

example, refers to the "English Cut" in clothing.

While bad press based on past antagonisms can fade with time, there is one historical legacy that remains a real stumbling block to a full and happy relationship between Spain and Britain: Gibraltar. Spain has never relinquished its claim on the tiny colony at the peninsula's southern tip, which it ceded to Britain in 1713 by treaty after losing the War of the Spanish Succession. Britain has said that Gibraltar will remain British until its 30,000 inhabitants decide otherwise.

While its location overlooking the narrow Mediterranean entrance to the Atlantic no longer has major military importance, the Rock remains a thorn in Spain's side—an "anachronism," as the president of Spain's senate told the Queen. The "Spanglish"-speaking Gibraltarians, on the other hand, say that incorporation into Spain would doom their unique cultural mix of Britons, Spaniards, Maltese, Genoans, Moroccan Jews and Hindus.

The monarchs themselves expressed optimism that talks, which began four years ago,

would lead to an eventual resolution of the dispute. "We are confident that our growing mutual understanding will enable us to deal with the one remaining problem that exists between us," Queen Elizabeth told King Juan Carlos in remarks that British commentators said went beyond any previous official statements. Her cousin, meanwhile, talked about "the friendly surmounting of this problem in accordance with the logic of history."

Until then, differences over Gibraltar will continue to spill over into fora like NATO, in which Spain refuses to recognize any Gibraltar-based British command, and the E.C., where the colony's rejection of a Spanish-British airport agreement has threatened a plan designed to lower airfares within the Community.—RICHARD LORANT €

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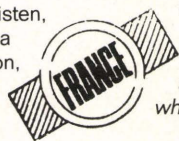
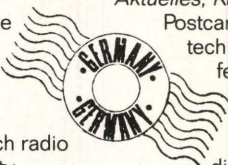
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THE KEY ISSUES IN REFORM POLICIES FOR AGRICULTURE

THE TWO MAIN PLAYERS HAVE MUCH AT STAKE.

FRANS ANDRIESEN

Agricultural issues are of key interest on both sides of the Atlantic from several points of view:

- We both have come to accept that our domestic agricultural policies are not dealing adequately with the disequilibria between supply and demand; they therefore have to undergo major reforms.
- The imbalances on domestic markets have major spillover effects on international trade. They also create major tensions in our bilateral relations with the inherent danger of proliferating into other trade areas.
- We are the main players in international trade in agriculture. From there derives not only the significance of our actions for the world market but also a key responsibility for sound international trade rules.

We have therefore important common interests at stake, although the ongoing debate reflects more the frictions between us than the similarities. But this is a feature often observed in overall good relations between trading partners.

In the United States, there is a tendency to attribute to the European Community the major responsibility not only for international agricultural problems, but also for a large part of U.S. problems in the farm sector. It is pointed out that the E.C., because of its price-support mechanisms, is creating oversupplies that it then dumps at subsidized prices onto the world market. In addition, the E.C. is criticized for closing its own market to access from other countries. This perception overlooks the fact that the E.C. is the world's biggest importer of agricultural products and—by the way—the American farmers' best customer. Even since the United States has a deficit with the E.C. in its overall trade balance, it still has a surplus in its agricultural trade with the Community.

What is also overlooked in the argumentation is the fact that many features

Frans Andriessen is the E.C. Commission Vice-President responsible for agriculture.

of U.S. agricultural policy bear considerable similarities to our own:

- Support to farmers' incomes primarily through the prices for farm products: Deficiency payments and loan rates are after all subsidies via the price for products.
- Maintenance of those prices at levels that, with the introduction of modern farming techniques, have led to increase in supply much greater than demand.
- On both sides, expenditure for agriculture has considerably increased over the past years: In the United States, outlays for price and income support for its farmers have risen since 1981 from \$4 billion to \$25 billion this year.

In the E.C., support has during the same period increased from \$13 billion to \$26 billion. It has to be taken into account, however, that during this doubling of expenditure three new member states have joined the Community. The increases in expenditure have led some people to say that it seems that producers were farming the government, this being more profitable than plowing the fields. Although this is a cynical comment, it points at a compelling reason for reform of agricultural policies.

The Community is engaged since the middle of the 1980s in major reforms based on three principles:

- Giving the market back its role of orienting production. This involves not only price decreases in real terms for cereals, oilseeds, meat and milk, but also corrections to the intervention mechanism in order to provide limits for outlets.
- Budgetary discipline, which has now—following the decisions of the European Council in February this year—force of law. The maximum annual amount of expenditure until 1992 is subject to clearly defined fixed limits.

I therefore cannot accept the argument put forward by Carlisle Runge—the special assistant to the U.S. Ambassador to the General Agreement on Tariffs and Trade (GATT)—in the latest issue of *Foreign Affairs*, that the E.C.'s budget compromise on agricultural spending does not

offer real prospects for enhanced budget discipline. It is not simply a “drop of water on a hot stone.” It creates on the contrary the framework within which instruments have been introduced that ascertain that budgetary discipline is transposed into sectoral measures. So-called “stabilizers” are built into the price regimes for the main commodities, which will automatically lead to price cuts if production exceeds the established quantities.

On the other hand, in order to make a market-oriented agricultural policy bearable for our farmers, particularly those in the most disadvantaged areas, we have to rely more on structural policies. It must not be forgotten that as a result of the enlargement of the E.C. to include Spain and Portugal, the number of small farms with less than 20 hectares has risen from 4.3 million to 7.6 million.

Accompanying measures are therefore established that comprise inter alia compensatory allowances for farmers in hill and mountain and less-favored areas, the introduction of an aid scheme to encourage farmers to stop farming and a set-aside program. There are also proposals for income aids on the table as a complement—not a substitute—for more realistic market management.

The enhanced role the E.C. needs to give to structural policy is equally reflected in the decisions of the European Council of February. As a complement to budgetary discipline, the financial resources of the structural funds will be almost doubled by 1993, in recognition of the fact that the improved structural action is the prerequisite for social cohesion in the E.C.—an objective that is explicitly enshrined in the Single Act, adopted in 1986 by our Heads of State.

The issue of a viable future for our farmers and, more widely, of the perspectives for the rural world in Europe is thereby placed in a context that goes beyond the debate of purely agricultural problems. What is required is an integrated approach, which encompasses the coordinated use of the policy instruments at our disposal so as to ascertain a solid socioeconomic basis in all parts of the Community. This is the underlying principle of the policy the Commission has defined in July for the future of the rural world.

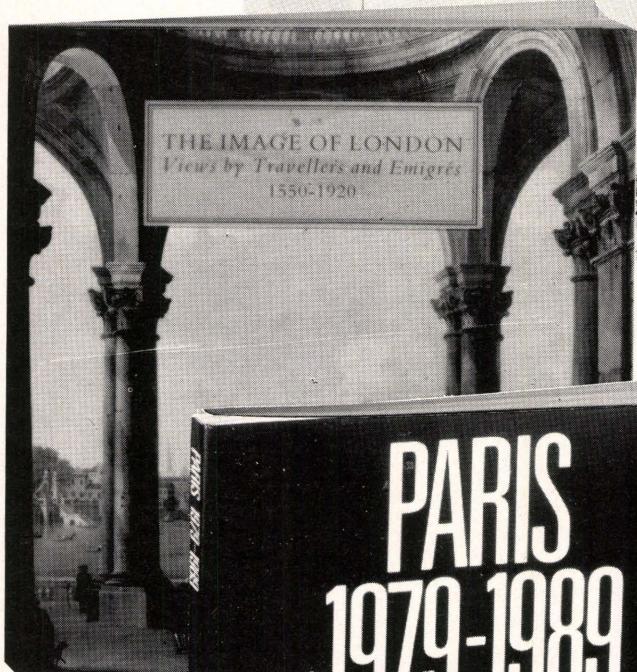
In this context it is important to point out that the commitment to improved policies does not imply that they will become more bureaucratic and more centralized. British Prime Minister Margaret Thatcher recently has missed no opportu-

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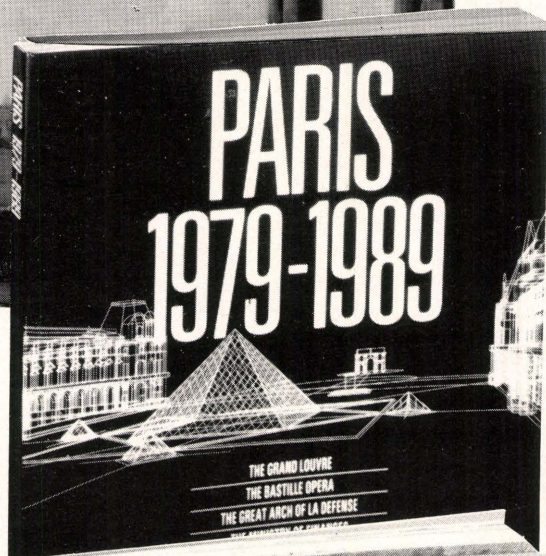
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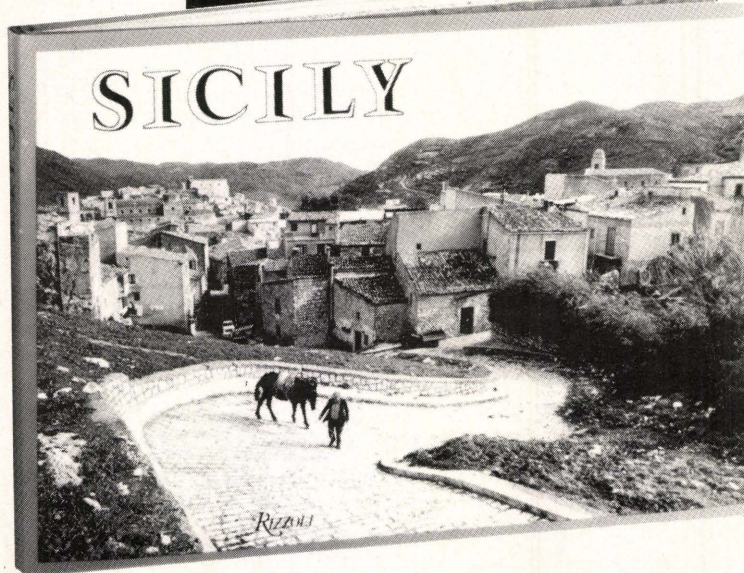
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nity to point out that she has not "successfully rolled back the frontiers of the state in Britain, only to see them reimposed at a European level, with a European super-state exercising a new dominance from Brussels." There is a profound misunderstanding at the basis of such statements: It is the declared and practiced principle of the Commission to enhance competition, to favor entrepreneurship, to limit central regulation to the minimum level required for coherence and to give regions a greater say in the management of the means provided for stimulating their economic development. We are aiming precisely for that in our policies, be it in our new legislation on structural funds or in other areas.

Let me give you some examples of what the reform process means in practice in key sectors:

- In the *dairy* sector, where we introduced quotas and other restrictive market measures, the quantity of milk collected will fall from 103.7 million metric tons in 1983 to 93 million tons in 1989, a drop of 11.3 percent. On the basis of past trends, if the E.C. had not introduced quotas, the quantity of milk collected would have been 121 million tons in 1989.

Butter production in 1989 will be 600,000 tons down on 1983 (for comparison, the world market in butter involves some 1 million tons). Public stocks of butter, which had reached 1.3 million tons in 1986, will be considerably below 200,000 at the end of 1988. It is worth mentioning that this reduction of stocks was carried out without burdening the world market. The dairy herd will have been reduced by nearly 20 percent, or almost 5 million cows, by 1989 compared with 1984.

- In the *cereals* sector the measures taken so far, namely price reductions, tightening of quality criteria and changes to the intervention arrangements, caused prices to drop an estimated 25 percent in real terms between 1984 and 1987. In addition, the European Council decided in February 1988 to adopt a new instrument, the so-called "maximum guaranteed quantity." This was set at 160 million tons for the whole E.C., i.e. nearly 14 million tons less than the best harvest up to now and over 25 million less than the forecasts drawn up by all the research organizations. If production exceeds this amount, producers will automatically be confronted with price reductions that over the next four years could be as much as 14 percent.

- In the *oilseeds* sector we also introduced maximum guaranteed quantities, well below previous production levels, which, if

exceeded, will trigger severe price reductions.

Similar proposals have now been put on the table for beef and sheepmeat. The beef sector is of particular importance for this country, representing more than one-third of the total value of Irish farmers' output. What we are aiming for is to modify support in such a way that the market will play a more decisive role.

In the light of all these measures there can be no doubt that the E.C. is not for "cosmetic changes," but is reforming its agricultural policy and is accepting that sacrifices are required by its farmers. We are actually now decreasing expenditure for agriculture. Mainly due to increasing world market prices for cereals, oilseeds and dairy products, but also as a consequence of our reform policies, we are now in a position to reduce the agricultural budget for 1989 by \$1.7 billion. For 1988, we will spend \$1.1 billion less than planned in the budget. At the same time, all stocks will either be sold or depreciated at market value by the beginning of 1990.

But domestic aspects are closely linked to international developments. This is indeed recognized by the commitments to which the E.C., the United States and their trading partners have subscribed in the mandate worked out in 1986 at Punta del Este, at the opening of the Uruguay Round of multilateral trade negotiations in GATT. The parties to the GATT agreed that "there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions, including those related to structural surpluses, so as to reduce the uncertainty, imbalances and instability in world agricultural markets." The parties also agreed to a standstill commitment on restrictive trade measures.

Another international forum, the Organization for Economic Cooperation and Development, concluded at its ministerial meeting in 1987 that "the long-term objective is to allow market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support."

As I pointed out before, the E.C. has taken important steps toward reaching these goals independently from the international debate. But in order to achieve lasting improved balances at world level, concerted actions are needed, to which all parties should contribute. Signals from Washington are—to put it mildly—not always in the right direction. Since the Punta del Este declaration, the United States has expanded its export subsidies

via beefing up its Export Enhancement Program and has considerably relaxed its set-aside provisions.

The point is reached where the E.C. cannot go further alone and where the commitment of "concerted action" has to be taken seriously by all of those who have subscribed to it. We simply are not credible toward our farming community if we relieve markets by drastic measures and find then that other trading partners take advantage of our discipline by improving their position on the world market, for instance in the dairy sector.

Within the Uruguay Round negotiation process, a great deal of preparatory work has been done so far. Positions have been clarified regarding the objectives as well as the technical aspects of the negotiation. It turns out that there is a certain measure of similarity between the E.C.'s position and that of other parties, notably the countries within the Cairns Group and in particular on measures with a short-term effect on world markets.

