E.C. COMMISSIONER FRANS ANDRIESSEN ON THE U.S.-E.C. RELATIONSHIP

EUROPE

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