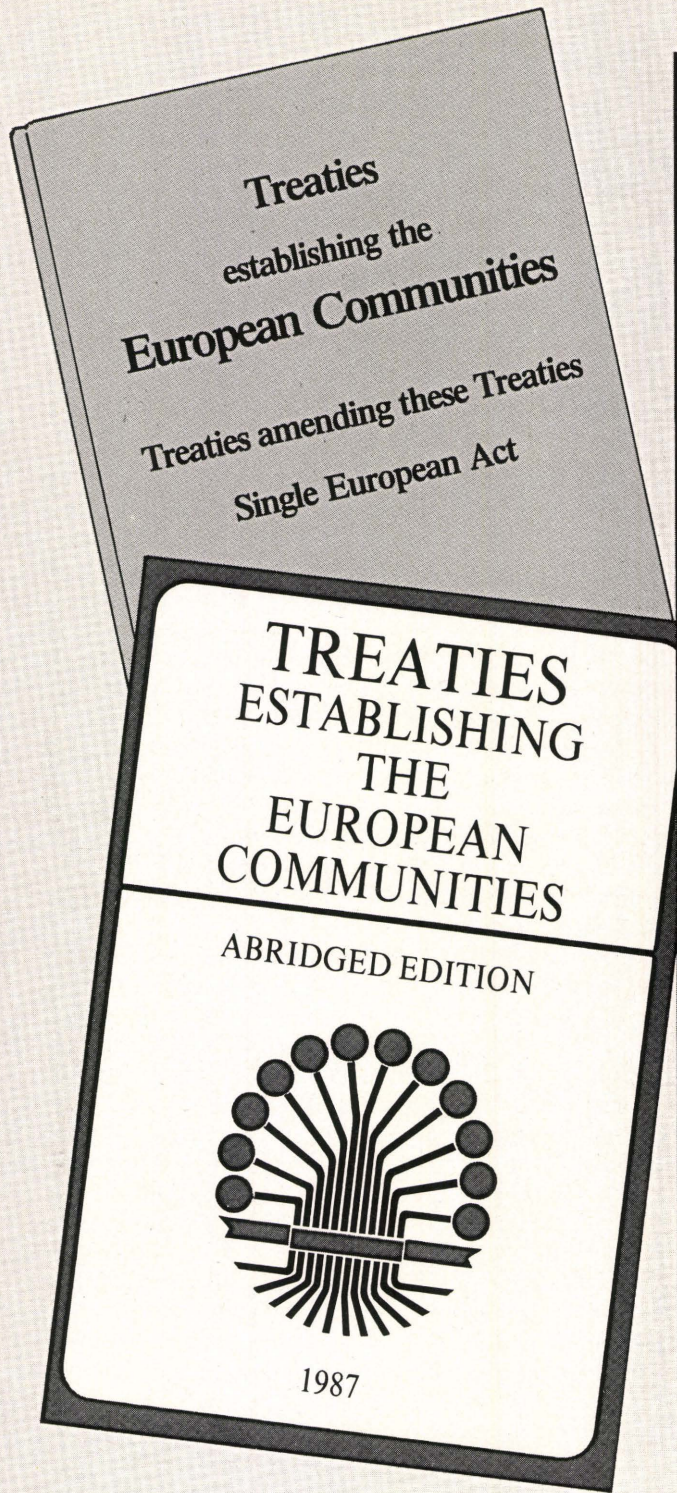
I would like to emphasize the E.C.'s contribution to the GATT negotiating process: With regard to short-term measures, we cooperate actively with the ongoing work for establishing a workable measurement unit for the reduction of support, as a prerequisite for concrete measures to be taken. With regard to long-term measures our proposal is based on three elements:

- a further and significant reduction of support;
- establishing a reequilibrium of support and of external protection;
- the strengthening of GATT rules.

The definition of concrete measures or percentages has of course to be a matter of negotiation and cannot be fixed as an advance down payment to be given by the Community . . . In my view, results on the long term are only possible if there is a gradual process of reductions of support.

A relationship of the dimension of the one between the E.C. and the United States is bound to reflect to a large degree tensions created in the final analysis by the pursuit of domestic economic interests.

Negotiators on both sides have to take them into account. But they have also to keep in mind overriding interests of their societies. The United States and the E.C. also bear responsibility internationally. That is why we are both convinced that the multilateral framework is the right one to solve problems. Let us persevere in serious efforts in that framework and I am convinced that solutions can emerge to the benefit of all. €



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EUROPE
WITHOUT
FRONTIERSTHE IMPLICATIONS
1992 FOR U.S.
BUSINESS

MICHAEL D. MOSETTIG

Among Europeans, 1992 has become a major and sometimes almost obsessive topic of conversation. In the United States, in contrast, the E.C.'s decision to move to a single market in four years is only slowly taking hold as a potential trade and political issue among government officials and politicians, corporate executives and in the news media.

Recently, the National Planning Association, a private non-profit study group that dates back to the New Deal era, published a book on the effects of 1992 on U.S. business, titled "The 1992 Challenge from Europe." The author of the study was Michael Calingaert, a U.S. foreign service officer with postings both in Europe and in the State Department's Bureau of Economic and Business Affairs. For the past two years, he has been assigned to the Planning Association under the State Department's Diplomat-in-Residence program.

In a recent interview with *EUROPE*, Calingaert discussed some of his findings. The interview was conducted by Michael D. Mosettig, senior producer for foreign affairs and defense at the *MacNeil/Lehrer NewsHour*.

In your conclusions, you say that the major net result of 1992 is going to be greater competition. Why is that?

It will make economic activity in the E.C. as a whole, across borders, easier. It means there are more players, or more potential players. There are going to be many more opportunities.

Is that good news or bad news for American firms?

I suppose both. I would say in the first instance certainly good, because there are opportunities and no reason why American firms can't participate and seek to find a place in that market. It doesn't mean there is going to be free sailing all the way. I think in many cases they will find there is more competition than before. To some extent American companies have benefited from the existing barriers simply because many of the multinationals have had experience and a philosophy in dealing on a more global basis. They will find that there are more players and more competitors than there

were before.

Talking about barriers, let's go through your list of some of the various barriers in terms of how their elimination is going to affect American companies. To start with, the regulation of services.

Primarily in the field of financial services, Europe has been highly regulated on a national basis so that companies essentially had to deal with each country. There was really little scope for operating across borders. That is something the E.C. itself is recommending because it's quite clear in the White Paper [on completing the internal market] that it is essential for a truly functioning single market to eliminate these barriers. What the E.C. is in the process of doing is very revolutionary, essentially setting some very general overarching standards and regulations and saying that once any company or financial institution that is duly registered in one country has abided by these standards, it can operate across borders. American interests are very strong and highly represented in the financial services area, and, by removing those barriers, they could do much better.

And the second group you talked about, regulations and standards?

I think that the E.C. has made some pretty good progress in reform. There are obvious economic advantages to worrying about one set of standards and regulations rather than as many as 12. There again, I think one has to stress that these advantages are not solely for Americans, but for anyone there. But once an American product, be it an exported one or one produced there, is acceptable under the standards of a particular country, it should have free rein throughout the Community.

What may be the trickiest of all is in the area of public procurements.

I think the E.C. Commission is trying very hard to make changes in that. There are a whole series of measures that are

OF

NEW BOOK ANALYZES IMPACT OF THE "1992 CHALLENGE FROM EUROPE."

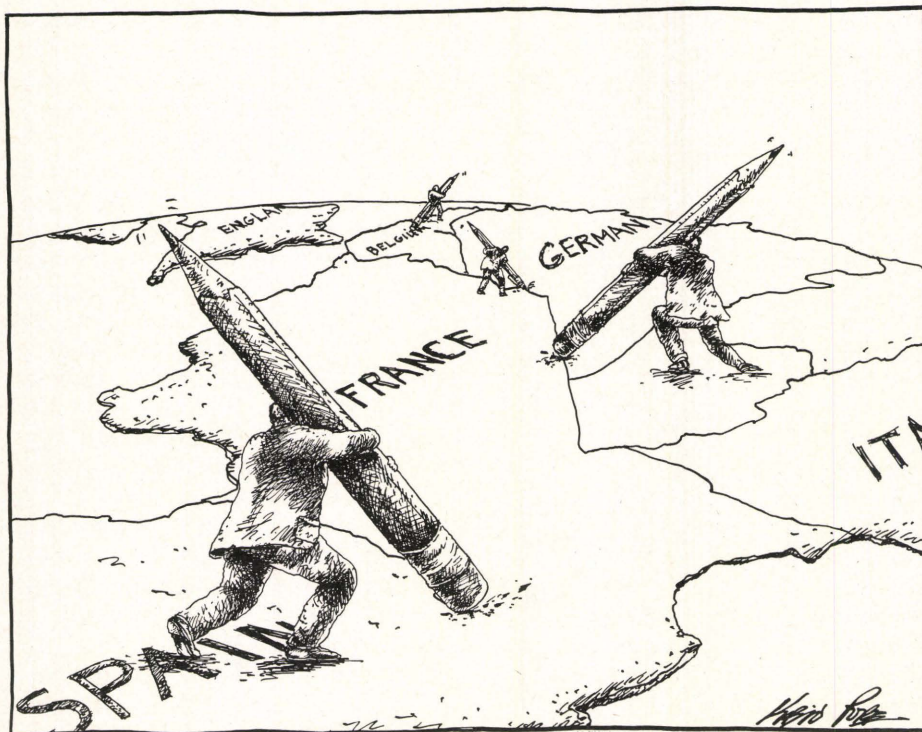


ILLUSTRATION BY KEVIN POPE

on course. I think it will take a long time, and it would be kidding oneself to believe it will happen quickly. The relevance of that for U.S. interests is somewhat less clear because undoubtedly the liberalization that takes place is going to be essentially on an E.C. basis. It's enough of a shock to the E.C.'s system to move from the national to E.C. level. But it does mean that American firms that have subsidiaries operating as European companies should have a fair shake at that market. And the size of the market is potentially enormous.

For the average outsider, when we talk about creating a single market and all that, the most visible example is the removal of barriers to either goods or people. I gather you think that's going to have a less profound effect on outside companies.

As it affects people, certainly, it is very important and very delicate for the Community. But for outsiders, I think it will be fairly marginal. On the movement of

goods across borders, yes, there are costs involved and they are not inconsiderable. My feeling from talking to a lot of companies is that they find it is something manageable and that there are no other issues that are more important to them. *And of course another one that is obviously going to attract a lot of attention, but perhaps the attention will be disproportionate to the real fact, is this question of capital liberalization.*

I think it is amazing that the E.C. has gone as far as it has to phase out all the restrictions. And for some of the countries with weaker currencies that is a very strong step forward. For businesses, most of the restrictions now are already gone in most of the Community. So when you talk to the top American firms, on the whole they say: "We're not bothered because we can move capital in and out and around, foreign capital for investment and so on." But certainly you can't have a real integrated market unless indeed there is full freedom of capital movements.

In terms of a common legal framework for outside companies, does that just mean they won't have to hire as many lawyers, or is there going to be a more serious effect?

Again, it's an area where it simplifies a company's ability to do business. And to the extent that laws are standardized, and you can do something once rather than more times, it reduces costs and facilitates business. Just to take one example, trademarks. They are trying to work out a common trademark regime. If you have something you want to trademark, it is easier to do it once at a centralized location than having to go through that procedure in all the countries.

You also analyzed the effect in some major sectors of the economy, starting with automobiles.

There are really two main issues. One has to do with the restriction of Japanese imports. You have some countries with no restrictions and some with severe restrictions. I would be very surprised if the E.C. ended up with anything other than E.C.-wide restrictions. But you have two American companies that really have operated on a pan-European basis in a way that European companies strictly haven't. What is affecting all companies are regulations, environmental and lots of other kinds. The emission controls, I guess, are the most visible. The E.C. has reached some agreements, but you have very strong and diverse views among the countries. And even though they've come to some agreement on the larger cars and commercial vehicles, some of the countries have said, "nevertheless, we want to apply even more stringent controls," which they can under the treaty [establishing the Community]. So, the manufacturers may find themselves in a circumstance where indeed there are different standards and the problem they had still exists. That sort of issue will be difficult to resolve.

But you make that sound like it would be

more of a problem for the European companies than for Ford and GM.

It's really there for anybody who wants to deal in more than one market. If, to oversimplify, you have a circumstance in which all the restrictions are gone except for continuation in the field of environment, then all those companies that are producing inside the E.C. will face the same competitive situation. There also are some very sizable differences among the countries in taxes—purchase taxes, sales taxes, registration taxes. So one would expect that with the formation of a single market in automobiles on the one hand, U.S. firms are well placed to move ahead from where they are. On the other hand, there certainly are great possibilities for other domestic companies if they

better deal in the Japanese market. The problem from the U.S. point of view is that the proposed regime through the E.C. is more liberal than exists in the United States because of legislation, regulations and so on. But the proposal, as I read it, is for new entrants. And that seems to be what the E.C. was saying in a statement released recently about the external aspects of the internal market. If that is the case, the vast majority of potential U.S. banking institutions are already inside the E.C. so that it should not be a problem. But the situation is not 100 percent clear. That certainly is an issue that is of great concern to U.S. banking interests.

The third one is insurance.

The United States has not been that big a

firms to recognize that process and to inform themselves about what it consists of. They have to review their entire operations, go through the entire inventory of how they're operating and where they are situated, how they distribute, whether they export, the extent to which they export, what the contractual arrangements are inside the E.C., what the communications system is, personnel and so on. And put that against a review of what is happening in the Community. For firms that are heavily involved, or potentially heavily involved, that is a very elaborate process. But I think there is no alternative to really going through measure by measure of what is on course inside the E.C. and then putting that against their operations to see how they can best position themselves in what is going to be a very new situation.

You deal a lot with American companies with an interest in Europe. How do you find the awareness level about 1992?

Certainly the bigger firms that are well established in the E.C. are well positioned and well aware of the changes that are going on and are making a major effort to derive the best advantage they can from that. Beyond that, I think there certainly are a lot of companies in the situation of recognizing and are beginning to ponder what that might mean for them.

As a result of 1992, do commercial/economic/financial factors become even more important aspects of the United States' diplomacy in Europe than they are now?

I think so. I would say over the past several years, if not decade or more, that the economic aspect of our relationship has become increasingly important. The economic relationship has grown and there is an enormous amount of interrelationship across the board. Much of it, the vast majority, goes on without involving governments or creating problems. I think the political questions have gone more into the background in part because the E.C. has succeeded. The goal we had initially in establishing that kind of organization, in bringing European countries together, has taken place. With that done, the economic issues become more important. And I think that the foreign policy issues are to an increasing extent economic issues.

This idea of a "Fortress Europe," the question that perhaps gets the most publicity, gets talked about the most in Congress and newspapers. You basically take the optimistic view that they are not in the process of creating a Fortress Europe. I think it's very hard to define "Fortress

U.S. firms must recognize that important changes have taken place inside the Community.

They must recognize the process and inform themselves. They must go through the entire inventory of their operations, their locations, how they distribute, whether and how much they export, contractual arrangements in the E.C., communications systems, personnel and so on.



want to take advantage of it.

The second is banks.

What is in the offing, and in all probability is going to happen in the next few years, is Europe-wide banking. There is a lot of room in the banking sector. And European banks, as well as others, are looking for ways to move beyond borders and how best to position themselves in there. Many of the U.S. banks have been quite active in Europe in the whole post-war period. It's not clear that they have any strong advantage in that market other than their experience in operating more globally than European institutions. But I think that kind of advantage is declining. The danger perceived for the U.S. banking institutions is this issue of reciprocity that's been raised and proposed directly. *Basically, isn't this a distinction between banking systems? We don't have as much of a national banking system as they do, and our banking laws are different.*

The idea behind the proposed banking directive is that banks of foreign countries could operate on a Europe-wide basis if European banks could operate on the same basis in their country. That proposal is directed toward Japan. It's clearly an effort by the E.C. to get a

player in the European market as in some other areas. It is very highly regulated and is in the process of moving toward a similar regime as has been proposed for banking. And at least one of the big American companies has put under one roof, one umbrella, different national organizations that, in turn, can service the market. There will be opportunities for American firms who are willing to participate.

And the other major one was telecommunications.

What is going on in the E.C. is a very exciting and broad-based effort, a very complicated one and one that affects a lot of long-standing ways of operating. But I think that the key is that the E.C. has recognized that things have to change. It is not in Europe's interest to maintain the kinds of monopolies and controls that are there. And if the E.C. does not move toward a more liberalized regime, it will be a drag on the ability of the E.C. to compete.

How does an American firm strategize for 1992?

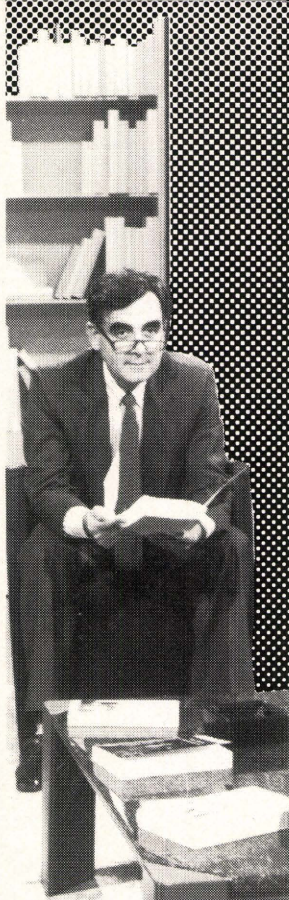
Clearly, the starting point has to be that important changes have taken place inside the Community. And it behooves

Continued on page 46.

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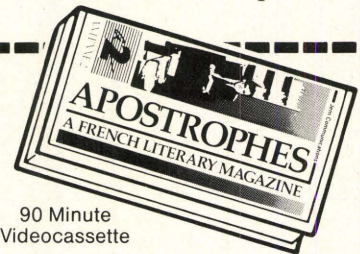
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EUROPEANS EYE U.S. MARKET FOR VIDEOTEX

INFORMATION SYSTEMS ARE GETTING NEW TRIALS AFTER EARLIER FAILURES.

PAUL KEMEZIS

Videotex, which was invented in Europe and has been a roaring success in France, is making a new attempt to prove itself in the United States. Starting in late 1988, all of the major regional telephone companies in the United States will experiment with data gateway services. These will allow persons to dial a single local phone number and receive videotex services on their home personal computers (PC) or specialized terminals, including business data, local shopping and entertainment or travel information.

Close to one million Americans now receive data in their homes through subscriptions to business information services such as CompuServe, Infonet and The Source. But few local services have developed, especially after Videotex trials, sponsored by large newspaper groups, crashed in the mid-1980s with huge financial losses.

Supporters of videotex now believe the extension of the services to a mass market in America, such as occurred in France, depends on the new telephone gateways. "We are now entering a second wave," says Robert Smith, director of the Videotex Industry Association in Washington. "The gateways mean that seven multi-billion-dollar companies will have a strong interest in seeing videotex succeed."

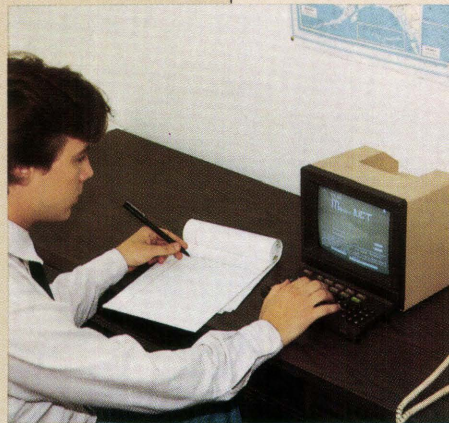
Another group with similar interests are the European companies with videotex expertise who hope to tap the immense American market. As with other communications technologies, such as integrated system digital network, European companies got a head start in videotex because the national telecommunications agencies developed coherent plans early in the game. In the French case, the decision to pursue videotex was taken in 1978 and service started in 1983. Work in the Federal Republic of

Germany and the United Kingdom started even earlier.

One such player is New York-based Minitel USA, a subsidiary of France Telecom. The group has formed "strategic alliances" with U.S. telephone companies, including U.S. West, to ensure that American videotex services are compatible with France's own system, which uses the Télétel standard. "There's a huge market here and we feel the more activity the better," says Laura Lubman Hamburg, Minitel USA's business devel-

opment manager.

In October, Minitel USA announced a precedent-setting joint venture with the American data provider Infonet, which will allow American users to tap directly into the 8,000 services on the French videotex network. Also, American services will be available on the 4 million minitel terminals now in French households. American users will get free software to convert their PCs to receive the service or will be able to get their own minitels. The service will cost an average



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Videotex is a data information system in which users in offices and homes access text and graphic information, usually in one-page form, via specialized videotex terminals or personal computers linked to the telephone system. The user selects information offerings from menus and pays for it on a time basis, or in many cases gets it free. The data is transmitted via the digital telephone network, but is frequently provided by independent information providers who store it in their own host computers. Typical videotex services include business data, news, travel schedules, theater offerings, shopping guides, and telephone directory information. The OECD estimates sales of videotex services will reach \$1.6 billion per year in Europe by 1990 and close to \$500 million in the United States.

WHAT

IS

VIDEOTEX?

The OECD estimates sales of videotex services will reach \$1.6 billion per year in Europe by 1990.

17 cents per minute.

But americanized versions of the French minitel will get their true test in the United States in Houston during 1989. Southwestern Bell will distribute 30,000 terminals as part of its videotex gateway trial. The units, worth about \$300 apiece, will be imported from France by Houston-based U.S. Videotel under a license with Telic Alcatel, a major supplier to the French market.

A key difference between videotex in Europe and America is that most American efforts are aimed at users who already own PCs, about four million at last count. In Europe, where fewer individuals have PCs, the main idea has been to put cheap, specialized videotex terminals or television conversion units in houses. The distribution of minitels in France has been a great success, but has cost the Direction Générale des Télécommunications close to \$1 billion in up-front money, far more than any U.S. promoter would dare spend.

In Houston, Southwestern Bell will charge a small monthly rental fee for use of the terminals, and also will offer the videotex service to PC users to compare the two groups. While minitel supporters claim the small terminals will be the key to creating a videotex mass market in the United States, many experts are skeptical. They argue that American users are more accustomed to the more intelligent PCs and, as component prices drop, PCs will become commonplace in most American homes.

Not all European companies pushing videotex in the United States are French. Vicorp Interactive Systems, Inc. of Boston is the subsidiary of a Swiss-Dutch group that specializes in making diverse European videotex systems talk to each other. This is a key function in the United States where there is no dominant standard and the gateway providers want to be compatible with all PCs to maximize network usage. Vicorp is supplying videotex software to Pacific Bell for its trial in San Francisco and is also working for Southwestern Bell in Houston.

Plenty of American companies, including some heavy hitters, also are developing videotex technology. Nynex, the regional telephone company in the Northeast, is creating its own system for planned gateways in Vermont, New York and Boston. And IBM, whose German subsidiary supplied the computing know-how for the German Bildschirmtext system, is working on a major private videotex network with merchandising specialist Sears.

Despite the new surge of activity, almost everyone expects videotex to remain a sell in the United States. The seven giant telephone groups, created by the 1984 break-up of AT&T, were given permission to open the gateways by a March 1988 court order. But they still can only transport videotex data, not create information services themselves. So far they have announced limited gateways in selected large markets, and left wide open the question of if and when

they will expand gateway access to all customers.

Meanwhile, it will be up to the other groups to supply the information. So far, smaller data providers have been eager to participate in the telephone company gateways, hoping to get access to more customers. They believe the relatively low \$3- to \$4-per-hour average cost to users and single billing through the telephone companies will help create large new markets for their information.

But the large data providers, like CompuServe, whose participation may be crucial to early success of the gateways, have been hesitant. CompuServe officials say they still fear the gateways may eat into their existing customer base and they have joined only the Nynex trial.

Hanging over the entire scene is the likelihood that the big telephone companies will be allowed to offer information themselves within a few years as deregulation accelerates. Everyone is aware that a key feature in the French success story was the electronic telephone directory offered by the national telephone administration over the minitels. It is widely expected that the U.S. telephone companies will offer such computerized directory services themselves as soon as it is legally possible and that they will build strong videotex information business around that core. Until that happens, videotex is likely to remain a question mark in the United States. €

Paul Kemezis is a freelance writer specializing in technology issues.



V I D E O T E X

T R I A L S

I N T H E U . S .

COMPANY	PLACE	WHEN	USERS	FORMAT
Nynex	Vermont	Oct. 88	3,000	Commercial offering
	New York City	Jan. 89	15,000	
	Boston	Dec. 88	10,000	
Pacific Bell	San Francisco	Jun. 89	15,000	1-year trial
Southwestern Bell	Houston	Mar. 89	60,000	1-year trial
Bell South	Atlanta	Aug. 88	3,000	Comm. offering
Bell Atlantic	Pennsylvania	Dec. 88	—	Trial
Bell Atlantic	Washington	Mar. 89	—	Trial
U.S. West	Undecided	End 89	—	Comm. offering

Typical videotex services include business data, news, travel schedules, theater offerings and shopping guides.

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- Creation of a European Financial Area.** *European Economy No. 36.* 212 pages, May 1988. \$19.50
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EUROPE
WITHOUT
FRONTIERS1992 PROMPTS
UNPRECEDENTED
WAVE OF MERGERS

SWISS AND AMERICANS LEAD THE LIST OF BUYERS.

Europe is undergoing an unprecedented wave of mergers and acquisitions as companies poise themselves to maximize the anticipated advantages of trading more freely in goods, services and capital in the single market of 320 million consumers promised for 1992, as the European Community "harmonizes" the maze of national laws governing trade and commerce. That prospect has begun to accelerate what *The Economist* called "Le buy-out"—record-breaking in value and audacity. And indeed European predators are looking beyond their backyard for opportunities across the Atlantic.

At least 30 years ago, it was the American multinationals that dominated the European financial landscape. U.S. headquarters set up satellites that were strategically placed to take advantage of the postwar recovery. Subsidiaries usually were directly owned by American parents, functioning largely as production, distribution and marketing arms. U.S. direct investment in Europe peaked during the period from 1961 to 1967, accounting for about 60 percent of total direct investments in the E.C., according to the Organization for Economic Cooperation and Development (OECD).

This American corporate assault provoked debate about the extent to which U.S. firms could control national economies in Europe. "*Le Défi Américain*," a book by Jean Jacques Servan-Schreiber, sounded the alarm. "One by one, U.S. corporations capture those sectors of the economy most technologically advanced, most adaptable to change, and with the highest growth rates . . . We are witnessing the prelude to our own historical bankruptcy." In retrospect today, these fears proved unfounded.

European firms rallied with the encouragement of their governments to weaken America's grip. By the mid-1970s, the

U.S. share of direct investment had fallen to about 30 percent. But the overall pace of mergers and acquisitions slowed. Transactions were blocked by legal, institutional and psychological barriers—for example, different standards and border red-tape for corporate strategists meant a set of national markets rather than a European one, obstructing economies of scale. Corporate reconfigurations were concentrated in basic production and capital intensive industries, such as electrical engineering and machine tools. Whether this wave improved profits varied from country to country. In the Federal Republic of Germany, Belgium and the United Kingdom, profits were higher than those in France and Holland.

The calculus used in mergers during this pivotal period has helped determine the types of takeovers and other corporate restructuring within the E.C. during the last year. Nine trends emerge from the daily events that almost fill the entire section on business in a European newspaper.

- Companies in similar or related businesses are strengthening their domestic market positions. In mid-November, for example, Erskine House Group, an office equipment distributor in Britain, bought ADS Group, which loans and services photocopiers and other office equipment in London, for about \$8.1 million.

- Firms are moving to link proven, related companies throughout Europe into a centrally managed one. Not only is the company enlarging its market share, but it also is broadening its production and services network with firms that have mastered the workings and idiosyncrasies of particular national markets. Toward this end, Marconi, an Italian electronics company, bought a French counterpart, Adret. The Ferruzzi Group, an Italian food-processing and chemicals company, has spent more than \$3 billion since 1986 on similar companies in neighboring countries. Swiss-based Nestlé purchased

Rowntree, a British chocolate maker, for \$4 billion, another example of this trend. A third: One of the Europe's biggest independent computer software and services companies was created through the merger of CAP Group of Britain with SemaMetra S.A. of France (a deal valued at \$174.8 million).

- Businesses are buying minority shares in European counterparts to position themselves for possible takeovers. UAP, A French state-owned insurer, recently took a 10-percent stake in Britain's Sun Life Assurance.

- A growing phenomenon that seems unique to Britain is the "management buy-out"—the company's managers purchase a majority, if not all, of the publicly traded stock. These deals primarily involve small-scale businesses. A study by the accountants Peat Marwick McLintock shows that during the first nine months of 1988, 210 management buy-outs occurred in Britain, valued at \$4.5 billion. That compares with 300 for all of 1987, with a \$4.9-billion total value.

- Most of the activity in mergers and acquisitions is in the middle market—deals valued at less than \$50 million.

- The industries sought and purchased are concentrated in consumer goods—foods, drink and tobacco. Banking, insurance and business service transactions follow. High-tech concerns have been avoided.

- Corporate restructuring in Europe falls mainly along the Italian-Swiss-French-English axis.

- There seems to be a hesitancy to pursue joint ventures in which like companies remain independent, but combine development of products and services.

- E.C. deals by European companies still pale in comparison to European acquisitions in North America. Nearly 375 companies in the United States and Canada were bought between January and June this year by U.K. buyers (transactions valued at \$26.2 billion). The French

JAMES DAVID SPELLMAN

were second, purchasing 14 companies at a total cost of \$1.5 billion. E.C. companies spent more than three times as much on foreign businesses during the first half of 1988 than North American buyers, according to Peat Marwick McLintock.

Comprehensive data illustrating trends across Europe are unfortunately months behind when the events occur. But analyses by the E.C. through 1987 and recent studies by management consulting firms suggest the scale and pace. The strongest sales between January and June this year of E.C. companies were to the Swiss (\$5 billion) and the Americans (\$4.2 billion). Within Europe, U.K. (\$3.2 billion) and French firms (\$1.9 billion) were the key players. The enormous potential for buying and selling during the next three years is suggested by opinion surveys of corporate executives in Europe in which most say they plan at least one acquisition before 1992.

Technological, economic and political factors have converged to fuel the mergers and acquisitions. Advances in computers and telecommunications made it easier to serve larger markets and to shift manufacturing to capitalize on comparative advantages in regional production costs. New financial products enable buyers to tap into a global network of capital. Banks and securities dealers offer corporate raiders arrangements that minimize currency fluctuation risks.

For example, a "futures" contract can hold an exchange rate at the current level for a year when a debt obligation may be

due. Or a currency "swap" can permit an investor to change into another currency as market conditions favor. Investors are also helped by improvements in the liquidity of debt obligations. More and more of such arrangements are being "securitized," meaning that the loans can be traded like stocks and bonds. Strategists, however, have been less inclined in Europe, in sharp contrast to the United States, to incur tremendously high debt, the so-called leveraged buy-out. American financial engineering typically burdens companies with 90 percent debt and only 10 percent equity. Europeans seldom exceed the 65-percent threshold.

While the range and sophistication of financial products increases, there has been an explosion in venture capital funds. The value of those pools almost doubled between 1986 and 1987—from \$9.7 billion to \$16.9 billion. More than half is based in Britain. Although these funds have been used primarily for launching and expanding companies within one market, analysts expect this capital to help drive cross-border mergers and acquisitions.

As a widening group of financial engineers competes for managing and funding deals, the intermediation costs have apparently declined. That is according to a January 1988 report on capital flows by the International Monetary Fund. This is another factor encouraging corporate realignments in Europe.

One of the key factors that will accelerate changes in corporate ownership in

Europe is the fact that many companies were started in the early 1960s and have matured. Management faces the challenge of either holding a steady course, making the firm increasingly vulnerable to a takeover, or expanding through the purchase of related companies. Those that are family-owned are looking for an "exit" as the owners plan retirement. This is particularly the case in West Germany, where most companies are family-run. Only about 300 trade on the stock exchange. Management consulting firms in Europe say that they are beginning to be sought out quietly by families looking for successors.

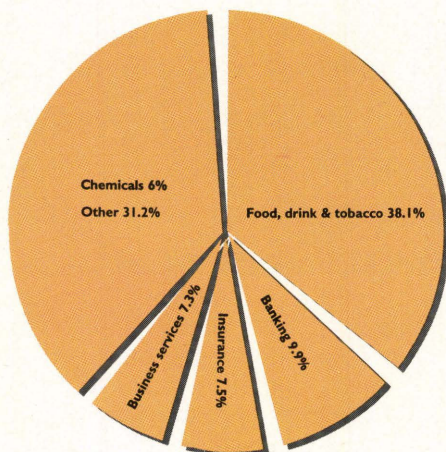
The prospect of 1992 is having its effect less in sparking deals than in pressing companies to plot long-term strategies. The common scenario outlined by several accounting firms in London is that 1989 will see a far faster pace than what occurred this year. There will be participation by the Japanese and Americans. The experimentation that has been seen this year will continue as firms try out different arrangements to create what some call a "synergism"—when the sum of the parts is greater than the whole through technological spinoffs and cost-reduction achieved by streamlining production. The great rush is expected in 1990 and 1991. And in those purchases, E.C. companies will be looking for the right fit with their newly-owned American operations. €

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

INDUSTRIES SOLD

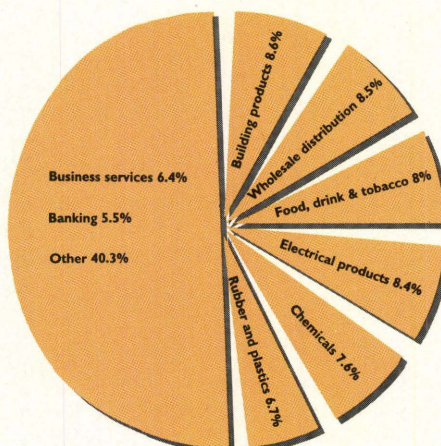
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TOTAL DEALS % BY VALUE



- Sales in the food and drink industry were more than three times the next largest industry, due to the Rowntree takeover
- But even when Rowntree (\$4.9 billion) is excluded, the food and drink sector was still the largest for sales of EC companies to foreign buyers

MIDDLE MARKET % BY VALUE

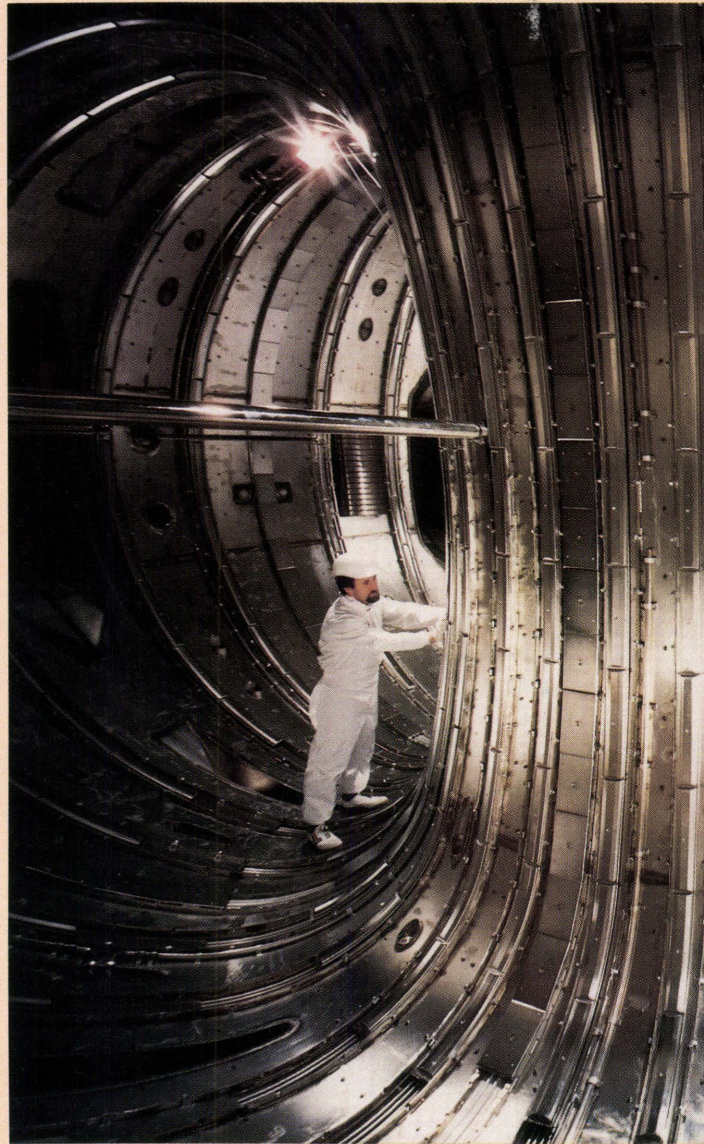


- Sales in the middle market were not concentrated in particular industries, showing again the strength and diversity of the middle market in the EC

THE E.C.'S RESEARCH AN

Europe is the cradle of science and technology as we know them today. Until recently, it was there that all the major breakthroughs in knowledge occurred. At present, Europe can no longer claim to be in first place in most of the major fields of research and technological development. In some sectors (such as research on controlled thermonuclear fusion or particle physics), European research does remain in the forefront at world level. Overall, however, its relative decline is clear and all the more regrettable in that it shows itself in areas of exceptional economic importance: electronic and information technology, biotechnology, materials technology and others.

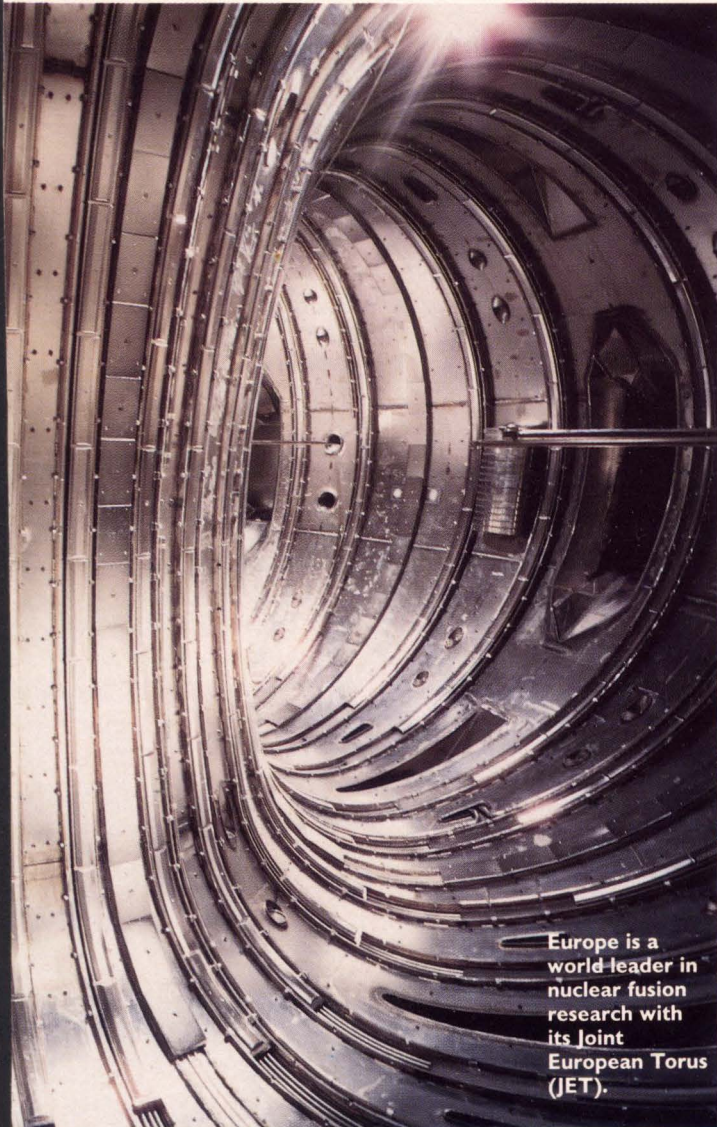
The real difficulty that Europe faces is neither an absence of scientific and technological ability nor a lack of financial resources. Of course, the overall outlay on research in Europe is less than that of the United States or (relative to the size of the population) of Japan. However, the essential weakness is the fragmentation of this outlay. The E.C. has tremendous potential, with more than a million scientists and technicians, including 450,000 research workers. However, optimal use is not being made of this potential; the scope of the efforts undertaken is still too often reduced by dispersion of resources for research, isolation of research teams and lack of coordination of research work, poor diffusion of information and duplication in the different national programs.



European cooperation in research and technology is therefore an imperative that has become more and more evident over the years. The E.C. offers a natural and obvious framework for such cooperation. E.C. action in the field of research and technology dates from the very foundation of the E.C. and has continued to diversify and grow over the years.

The history of E.C. research, like that of the E.C. itself, is one of a continual process of growth and maturation: the conquest of new fields and increasing interpenetration of activities. E.C. action

TECHNOLOGICAL DEVELOPMENT



Europe is a world leader in nuclear fusion research with its Joint European Torus (JET).

in the field of research and technology, as currently exercised within the framework program, established by the Single European Act, essentially takes three different forms:

- First, there is the E.C.'s "own" research carried out at the Joint Research Center (JRC), which is largely financed by the E.C. It employs 2,260 people, of whom 700 are research workers. In the beginning, JRC activities were exclusively concentrated on research into nuclear fission. These activities gradually diversified and today cover several other areas,

an authentic E.C. of research and technology, an indispensable ingredient of the E.C.'s 1992 market plan. The philosophy of the framework program is a simple one: not to transfer to the Community level most of the research work carried out in Europe, which would make no sense, but certainly to effect at this level all research that, for one reason or another, is more appropriately, more economically and more efficiently conducted there.

This would include research in such areas as environmental protection or

such as research on environmental protection, remote sensing or preliminary research for the setting of standards (for materials, appliances using solar energy, etc.). The JRC also has specialized in nuclear safety.

- Second, the major item in terms of scale is research on the basis of "shared costs." The E.C. defrays 50 percent of the cost of work carried out by research centers, universities or industrial companies. The majority of specific programs (ESPRIT, RACE, BRITE, Euram, etc.) are carried out on a "shared cost" basis.

- Finally, certain E.C. activities (such as the medical research program) take the form of "coordinated action." The E.C. does not actually finance the research work as such, but looks after the coordination and meets the costs it entails.

The task of the framework program (1987-91) is clear: It must accelerate the establishment of a true European "scientific and technical area,"

health, where the problems present themselves "naturally" at European level—research that exceeds the financial or manpower resources of one single E.C. member state, such as controlled thermonuclear fusion, or research in sectors where it is essential to make full use of the complementary knowledge and skills available in Europe. One aspect of the program that is of particular importance for all sectors is "pre-standardization" research. It is through research carried out at E.C. level that European norms and standards will more easily be established. The framework program (1987-91) was adopted on September 28, 1987 and was allocated 6.48 billion European Currency Units (ECU)—currently about \$7.67 billion. It singles out for E.C. action in the research and technology field eight major lines of activity.

Quality of Life

E.C. action in the health field includes above all a program to coordinate medical research. The two principal aspects of this program of "coordinated activities" are research on cancer and on AIDS. There are also programs on predictive medicine and novel therapy (genetics in the prevention and treatment of illnesses of the immune system, congenital illness, etc.) and radiation protection (the effects on the body of natural, medical or industrial radiation) and activities concerning occupational medicine in the coal and steel industries.

E.C. activities in the environmental field are concerned with actual environmental protection (pollution, acid rain, the protection of historic monuments, etc.), climatology (accumulation of carbon dioxide, the ozone layer, etc.) and the study of major technological risks. The environment constitutes an important area of the JRC's activities.

Information Technologies

IT research is centered on the ESPRIT program. Launched in 1984, Esprit was designed to run for 10 years, from 1984 to 1993. The first phase of the program, successfully completed in 1987, repre-

sented the real beginning of European cooperation in information technology. For this first phase, 225 projects were selected, involving more than 450 different participating entities and nearly 3,000 research workers. The second phase of Esprit, which has been provided with an increased budget, should enable the results obtained in the different program sectors (microelectronics, knowledge engineering, advanced information processing, office automation, robotics, etc.) to be extended and broadened.

In telecommunications, E.C. action has given rise to another program of wide scope: RACE. Drawn up in liaison with the national post office and telecommunications authorities, RACE is part of an overall strategy to ensure the coherence of the different telecommunications systems and services being developed in Europe. Its specific objective is progressive development toward an E.C. system of integrated broadband communications, beginning with the integrated services digital network.

ESPRIT and RACE are intended to be supplemented by a series of specialized programs on the application of information and telecommunications technologies: DELTA (teaching through computers), DIME (new technology in banking and finance), AIM (medical information) and DRIVE (the use of informatics in road traffic).

Industrial Technologies

The BRITE program's specific field is the application of advanced technologies (laser, computerized design, mathematical modelling, etc.) in manufacturing industry: automobiles, aeronautics, textiles, chemistry and others. The Euram program is devoted to the expanded technology of materials and aims to give Europe the capability to perfect and produce new materials for automobiles, construction, aeronautics, etc. It covers almost the whole vast field of materials technology (new alloys, engineering ceramics, composite materials, etc.).

Also under this heading comes E.C. research in the area of raw materials (exploration and mining technology, the recycling of waste, the use of wood, etc.). Included here as well is preliminary research for the establishment of norms and standards, carried out as part of the program of the Community Bureau of References and, as regards nuclear norms and standards, by the JRC.

Energy

Three principal forms of energy are still the subject of research at E.C. level:

- Nuclear fission energy: E.C. research

has specialized in the vital area of safety—the safety of reactors (light-water and fast-breeder types); the management and disposal of radioactive waste (treatment, conditioning, long-term storage in safe geological sites, etc.); the decommissioning of nuclear power plants at the end of their useful lives. Nuclear safety accounts for 60 percent of the activities of the JRC, which has acquired considerable experience in this area.

- Nuclear fusion energy: Europe is a world leader in this field due to the research carried out on the Joint European Torus (JET). The JET is the essential element of the European research program on controlled thermonuclear fusion, a potential form of energy for the next century. It is a tokamak type machine that uses the principle of magnetic confinement of plasma at high temperature in a torus-shaped enclosure. The work carried out on JET aims to demonstrate the scientific feasibility of fusion.

- Non-nuclear energy: This is an overall heading for the technologies for production, transport and exploitation of energy in non-nuclear form—solar energy (passive solar technology and photovoltaic conversion), wind energy, biomass, geothermal energy, fossil fuels (liquefaction and gasification of coal), sensible use of energy, etc.

Biological resources

The 1987-91 framework program includes a whole group of closely linked research activities on the sensible use of living resources. The E.C. research program in the biotechnology field covers sectors associated with the application of biotechnology to agriculture and agro-industry: the identification and transfer of plant genes, the study of protein architecture, the genetics of livestock disease viruses, etc. This program supplements E.C. activities in agricultural research and will itself be supplemented by a program on the application of biotechnology to agro-industry (agri-foodstuffs, agro-chemistry, agro-energy, etc.).

Development aid

Under this heading, the E.C. carries out a research program that specializes in the application of science and technology to the problems of the Third World. Covering the fields of agriculture and tropical medicine, this program explicitly aims to strengthen the internal scientific capabilities of developing countries by associating laboratories from the North and the South in common projects.

Marine Resources

E.C. action in this field is intended to

cover both research aimed at increasing knowledge of the oceanic environment (models of the behavior of marine waters etc.) and work in the areas of exploration of the sea bottom, fishing, aquaculture, etc.

European cooperation

This last heading includes several activities with the common characteristic of contributing to accelerate the establishment of a "Europe of science and technology."

- "Stimulation activity" embraces advanced research projects in the fertile areas that occur at the meeting point of different disciplines (for example, the BRAIN project in the area of neuro-informatics). These will be supplemented by a plan for optimal exploitation of the major European scientific installations.

- The FAST program of forecasting and assessment is a tool for reflecting on the future development of science and technology, their impact and their social uses.

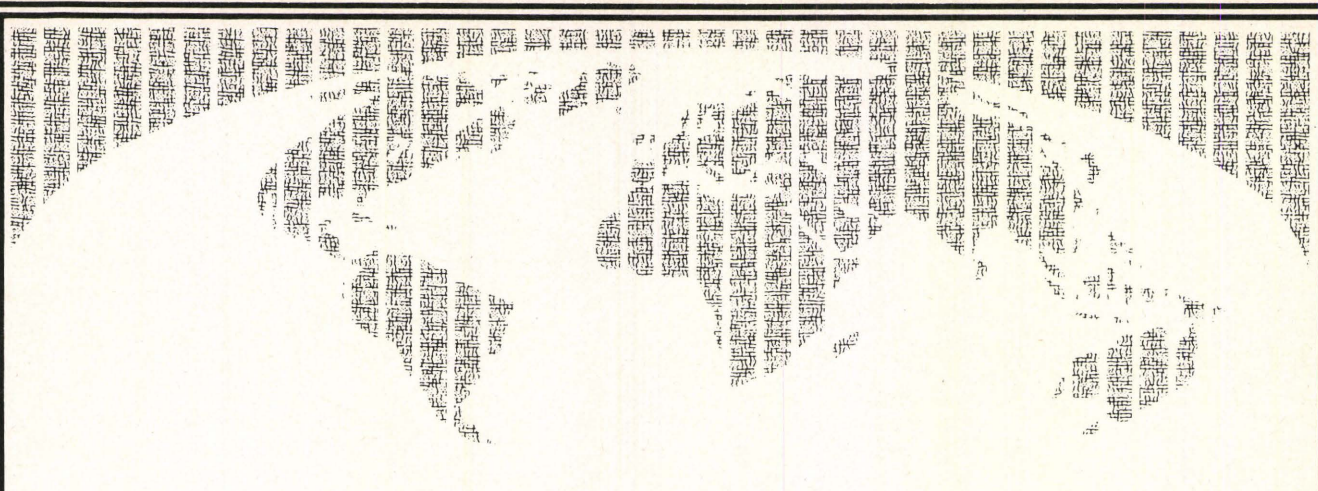
- The Eurotra research program in the field of automatic translation may also be included under this heading, as may the different activities for dissemination of the results of E.C. research: publications, data banks, etc.

Conclusion

Thus constituted, the 1987-91 framework program of research and technological development takes its place among other E.C. cooperation activities, with which it will be integrated.

- In the overall context of E.C. activities, it fits into a wider system of training/research/demonstration/innovation, which includes, upstream and downstream of the actual research work, a certain number of other programs: ERASMUS (student mobility), COMETT (university-industry cooperation), SPRINT (innovation and transfer of technology), NETT, STAR and VALOREN (the transfer of technology in the field of environmental protection, telecommunications and energy, respectively), demonstration projects in the energy field, and others.

- In the general context of scientific cooperation, the framework program occupies a central place between research of the most basic kind and applied research. Broadly covering the areas of finalized basic research and pre-competitive technological development, it lies between European cooperative activities in pure basic research (CERN, the European Space Observatory, etc.) and more advanced activities for either the development of goods and services demanded by the market (Eureka) or commercial development (Airbus). €



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E.C. PUSHES NEW RULES ON TOXIC EXPORTS

NORTH-SOUTH
TENSIONS
COULD
INCREASE
OVER ISSUE.

The discovery of a site of toxic waste drums in Nigeria this spring, apparently dumped by an Italian firm, was one of the most dramatic in a series of hazardous waste scandals this year from the saga of a barge piled high with New York garbage wandering the high seas in search of a home, to the country of Guinea-Bissau being tempted with triple its gross domestic product to park a few tons of toxic waste. The spotlight drawn to these cases of "toxic terrorism," in the words of an African consumer group, has U.S. and European producers of a whole range of "hazardous substances," including toxic waste and chemicals, questioning their responsibilities and obligations as exporters of this material.

What makes a product hazardous? Does it depend on the way it is used, the person who uses it, its ingredients or the environment it lands in? In international trade, who is responsible for making sure that a product does not create a hazard: the exporting country that regulates its use at home and allows it to leave its boundaries, or the importing company that lets the product in and supervises its use?

These questions of responsibility and judgment are being asked in U.S. government agencies, the European Community, the Organization for Economic Cooperation and Development (OECD) and such United Nations organizations as the U.N. Environment Program (UNEP) and the Food and Agriculture Organization (FAO) about a wide array of products known as "hazardous substances"—material that can range, depending on who is doing the defining, from the highest-level radioactive waste to the most innocuous pesticide.

The E.C. Council of Ministers on November 25 adopted a resolution urging other nations to pass stringent rules on the exports of toxic wastes. The Council's statement said a system must be adopted at the "widest possible international level to ensure effective control of trans-frontier movements and disposal of hazardous waste." The Council said it was concerned about recent shipments of toxic wastes to countries that could not safely handle them. It said developing countries should be warned on the risks of hazardous waste and urged further E.C. assistance to them in dealing with the problem.

The Council's statement noted that the

OECD and UNEP talks reflect E.C. rules on toxic-waste exports. For example, these rules stress that "prior informed consent"—otherwise known by its acronym, PIC—which means that after the exporter tells the potential importing country about the nature of his "hazardous" product, he must get written permission of the importing country before he ships it. If he receives no reply to his notice, he assumes the importer does not want it. The rules also state that the shipper must have proof the receiving country has the technical facilities to handle the waste.

These questions of responsibility have been much easier to answer when it comes to toxic waste—a product that all agree should have as little contact with the environment as possible—than a problem like a pesticide that was designed to be introduced in the environment to get more productive crops. Most experts feel the two areas should not be mixed at all, but with international negotiations proceeding in both areas at the same time, and environmental groups crying for stricter export notification all around, many of the same regulatory themes are sounded in both chemicals and waste.

The toxic waste problem is a touchy one because increasingly fewer communities in the developed world want to have toxic waste stored, incinerated or disposed of, no matter how safely, next to them. As waste disposal laws tighten in the United States and Europe and public resistance to treatment at home stiffens, disposal companies look abroad.

The way out of the dilemma is obvious to all: Technologies must be commercially developed to make as much waste as possible non-toxic, so that exports are kept to a minimum. Companies developing state-of-the-art treatment facilities are trying to render the byproducts of many industrial processes as harmless as possible, but this technology is not widespread, nor commercial, yet.

In the meantime then, both exporting and importing countries have decided that procedures must be clearly laid out so that countries do not offend each other when they ship their garbage across national lines or territorial waters.

Industrialized countries have already started drafting an agreement under the auspices of the OECD to set out international rules for the safe transport, storage and disposal of the toxic stuff once it moves across boundaries; the baton was soon picked up by a wider United Nations membership in the UNEP. The goal in both exercises is to spell out safe procedures

SANDRA FEUSTEL

Sandra Feustel is a freelance writer based in New York.

and practices so that countries, especially developing nations, have the opportunity to learn about the waste that may be exported to them in advance and have the opportunity to turn it down if they do not want it or have the facilities to handle it.

After haggling for two years over how they should define hazardous waste for an agreement they were negotiating on transfrontier movements, the OECD countries finally came up with a core list that everyone agreed included the most dangerous sorts—wastes containing PCBs, tarry residues from refining, a number of metal compounds, asbestos and numerous other compounds. It also includes waste left over from the manufacture of pharmaceutical products and the kind of medical waste that washed up on the

destination, and some countries like Canada would like the same courtesy extended for ships plying its territorial waters. A lesser concern is if planes carrying toxic waste are flying over a country's airspace.

It is fairly certain that the written or "prior informed consent" of the importer will be required under the UNEP convention, as with the OECD, but the details of how this would work are still hotly contested. This is something U.S. law already requires. UNEP, however, unlike the OECD, is talking about setting up an implementing body that might monitor and control shipments, provide information on waste management techniques, and help countries respond in emergencies.

Negotiators know they must hurry in

the E.C. in the Lomé Convention are bringing up the subject during the negotiations for the renewal of the trade-and-aid pact.

The E.C., which has had a directive on transboundary movement of hazardous waste since 1984, was similarly concerned by the African episodes, since most of them involved European shippers or disposal companies. Similar incidents of toxic exports passing from Western to Eastern Europe under misleading labels also have come to light. Under E.C. rules, even if a country says that it will accept waste, the exporter has to provide proof that the importer has the adequate capacity to dispose of it, a principle that would have protected some African countries from falling victim to the temptation of hundreds of millions of dollars offered for toxic storage. UNEP also would like to make the exporter ultimately responsible for what happens to the waste.

Three E.C. member states—Belgium, Greece and Denmark—have passed implementing legislation so far, and others like France and the United Kingdom say they will soon. The Commission has threatened to bring member states before the Court of Justice if they dally too long, and is proposing some new tougher directives that would encourage more waste recycling and allow E.C. rules to blend in with the international norm being molded in the OECD and UNEP.

The United States has some of the strictest notification rules for toxic waste on the books, requiring written consent from the importers, but some members of Congress would like to see the same restrictions on handling and disposal that apply in the United States apply abroad. The U.S.'s Resource Conservation and Recovery Act promotes the reuse and recycling of waste materials to such an extent that the United States exempts these materials from export notification since they are destined for recycling facilities. This position has created some problem in the OECD negotiations because some European countries worry that if these materials are exempted there is no way to ensure that they are not dumped on their way to being recycled.

The United States also has a problem with the E.C. and the emerging international view in UNEP negotiations that the exporter should be the one responsible for ensuring the importer's safe handling of the waste. Some people in the U.S. Government think the only way to alleviate the liability headaches such a burden would entail is to negotiate bilateral treaties with all potential importing countries that would outline what treatment facilities

Continued on page 46.



The "Karin B." carried toxic wastes that had been exported to Nigeria back to Italy.

shores of New Jersey and Long Island.

UNEP has since picked up the OECD core list as its definition too, but participants in the UNEP exercise are adding some new twists to the legally binding convention on transboundary movement of hazardous waste they hope to have negotiated by March 1989. For one thing, developing countries are keen to have transit countries notified if waste passes through their territory on the way to its final

their drafting of a convention that outlines rules for the movement of hazardous waste because they may be passed by events that render their efforts irrelevant. So incensed were African leaders at the multiple revelations of toxic dumping in their countries this year that they vowed at their summit in May to "put an end" to transactions allowing dumping of industrial or nuclear wastes. The 66 former colonial countries associated with

ACTION PLAN AIMS FOR COMMON MARKET IN ARMS

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HARMONIZATION.

Britain, Germany, Italy
and Spain are spending
\$10 billion in
development costs for
the European Fighter
Aircraft, or EFA.



BARBARA STARR

Ever since European defense companies rose out of the rubble of World War II, they have struggled to compete with the larger U.S. defense industry in the world armaments market. Now that contest may be heating up. As the European Community moves toward abolishing all trade barriers among member nations by 1992, a parallel effort is underway to create a new unified European arms market that could effectively challenge the United States.

That prospect has raised new anxieties in Washington where the Reagan Administration already is tense about whether the 1992 program will result in Europe becoming an economic fortress. Defense Department officials insist that the United States already has been pressing Europe to "rationalize" its defense industry by ending small, fragmented production entities and consolidating into a pan-European industry. That would enhance

economies of scale as well as North American Treaty Organization (NATO) cooperation on weapons procurement. "But we are concerned that as Europe gets more competitive it will turn inward and shut us out of the market on new weapons programs," says one Defense Department source.

European Defense Ministers took a major step toward establishing a common market for arms at a November 9 meeting in Luxembourg when they approved an "action plan" to break down defense trade barriers in Europe. This plan, separate from the E.C.'s 1992 effort, is being carried out under the auspices of the Independent European Programme Group (IEPG), the organization of European NATO defense ministries. Together, the IEPG countries spend about \$60 billion annually on military equipment.

Since its creation in the mid-1970s, the IEPG has functioned largely informally, and has made little progress toward unifying European defense manufacturing into a more cohesive force. The formation of an action plan to solve the problem follows a 1987 IEPG report entitled "Toward a Stronger Europe" that was published by an international committee headed by former Dutch Defense Minister Henk Vredeling. The report recommended a fundamental shift away from separate European national markets into a cooperative regional defense procurement and manufacturing market.

The plan approved November 9 should provide the IEPG with some clout to make that happen. As a first step, a permanent secretariat will be established. Also approved were measures to establish common procurement procedures among member countries and increase reciprocal purchases between countries to improve efficiency in production by raising demand for individual weapons systems. The group also may approve plans for more joint funding for research and development in the early stages of a project.

A new common market could affect future intra-European purchases of tanks, missiles, avionics, electronic warfare systems and costly defense electronics such as radars. U.S. officials say they want to make certain that Europe still considers U.S. weapons when making new purchases. U.S. experts agree it will take years before substantive changes are finalized. Still, "there is a sense on the part of U.S. companies that they will have to establish a presence in Europe through acquisitions or joint ventures," says Michael Moodie, senior fellow at the Washington, D.C.-based Center for Strategic and International Studies.

In recent years, U.S. participation in

European weapons programs has been spotty. For example, France has rejected the U.S. McDonnell Douglas F/A-18 Hornet to replace some of its aging fighters. But Britain is still considering both General Dynamics' M1A1 Abrams tank as well as Vickers Defense Systems' Challenger 2 to replace its fleet of aging Chieftain battle tanks.

At stake in the entire debate are billions of dollars in future procurement over the next several decades when worldwide competition should reach fever pitch. The balance of defense trade between the United States and Europe has been shifting in recent years. From 1983 to 1986, U.S. defense exports to Europe dropped by almost half, from \$9.8 billion to \$4.5 billion. During the same time period, U.S. defense imports from Europe jumped from \$2 billion to \$2.9 billion.

Defense analysts agree that European defense industries—many of which remain heavily tied to government subsidies—will find themselves increasingly pressed, not only by competition from the United States, but also from the Pacific Rim nations of Asia that are making rapid advances in electronics and other high technology areas. "The Europeans may be trying to shut us out of the market, but they should remember to keep an eye on countries like Japan," warns one Pentagon source who has close ties to the E.C. countries.

The growing cost of high-technology weapons, at a time when defense budgets are being squeezed, is providing all of Europe with fresh impetus to look for new ways to improve cooperation. Joint projects such as the European Fighter Aircraft (EFA) and a NATO-wide effort to design and build a new frigate have provoked debilitating arguments between nations that many defense ministries want to end.

There is great concern in Europe, for example, that competing European fighter aircraft programs will drain defense budgets across the Continent. The United Kingdom, the Federal Republic of Germany, Italy and Spain are spending \$10 billion in development costs alone for the EFA, while France separately has a \$6-billion development budget for its new fighter, the Rafale. French Defense Minister Jean-Pierre Chevènement recently called for more cooperation between the Rafale and EFA programs on areas such as engines, radars and electronics.

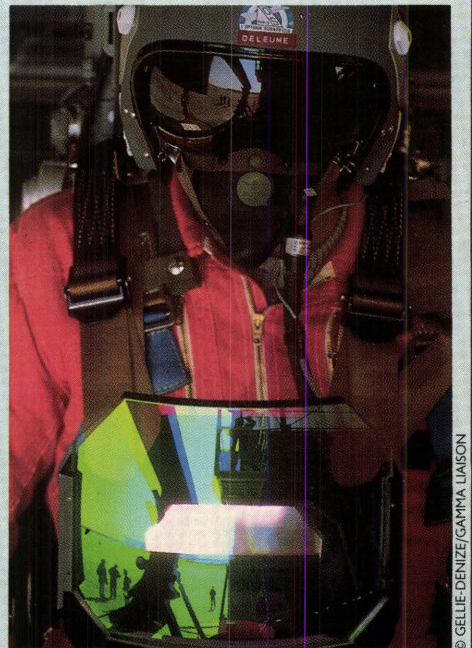
While the Pentagon remains nervous, many U.S. defense experts question whether Europe is ready to undertake the political compromises necessary to achieve the IEPG goal of establishing a

common market for arms. So far, nobody believes any country would readily shut down any major defense manufacturing business in favor of production in another country. "I think it is doubtful that individual nations will be willing to subordinate their national security industries to a pan-European scheme," says Frank Gaffney, director of the Washington, D.C.-based Center for Security Policy. But the kind of cooperation the French are seeking is certainly in the offing due to rising economic pressures, say Gaffney and others.

Still, U.S. officials worry that the aim of greater cooperation within Europe on weapons procurement could actually result in trade regulations that could hurt U.S. defense firms. For example, in early September, U.S. Defense Secretary Frank Carlucci protested an E.C. plan that could shut many U.S. defense products out of the European market. A draft regulation circulating through the E.C. is aimed at developing a new uniform tariff in defense goods. This would allow a more level playing field for the E.C. members to waive tariffs on goods considered essential to national defense.

But in a letter to the Defense Ministers of the 11 E.C. countries that have reciprocal memorandums of understanding with the United States, Carlucci protested the regulations on grounds that the way the draft is written, tariffs could not be waived on weapons components or subsystems such as avionics and radars. That is a huge piece of export business for U.S. firms. €

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France, meanwhile, is developing its new Rafale fighter and has called for more cooperation with the EFA program.

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UNITED KINGDOM

By any measure, it has been a startling year for the British economy. The Government's March budget outlined the most radical changes in taxation of the postwar era. The top rate of income tax was cut to 40 percent, the basic rate was lowered to 25 percent and capital taxes were overhauled.

The economy was expanding, the pound was strong; interest rates were coming down, unemployment was falling. Profitability had returned to levels unknown since the 1960s. Investment was rising. British industry was beginning to prepare for the challenge of a single market in Europe with rather more self-confidence than usual. The disputes between the Prime Minister and the Finance Minister, or "Chancellor of the Exchequer," were forgotten and Nigel Lawson was hailed as the greatest Chancellor in living memory.

But in politics, praise is almost always short-lived. The economic forecasts that were published with that budget were quickly shown to be spectacularly wrong; the Chancellor was obliged to change tack, and was again under attack. His colleague, the Trade and Industry Secretary, suffered a similar fate. The approach of the single European market in 1992 was soon to attract predatory bids from

foreign companies looking for a strong niche inside the Community. They found it easier to launch takeovers in Britain than in other stock markets—a complaint that conveniently ignored the spate of U.S. takeovers launched by British companies. And industry returned to its perennial criticisms of high-interest rate policies in the United Kingdom.

These higher interest rates were a response to a booming economy, which produced more growth, but also more inflation, than expected. By the autumn, the British Treasury acknowledged that the economy was three times as deep in the red on the external account as had been forecast—while at the same time estimating the budget surplus was three times as large as had been supposed only six months earlier.

All this overshooting of forecasts had, basically, the same cause, the strength of demand pulled up domestic output, but also pulled in imports, thus trebling the current-account deficit on the balance of payments. It gave a kick to inflation—always Britain's weak spot—but at the same time filled the Government's coffers with extra revenue.

The rise in inflation was relatively

Sarah Hogg is finance editor of the *The Independent* in London.

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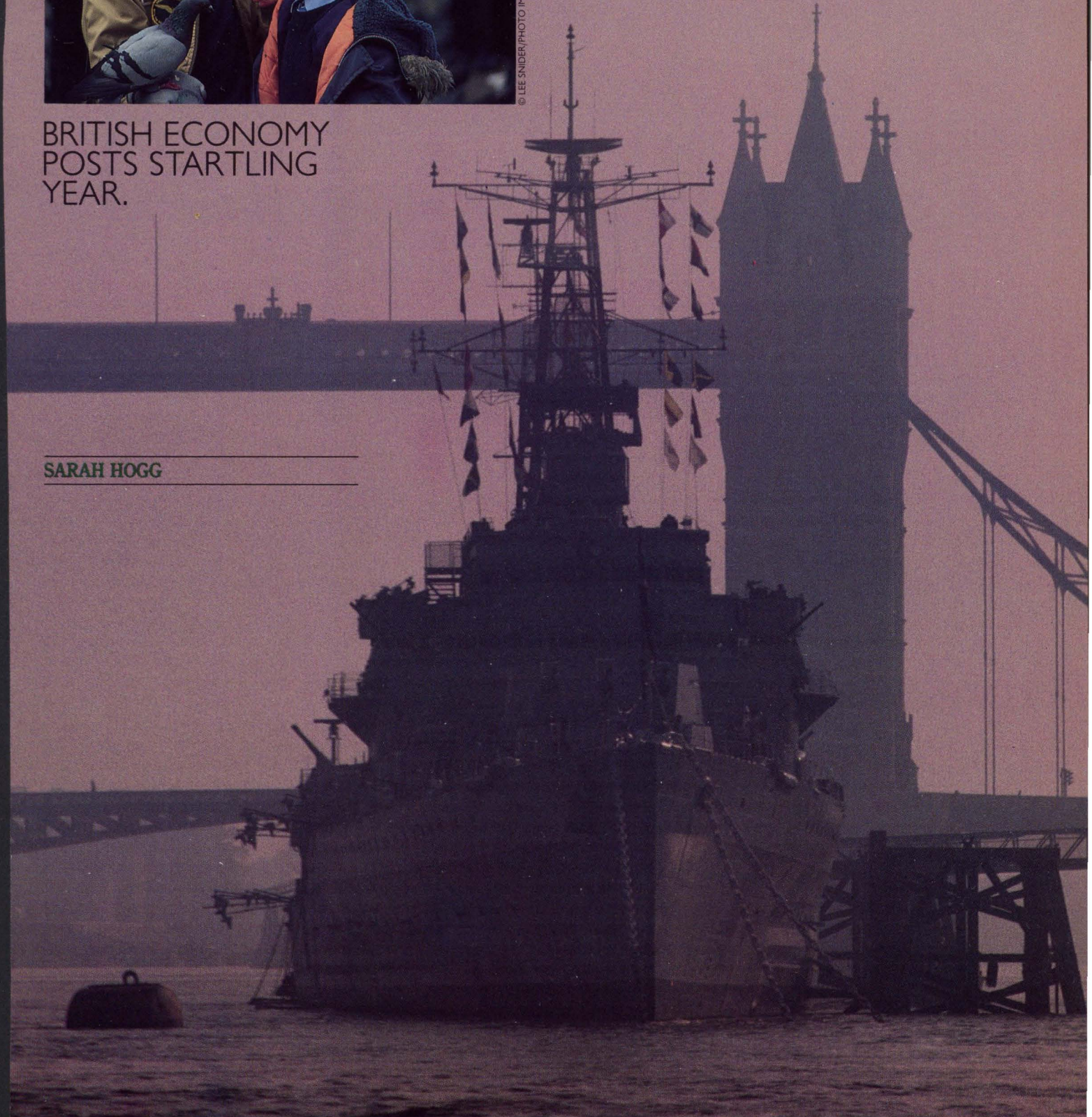


Britain's 1988 budget outlined radical tax changes, cutting the top rate of income tax to 40 percent, the basic rate to 25 percent and overhauling capital taxes. Left: children in Trafalgar Square. Below: The Thames River in London.

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BRITISH ECONOMY POSTS STARTLING YEAR.

SARAH HOGG



modest, but, by the standards of Britain's major competitors, it was too high to begin with. It was exacerbated by a boom in housing costs, which itself was given a further, albeit temporary, boost by changes to the system of tax relief on interest payments on housing loans announced in the budget. It was this symptom of overheating, in particular, that the Government sought to tackle by raising the cost of borrowing. But Britain's method of measuring retail price inflation includes the cure as well as the disease. Higher interest rates pushed up the retail price index. So by October, inflation was close to 6.5 percent and certain to go higher.

The growth of output, in the seventh year of this recovery, accelerated to some 4.5 percent. Britain was not the only country to be taken by surprise by the strength of the economy after the stock-market crash in October 1987. Worldwide, economists were ruminating on whether a slump could be avoided; in Britain, there was a firm consensus that the economy would, at least, slow down. In the autumn of 1987, the Chancellor warned that economic prospects had been bruised by Black Monday.

Yet by the summer of 1988, that same Chancellor was obliged to confess that Britain was having "too much of a good thing." The economy was growing too fast and Lawson was obliged to put on the brakes. For the first time, he was openly and deliberately trying to slow the economy down. When bank base rates were raised to 12 percent, Lawson made it clear they were going to stay high for a considerable period of time.

The change had come swiftly. Late in 1987, Lawson played his part in worldwide efforts to keep the world out of recession by cutting interest rates. The turning-point came early in 1988. The Bank of England began to express anxiety about the looseness of monetary policy. But the Chancellor was struggling to hold the pound under three German marks, which was the ceiling on the range he had set for sterling under the umbrella of the "Louvre accord" to stabilize the dollar, and this inhibited his freedom to raise interest rates.

Even though—after a rather well-publicized dispute with the Prime Minister—Lawson was obliged to let the pound go, he still endeavored to weight it down with a succession of interest rate cuts. By May, bank base rates in Britain were down to 7.5 percent—a drop that is now generally accepted to have been a mistake. They were, however, quickly on their way up again. At first only in half-point steps, but then more sharply as the

extent of Britain's trade deficit became clear.

Thus, by the autumn, the Chancellor faced a new mix of problems. Could he slow the economy down to a "soft landing," or would the struggle to turn the tide of inflation end in recession? How much would the external deficit shrink, as the rate of growth of the economy slowed? Did Britain face a problem in financing its manipulation, as Lawson hoped, or would he have to use budgetary policy as well? And did this make it impossible for the Chancellor to pursue his ambition to stabilize the pound?

These problems were made more complex by the state of confusion surrounding



Chancellor of the Exchequer Nigel Lawson has said that Britain's current-account deficit was partly due to a steep rise in imports of capital goods. Left: High-speed looms in Scotland.

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Britain's economic statistics. There had long been concern about the figures for national income and output, and a committee was set up to investigate their inconsistencies. Balance-of-payments statistics had been mightily confused by the change in European recording methods. And at just the critical moment when the Government was endeavoring to decide whether it had tightened policy enough, a postal strike added further statistical distortions that took some months to unwind.

Nevertheless, some features of the economic pattern stood out plainly. Britain's balance-of-payments problems are startlingly different from America's. While its current-account deficit in 1988 was expected to be very much the same in relation to national income as the U.S. deficit, Britain's public-sector surplus of over 2 percent of national income contrasts markedly with the U.S. federal budget deficit.

This led Lawson, in his annual speech to the International Monetary Fund (IMF) meetings in Berlin, to argue that the balance-of-payments deficit was not a problem, because it was a purely private-sector phenomenon. Since the Government was in surplus, it was not the public sector that was making excessive demands on the country's savings, and thus

depending on an inflow of capital from overseas that is the counterpart of a current-account deficit; it was the individual decisions of the private sector. The reflection of this was the investment boom that Britain was clearly experiencing in 1988 and that was also showing up in the current account: There had been a steep rise in imports of capital goods.

This elegant economic lecture did not, of course, enable Lawson to wash his hands of the problem. But it led him to emphasize inflation rather than the balance of payments as the critical factor and reinforced his arguments that monetary rather than budgetary policy was the appropriate weapon. At a time when the IMF

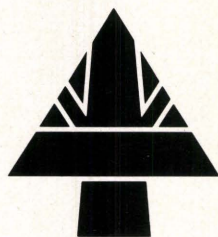
itself was intimating that Lawson might have to tighten up his budgetary policy, the Chancellor determinedly insisted that interest rates were the right tool.

The IMF was not the only critic. The Labor position in Britain argued strongly that Britain's growing balance-of-payments deficit proved that Lawson's tax cuts had been a mistake. But it is a little hard to believe that a surplus of £10 billion—the latest official forecast, which few in the City of London think too optimistic—amounts to a loose budgetary policy, and the general consensus is that the external deficit cannot simply be blamed on the 1988 budget. Plainly, however, the next budget will have to be framed with a cautious eye to the balance of payments. Lawson's original objective—which was simply to balance his budget—has already given way to the view that a substantial surplus is needed when the economy is growing fast. And even if the economy slowed down by the spring of 1989, caution will be the order of the day, for the Government has warned that it does not expect the external deficit to come down much before 1990.

There are those in Britain who argue for a lower currency in order to restore

Continued on page 46.

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NEWS OF THE E.C.



E.C. Commissioner Willy De Clercq recently noted that the E.C.'s position on agriculture in the GATT's mid-term review talks would be within the goals of the Declaration signed at Punta del Este in 1986.

COURTESY EMBASSY OF BELGIUM

FOREIGN TRADE

DE CLERCQ OUTLINES GATT'S MID- TERM REVIEW

A month prior to the mid-term review of the Uruguay Round in Montreal, Canada, E.C. Commissioner Willy De Clercq, responsible for trade and external relations, outlined the Community's goals and wishes for the review and reviewed some of the main topics to be discussed in this forum.

De Clercq stressed that the meeting was not a gathering in which the Declaration of Punta del Este, signed in September 1986, was to be amended, but that it was to assess the political balance of the work already achieved, to consolidate progress made to date and to give the necessary political stimulus for the next two years until the end of the negotiations. He added that success of the negotiations and the development of a more transparent multilateral commercial system was in the E.C.'s interest, and

that the Uruguay Round negotiations presented an opportunity to better develop these mutual advantages.

He also noted that the talks were important for the E.C. not only on an economic, but also on a political level. He argued that, just as the Kennedy Round of the 1960s had served to confirm the European identity on an international level, so the Uruguay Round—which, due to its size and scope, constituted a second generation in multilateral talks—should have a similar effect on the second generation of Europe, which began with the Single European Act.

De Clercq said that progress on institutional questions within the negotiations was impressive on such issues as conciliation, arbitration and the working groups. Agreement on these aspects at Montreal, and subsequent implementation of new rules in 1989, said De Clercq, would give greater credibility to the General Agreement on Tariffs and Trade (GATT) and improve conditions for progress on topics still controversial. He did point out, however, that political authority of the GATT still needed to be better enforced,

by, for example, convening more regular ministerial-level meetings and regular examination of commercial policies of the parties in the GATT. He also stressed that commercial, financial and monetary policies needed to be better coordinated, especially within such organizations as the GATT, the International Monetary Fund and the World Bank.

Furthermore, the need to modernize the GATT structure to include growing and important new sectors, such as the services industry, intellectual property rights and investments, was also a priority. Following on from this, De Clercq stressed that the talks in Montreal needed to overcome the atmosphere of confrontation that has often marked relations between the industrialized and developing countries.

The sectors of greatest concern to the developing countries are tropical fruits and textiles. In the case of the former, the contracting parties had agreed on priority treatment, and De Clercq noted that the E.C. had been the first to favor a substantial liberalization in the trade of this product. In tex-

tiles, De Clercq said that the Punta del Este declaration had foreseen inclusion of this sector in the negotiations, but he warned that talks on this subject in Montreal would be difficult, since the textile industries of the industrialized countries were still fragile.

Agriculture would be an extremely difficult *dossier* to treat in Montreal. In De Clercq's view, the U.S. position seemed to indicate a wish to "rewrite history" and to "impose on its partners objectives not only unrealistic but also not convened in Punta del Este." The Declaration did not speak of total abolition of aid in this sector, but of a liberalization of agricultural trade and a reduction of tariffs and greater discipline in subsidies.

De Clercq noted that the E.C. would defend a constructive position on this issue, adding that the E.C. already had undertaken courageous reform of its agricultural policies, while some of the other partners had taken measures that went in the opposite direction. He concluded that progress at Montreal could not be achieved unless extreme positions were

EUROPEAN POLITICS

CENTRAL BANK INEVITABLE, SAYS LORD COCKFIELD

Lord Cockfield, Vice-President of the E.C. Commission responsible for the internal market, said in late October that the E.C.'s objective had always been European union, and that a European central bank and common currency were inevitable: "European Union is not only the objective of the Community; it was its original *raison d'être*, and it was and is the very substance of the Community itself," he said. In his speech to the European League for Economic Cooperation, a pro-European group, Cockfield said that economic union would be achieved in his lifetime, and that "after the single market would come the single economy." He added that "the path on which we have now embarked will lead inevitably to the establishment of a central bank and then, as the final step, a European currency."

This was the Commission's latest response in a growing debate over the future of Europe, which has been going on since British Prime Minister Margaret Thatcher's speech on the subject in Belgium last September. Lord Cockfield, however, argued that the Single European Act, which serves as the first amendment to the E.C.'s founding Treaty of Rome, committed the E.C. member states to "make concrete steps toward European unity."

Political union would fall to another generation, he thought, but he nevertheless was optimistic that the reluctance of some member states to make progress on the issue would no longer result in paralysis, and that member states would in future move at different speeds within the Community. "What I expect to see is the development of political union step by step in specific areas of policy and for the institutional framework to be built up as we go along," he said, adding that "a development along these lines would be unlikely to involve all member states... Some will undoubtedly move forward. Others will undoubtedly be left behind."—Reuters

dropped, and stressed that the E.C. has always been willing to discuss long-term measures, provided that short-term measures also were included in negotiations and that agriculture was seen in the global context stipulated by Punta del Este.

SOCIAL ISSUES

AN END TO DISCRIMINATION IN HIGHER EDUCATION

Two recent rulings by the European Court of Justice have confirmed that the basic principle—that workers who live and work in an E.C. member state other than their own have the same rights as nationals of that country—applies also to both higher education and vocational training.

The first ruling concerned registration fees due Belgian universities, which students who are nationals of countries other than Belgium and Luxembourg must pay. While Belgium will cover the fees for students from the Belgo-Luxembourg economic union, the quota for "foreign" students—who must pay a higher fee—is 2 percent, and Belgian higher education institutions have the right to refuse to register these students once that quota has been reached.

In holding the system contrary to E.C. regulations, the Court's judges ruled in favor of the E.C. Commission, which had brought the case, and thus ended a three-year controversy. This decision also confirmed an earlier decision, applied to individual cases, that European students need not pay registration fees pending its general ruling, which has now been confirmed. The Belgian educational authorities now have to abolish the 2-percent quota for E.C. students—if only in the areas of vocational or professional training, the extent to which the E.C. guarantees the free movement of workers.

The Court's second decision found the Belgian authorities also to be discriminatory in the case of Annunziata Matteucci.

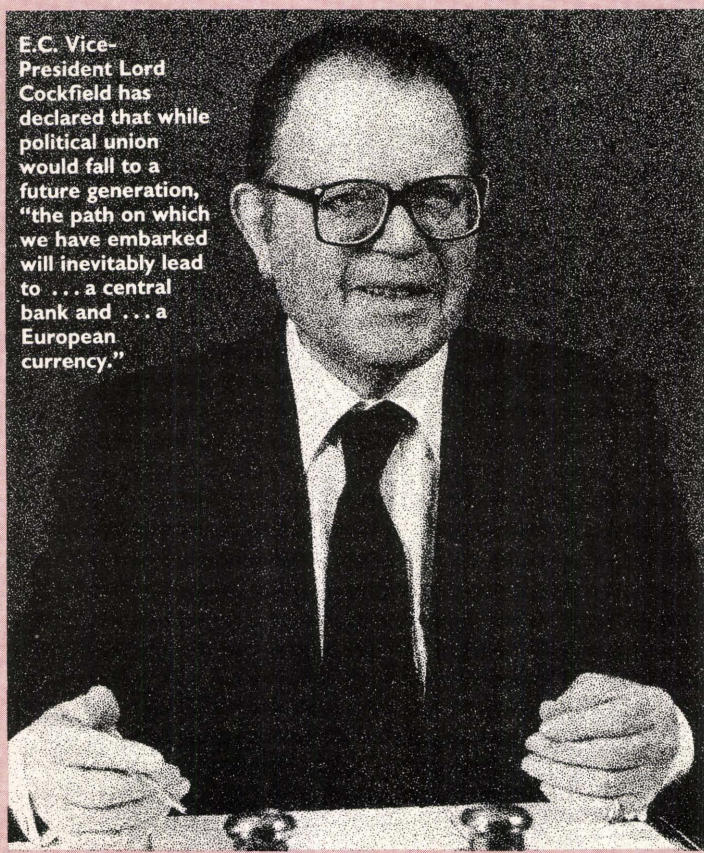
An Italian dancing teacher working in Belgium, she had applied for a scholarship for a training course in her field, offered at the Academy of Fine Arts in Berlin. The course in question was covered by a cultural guarantee between Belgium and Germany, but since

CONFERENCES ON 1992 ORGANIZED BY GEORGETOWN UNIVERSITY

December 8-9, 1988. *Europe 1992, Challenge or Opportunity? Implications and Strategic Options for American Business*. Madison Hotel, Washington D.C. Discussion of physical and technical barriers, financial and banking issues, product liability and other legal aspects of the internal market. For information and registration, contact James Spiegelman, Center for International Business and Trade, Georgetown University, (202) 687-6993.

December 10, 1988. *1992 and Beyond, 1789 and Beyond: Comparative Perspectives on Constitutional Federalism*. Georgetown University Law Center, Moot Courtroom, Washington, D.C. Presentation and discussion of papers by American and European scholars on the U.S. and E.C. perspectives on the following topics: Protection of Human Rights in a federal system; Preservation of diverse cultures in a federal system; Economic integration and interregional migration in a federal system; nation-building in a federal system. For information and registration, contact Prof. Mark Tushnet, University of Southern California Law Center, (203) 743-7302, or Cesira Klayman, Delegation of the Commission of the European Communities (202) 862-9500.

E.C. Vice-President Lord Cockfield has declared that while political union would fall to a future generation, "the path on which we have embarked will inevitably lead to... a central bank and... a European currency."



scholarships under this agreement included only nationals of the two participating countries, the Belgian authorities had rejected her application. The Court held, however, that, as a salaried employee in Belgium, Matteucci was entitled to the same social benefits as Belgians. She could therefore take advantage of all the facilities offered Belgians to "acquire professional qualifications and gain social advancement." In this context, the fact that the course was being conducted in another E.C. country was irrelevant, because the Court had already ruled in another case that improvement of one's professional qualifications represented a social gain.

E.C. WORK PROGRAM TO UPDATE SECONDARY EDUCATION

The E.C. Commission has set up a work program to study ways of updating secondary education in the E.C. to make it more easily adaptable to the changing social, economic and working environment. Certain priority areas, such as improved teacher training, closer links between education and economic development, greater emphasis on the school's role in providing career guidance and counseling, promotion of equal opportunities, and closer cooperation between parents and secondary schools, have already been outlined.

Since teachers, through the in-service training they can receive, are the principal agents in shaping education and bringing change to the classroom, the Commission advocates that schools should analyze their own needs and work closely with their immediate social and economic environment, making direct use of it as much as possible in their innovation efforts for both teachers and students.

In this respect also, links between schools and industry are essential, and a special effort must be made to enable young people to benefit from coopera-

tion between these groups. This is especially important since the number of unskilled jobs will continue to rapidly decline for the next 10 or more years, making it crucial to reduce the number of young people entering the labor market without any qualifications. Innovation in this context could consist of introducing more flexible curricula, encouraging out-of-

school activities and improving methods of assessment and qualifications. Such innovation and guidance is necessary not only within the school system, however. Emphasis must be placed on helping students identify their strengths and weaknesses, and to help guide them to the right kind of further training.

In order to help ascertain the

various degrees of innovation necessary in the various member states, the Commission will establish a series of round tables for officials from the member states, and also set up a European task force to provide in-depth input into these discussions.

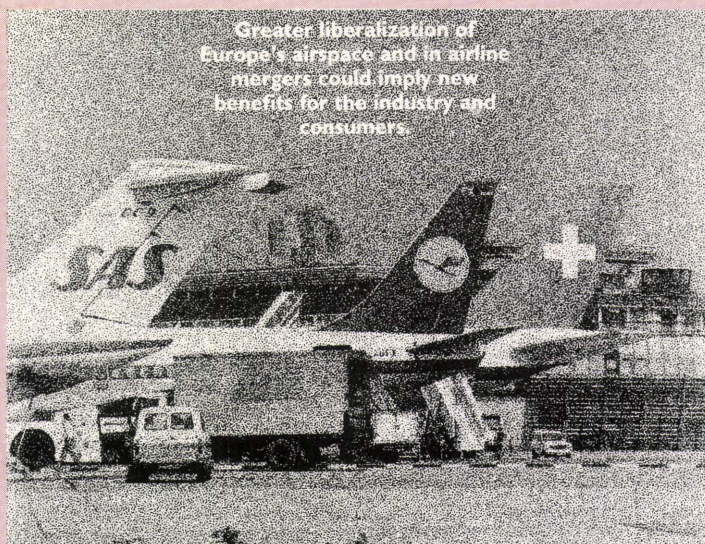
FOREIGN AFFAIRS

FEWER VETERINARY CHECKS AT E.C. BORDERS

Following a recent Court of Justice ruling, veterinary checks at the E.C.'s internal borders may be substantially reduced, pending the harmonization of national standards regarding the quality of meat. In the ruling, the Court indicated the limits of conformity with E.C. legislation, and the Commission has now published proposals that would provide for controls to be carried out elsewhere than at borders. Once the single market has been completed, therefore, it will be possible to transport meat from one end of the E.C. to the other without meeting obstacles—which means that member state authorities will have to have full confidence in the checks made by others.

At present, border controls especially in the area of meat transportation between member states are still very rigorous. There was protest in August, however, at the German practice of opening every Dutch refrigerator truck carrying poultry. This led the E.C. Commission to doubt the effectiveness of such controls, and to argue that, in order to be reliable, checks should be made at the destination of the product.

The Court of Justice ruled in favor of a Dutch poultry exporter in September, in a case involving the authorities of a German frontier district. The Court held that while systematic checks on the meat, made at the frontier by a veterinary surgeon, were contrary to E.C. regulations, customs officials



BUSINESS

LIBERALIZING EUROPEAN AIRSPACE, AIRLINE MERGERS

In October, E.C. Commissioner Peter Sutherland, responsible for competition policy in the E.C., noted that airspace liberalization—that is promoting competition between airlines and an effective transportation policy—constituted vital elements of an effective European transport policy. He added that, while the Council of Ministers had adopted a series of measures toward this end last December and the Commission would make further proposals in the next year, much more still needed to be done.

He specifically mentioned that after 1992 there would be no justification to exclude many European airports—including nearly all the main regional air-

ports in Spain, Denmark, Italy and Greece—from the "hub to regional airports" provisions, stressing that through liberalization the airports themselves and the populations around them would benefit from the increased traffic and tourism that such a step would bring.

Sutherland also noted the need for some form of control at the European level over mergers, which would become a pressing problem with the elimination of borders between now and 1992. Pointing to the example of the United States, where merger activity following airline deregulation had increased drastically, he argued that this was a very important aspect in air transport markets, and that similar action could be expected in Europe with increasing liberalization. While Sutherland was not opposed to deregulation and air transport mergers as such, he did note that each merger should be assessed on its individual merits, since not all mergers were good both for the economy, the industry and the consumer.

could systematically check the documents accompanying the shipments.

The E.C. Commission, meanwhile, has proposed that veterinary controls be reinforced at the point of shipment and that checks required by the importing member state be carried out at the shipment's destination, justifying border controls only in cases where grave irregularities are suspected. The Commission has further proposed that checks be reinforced at stages even prior to export of the meat. These regulations should come into force on April 1, 1989, if approved by the Council of Ministers in time.

E.C. COUNCIL DECIDES ON PUBLIC WORKS CONTRACTS

In mid-October, the E.C. Council of Ministers unanimously agreed on a common position on the proposal for a directive on public works contracts (which will now go to the European Parliament for a second reading) that would amend the directive that has been in force since 1971.

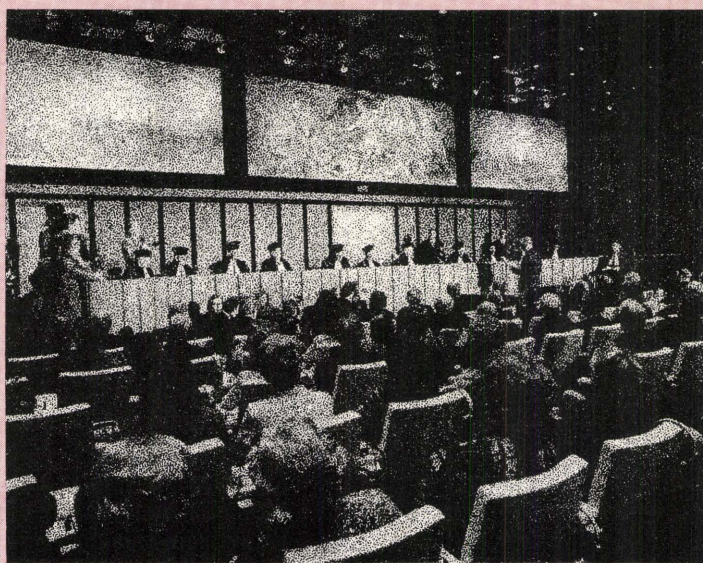
Since public works contracts are growing in importance within the European economy, the agreement represents a major step toward the creation of the internal market. The text of the new directive, therefore, will make the procedures for awarding public works contracts more transparent, giving entrepreneurs a chance to compete in all member states on an equal footing. It also extends the scope to private companies for infrastructure works directly subsidized by more than 50 percent, and to concessions for the execution of public works. The threshold above which public contracts will be covered by the provisions of the directive has been set at 5 million European Currency Units.

Another new aspect of the directive is the fact that public authorities must refer to European standards and technical specifications—agreed at the

European level—that have to be met by the companies executing the contract. Furthermore, advertising rules will be extended, meaning that prior notice of all essential characteristics of forthcoming contracts will have to be published in the E.C.'s *Official Journal* to help companies prepare their tenders correctly, and notice of

contracts awarded must be published.

In addition to this directive, the E.C. Commission has drafted two further directive proposals to open up of contracts in areas of energy, water, transport and telecommunications—which are not included in the directive just approved by the Council.



The Council of Ministers has approved a plan to establish a Court of First Instance to improve judicial protection of individual interests and to ease the Court of Justice's, above, growing workload.

COURT OF FIRST INSTANCE IS ESTABLISHED

In October, the Council of Ministers formally adopted a decision to set up a Court of First Instance. This decision followed a Court of Justice request to establish a court with jurisdiction to hear and determine at first instance certain actions or proceedings brought by individuals.

The tasks of the Court of First Instance will be to improve the judicial protection of individual interests and also, by relieving the Court of Justice of some of its current workload, to enable the latter to concentrate its activities on the fundamental task of ensuring uniform interpretation of Community law. Jurisdiction of the new court will cover the following areas:

- disputes between the E.C. and its civil servants;
- actions brought against an E.C. institution by individuals and actions relating to the im-

plementation of the competition rules applicable to companies;

- actions brought against the E.C. Commission by companies or associations of companies and actions relating to matters covered by the Treaty establishing the European Coal and Steel Community (such as levies, prices, restrictive agreements, etc.).

The new court will consist of 12 members, who will elect their President from among their number for a three-year term, and will usually sit in chambers of three or five judges. Any case that has been unsuccessful at the Court of First Instance may bring an appeal before the Court of Justice against decision taken by the Court of First Instance. After an assessment of the new Court's activities after an initial two-year period, the Council may examine a proposal to also pass on to it competence in cases concerning dumping and subsidies, currently heard by the Court of Justice.

TRADE

IMPORT RESTRICTIONS ON EUROPEAN-BUILT JAPANESE CARS

When the first batch of 1,000 British-built Nissan "Bluebirds" entered the French market in October, France said that it would treat these cars as "Japanese" in origin, and impose strict import regulations on them. The cars, although built in the E.C., are subject to an unofficial quota on Japanese auto exports agreed between Japanese manufacturers and the French Government that limits Japanese vehicles to 3 percent of the French market. The 1,000 vehicles were allowed into the country because, French officials said, the 3-percent quota on Japanese car imports had not been reached at that point. Lord Young, Britain's Trade and Industry Secretary, complained to the E.C. Commission that France was breaking E.C. laws on the free circulation of goods.

The heart of the row concerns the proportion of "local content" in the cars. France says that the Nissans can only be considered "European"—and thus escape the Japanese import quota—if the local content is more than 80 percent. Nissan says, however, that local content is currently 70 percent, which both the firm and the British Government say is enough to make the cars "European" and thus eligible to circulate freely within the Community. There is no firm E.C. rule on the minimum local content for a product to be considered European, only a general provision in the Treaty of Rome that member states may not impose quotas against each others' goods.

Meanwhile, E.C. Commissioner Karl-Heinz Narjes, responsible for industrial relations, said in mid-November that some member states were even helping Japanese car manufacturers enter the E.C. mar-

ket by offering them attractive investment incentives to have the car makers build assembly plants on their soil.

This, however, poses a major threat for the European car industry and is leading to a serious imbalance in trade in automobiles between the two blocs. Narjes noted that "with contributions of up to 40 percent, our regions are financing a Japanese share of the world market, while a European, attempting to get into the Pacific market, receives no support at all." He went on to note that, because of Japan's aggressive export strategies and the virtual closure of its markets to

foreign companies, only about 560,000 foreign automobiles had been sold in Japan in the last 10 years, while it had exported about 8.2 million automobiles to the E.C.

In his view, one way of ending the problem would be for the two sides to negotiate import levels. He argued that the minimum "local content" figure was not adequate to solve the problem, for even cars with non-local content of no more than 20 percent would not stop Japanese market strategies if that figure included the most technologically advanced components.—*Reuters*

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Samples, complimentary and other free copies	2,221	2,250
E. Total Distribution (Sum of C and D)	19,729	18,230
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BUSINESS & ECONOMICS

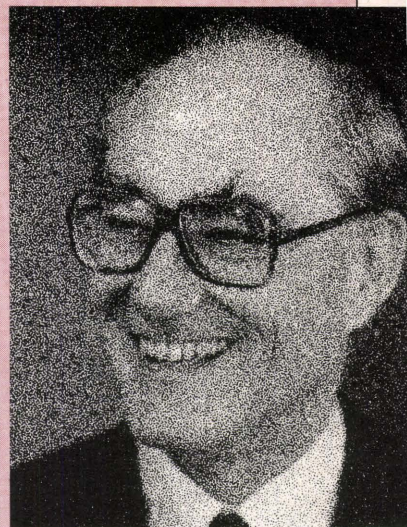
COMMISSION'S 1988-89 ECONOMIC REPORT SEES 2.75% GROWTH IN '89

In his annual economic report on October 19—exactly one year after the 1987 stock market crash—E.C. Commissioner Peter Schmidhuber, responsible for economic affairs, drew a positive picture of the E.C.'s economy: He expected that growth rates for 1988 and 1989 could lie at around 3.5 percent and 2.75 percent, respectively, the strongest showing since the late 1970s.

On the investment front, Schmidhuber noted that the 7-percent increase was the highest in the last two decades, and that the rate of inflation of about 3.5 percent should be about that of the 1960s. He added that the successful fight against inflation and the convergence of inflationary performances in the member states was impressive.

The Commissioner suggested that the reason for this rosy economic picture was due to the cooperative growth strategy undertaken since 1985 to fight unemployment as the E.C.'s economy became more flexible. The creation of and progress toward the internal market also was having an effect on investment by enterprises.

Despite the optimism, Schmidhuber said that there were nevertheless four areas of continuing concern for the E.C. economy, of which the persistently high unemployment rate, which stands at about 11 percent, was a primary worry. He said that the cooperative growth strategy, namely the elimination of unnecessary administrative obstacles that hinder employment creation, greater mobility and skill improvement, as well as moderate increases in wage costs, were valuable elements to help com-



In his annual economic report, Commissioner Peter Schmidhuber said that while there were still several problem areas in Europe's economies, the overall outlook was good.

bat the problem.

The risk of renewed inflation was a second problem area. A recent increase in short-term interest rates in the E.C. had dampened inflationary expectations, but Schmidhuber said that domestic inflationary pressures had to be kept under control and credibility of monetary policies maintained.

He also was concerned about the excessive budgetary deficits in some countries, noting that for 1988 and 1989 only little progress could be expected in the convergence of budget balances, and that budget policies therefore hardly appeared to contribute to a reduction in the divergent external balances.

Furthermore, intra-Community disequilibria in external balances were a worry, since the gap in the current balances between surplus and deficit countries in the E.C. had widened. They were compensated for by capital movements, but in the future, growth in the surplus countries had to be driven increasingly by domestic demand.

Schmidhuber stressed that economic developments in 1988 illustrated the positive impact resulting from international economic policy coordination and the cooperative behavior of monetary authorities. €

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Europe." It seems to become a code word for restrictions of some sort. And, Fortress Europe to me graphically implies raising external barriers. I find it hard to see that that will happen. The most obvious sort of external barrier that one could raise would be a common external tariff, and I don't know anybody who's talking about doing that. What is much more relevant is what will be happening inside the E.C., whether the conditions and circumstances under which non-European firms, however defined, can operate. And certainly there is scope for restrictions to be put in place at one time or another. But I certainly don't think the E.C. is starting with the idea that this is something for us against them. There obviously will be and are pressures to move in that direction. There are also counter pressures and I think it's a much more amorphous situation.

How critical is this definition of European/non-European firms? Could that definition change in a major way?

It's quite important because the Treaty of Rome says that a firm that is duly established in an E.C. country is an E.C. firm. Period. From which one would deduce that it is very clear-cut, and, if you are incorporated there, then you are on the same basis as a European firm. My impression is that there are many people in the E.C. who would like to refine that, and "refined," of course, means making it less clear-cut and therefore more ambiguous. And there is concern in some sectors and some areas that foreign capital firms will gain more advantages than European capital firms and therefore some kind of distinction should be made. The areas where that could take place are public procurement and possibly E.C.-wide research and development. And, in general, where there are questions of government involvement, government expenditure or support.

But certainly, in talking to American firms, on the whole they believe that they have been well treated inside the Community. What's different now is those questions have been handled very much on a national basis. In country X are you treated equally. Now it becomes an E.C. question, one which the E.C. has really not had to face very much. It certainly will be important for U.S. interests.

The 1992 Challenge from Europe: Development of the European Community's Internal Market. By Michael Calingaert. National Planning Association. 148 pages. \$15.00 €

TOXIC WASTE

Continued from page 33.

ties a country had and what waste it did not want, so there would be no misunderstandings. The United States has such agreements with Canada and Mexico.

When it comes to trade in hazardous chemicals, however, the problem is not as straightforward, nor are international negotiations as far advanced. Whereas the phrase "prior informed consent" may be fairly widely accepted when it comes to shipments, it sends shivers down the spines of chemical manufacturers because the criteria for what is hazardous and what is not become much more complicated. In many cases, it is the use of a pesticide, for instance, not the pesticide itself that may be registered in an industrialized country. Some developing countries and environmental groups would like to see all such registered products be put on a list of "banned or severely restricted" products that would be flagged as a warning for potential importers.

Though OECD countries opted to trigger their export notification scheme for toxic waste with a "core list" that was the lowest common denominator of those countries' lists, they are generally balking at approaching PIC discussions on pesticides in the FAO and chemicals in the UNEP in the same way. They worry that the "red flag" list proposed by the UNEP executive director and the "alert" list proposed by the FAO experts could rapidly become an ever growing "black list" for chemical manufacturers. So far, both U.N. bodies have voluntary information exchange programs in effect on "hazardous chemicals"—an avenue the E.C. has opted to go until at least 1990—but next year they must recommend options to possibly upgrade these schemes to a form of PIC. There is some pressure in the U.S. Congress to stiffen its export notification rules on these products to a kind of PIC scheme as well.

However these international and regional negotiations go, it is clear that some accommodation will have to be reached if trade friction between the United States and the E.C. and tension between the North and the South are not to be the results. The path seems clear to resolution of the problem of waste exports, with a convention probable by the spring of 1989. With the right incentives, the problem could even be eliminated by developing "detoxifying" technology. But sparks are bound to fly as countries talk about restricting trade in "hazardous" chemicals, not only because the definition will be elusive, but also because of the commercial stakes involved. €

UNITED KINGDOM

Continued from page 38.

competitiveness and hence correct the balance of payments—as there are in the United States. Lawson pursued just such a course in 1986, and this memory occasionally disturbs the markets. But then the arguments were very different. Falling oil prices inevitably took some of the "petrocurrency" gloss off sterling, and a cleverly-managed depreciation helped with the necessary restructuring of an oil-producing economy. In 1988, however, the only excuse would be that a fall in the pound would make up for Britain's above-average rise in costs; and Lawson has publicly ruled out this soft option.

Britain's exchange-rate policy is not, however, altogether easy to fathom. The Chancellor remains committed to the pursuit of currency stability, even though his previous efforts at semi-formal targeting had to be abandoned. But the Prime Minister remains opposed to full membership in the exchange-rate mechanism of the European Monetary System. And the Bank of England insists that domestic monetary policy has to take priority.

There was some sign, in the autumn, that the pace of demand was beginning to slow; but wage inflation had accelerated, and though a rapid increase in productivity damped down the effect on costs, the risk of a price-wage spiral was clear enough. On the other hand, it would clearly be dangerously easy to go in for overkill; the personal sector, which was highly borrowed, would certainly feel the pinch in the new year. If the economy slowed down too fast, the Chancellor would be in some difficulty; his ability to cut interest rates would be restricted by his need to maintain the exchange rate.

Lawson's own forecasts were certainly directed toward a soft landing. Inflation was not expected to peak until well in 1989; growth was expected to be as much as 8 percent in that year, with domestic demand growing pretty well as fast. In consequence, the Treasury was forecasting an £11-billion external deficit, little changed from 1988. Only in the second half of the year were the real changes that the Chancellor is seeking expected: a significant slowdown in demand and imports, falling behind output and exports, and a retreat in inflation to 5 percent. Even then, the Government would hardly claim victory, but given the speed at which forecasts have changed this year, no one—inside or out of the Treasury—is resting undue weight on autumn guesses. It will be a duller budget in 1989, but the economy may be just as full of surprises. €

RECENT BOOKS

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

Economic Policy Coordination. Moderated by Wilfried Guth. International Monetary Fund, Washington, D.C., 1988. 219 pp. \$15.00.

Proceedings of a seminar arranged by the International Monetary Fund and the HWWA-Institut für Wirtschaftsforschung discussing Economic Policy Coordination from different perspectives.

North-South Direct Investment in the European Communities. By Peter J. Buckley and Patrick F. R. Artisien. McMillan Press, London, 1987. 194 pp.

The impact of multinational firms in the expanding European Communities is enormous. Firms from the richer north are establishing production facilities in the south in order to penetrate markets, use cheaper labor and gain access to raw materials. This book examines the outcome of this intra-EC investment in terms of its impact on employment in home and host countries and the EC as a whole. Three new entrants are examined: Greece, Portugal and Spain. Their economic conditions, legislation and stock of foreign investment are examined. Policy conclusions are drawn for the multinationals themselves, for home and host countries and for the entire EC.

International Business in South Africa 1988. By Alison Cooper. Investor Responsibility Research Center Inc., Washington, D.C., 1988. 287 pp.

Directory of non-U.S. and non-Canada

dian corporations with business links to South Africa, with special sections on international sanctions and employment codes and non-equity links to South Africa.

Policies for Developing Forward Foreign Exchange Markets. By Peter J. Quirk, et al. International Monetary Fund, Washington, D.C., 1988. 51 pp. \$7.50.

Forward market systems are described, analyzed and assessed from the viewpoint of smaller industrial or developing countries trying to adapt or institute such a system consistent to their institutional and macroeconomic structure.

Pooling Allied and American Resources to Produce a Credible, Collective Conventional Deterrent. By Thomas A. Callaghan Jr. Department of Defense Contract Report, Maryland, 1988. 216 pp.

Report prepared for the Department of Defense, with no official standing. The author puts forth his personal views on U.S. defense. His main focus treats the disastrous disconnection between the U.S.'s 'grand strategy' which is collective and interdependent upon the Allies, and the U.S.'s 'political and military culture,' which is autarkic and independent. Following an overview of U.S. defense strategy, he proposes changes in policy making, specifying the return to collective

security.

Primary Commodities. Market Development and Outlook. By the Commodities Division of the Research Department. Washington, D.C., 1988. 97 pp. \$10.00.

Analysis of recent developments relating to the major non-fuel primary commodities traded in international trade markets. Particular attention is given to market price movements and the factors underlying these movements.

Economic and Social Effects of multinational enterprises in export processing zones. Joint publication by the United Nations Centre on Transnational Corporations and the International Labor Organization. International Labor Office, Geneva, 1988. 169 pp.

This research project portrays the role of multinational corporations' contribution to employment generation, export earning, technology transfer and the development of linkages with the local economy. These are measured against the initial cost of the incentive package for establishing and maintaining export processing zones. Questions related to working conditions and labour relations are also highlighted.

PUBLISHED FOR THE COMMISSION

Biomass Energy: From Harvesting to Storage. EUR 11045. By G.L. Ferrero, et al. Elsevier Applied Science, New York, 1987. 327 pp. \$61.25.

Proceedings of a workshop held at Marino, Rome, 19-21 November, 1986.

Reliability of Radioactive Transfer Models. EUR 11367. Edited by G. Desmet. Elsevier Applied Science, New York, 1988. 355 pp. \$86.50.

Proceedings of the workshop on "Methods for Assessing the Reliability of Environment Transfer Model Predictions" organized by the Commission of the EC in collaboration with the Office of Health and Environmental Research of the Department of Energy (USA), and the National Centre for Physical Sciences "Demokritos" Greece, and in cooperation with the International Atomic Energy Agency (Vienna).

Comparison of Thermal-Hydraulic Safety Codes for PWR Systems. EUR 11522. By A. Forge, et al. Graham & Trotman, London, 1988. 402 pp. \$109.00.

This study on the state of the art of the development of thermal-hydraulic safety codes for PWR systems was prepared for the Commission of the European Communities, Directorate-General Science, Research and Development, Joint Research Centre under two separate contracts with the Commissariat à l'Énergie Atomique (CEA), France, and the Gesellschaft für Reaktorsicherheit mbH (GRS), Federal Republic of Germany.

Biomass Forestry in Europe: A Strategy for the Future. EUR 11487. Edited by F.C. Hummel, et al. Elsevier Applied Science, New York, 1988. 600 pp. \$117.00.

Energy from Biomass (No. 3) is a review of Biomass Forestry in Europe, compiled and edited by F.C. Hummel of Forestry Investment Management Ltd. for the Commission of the European Community, and coordinated by W. Palz and G. Grassy of the Commission of the E.C.

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- The European Community and Yugoslavia.** *Europe Information External Relations No. 94/88, Commission, Brussels, July 1988, 13 pages.* **Free**
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- A Europe Without Borders By 1992: Answers to Some Questions.** *European Community News No. 23/88, Office of Press and Public Affairs, Washington, D.C., September 1988, 8 pages.* **Free**
- The Social Dimension of the Internal Market.** *Social Europe, Special Edition, Commission, Brussels, 1988, 115 pages.* Report of a Commission interdepartmental working party on the impact of the 1992 program on labor migration, occupational mobility, industrial relocation and sectorial adjustment and industrial relations. **\$5.25**
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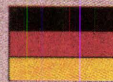


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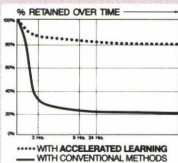
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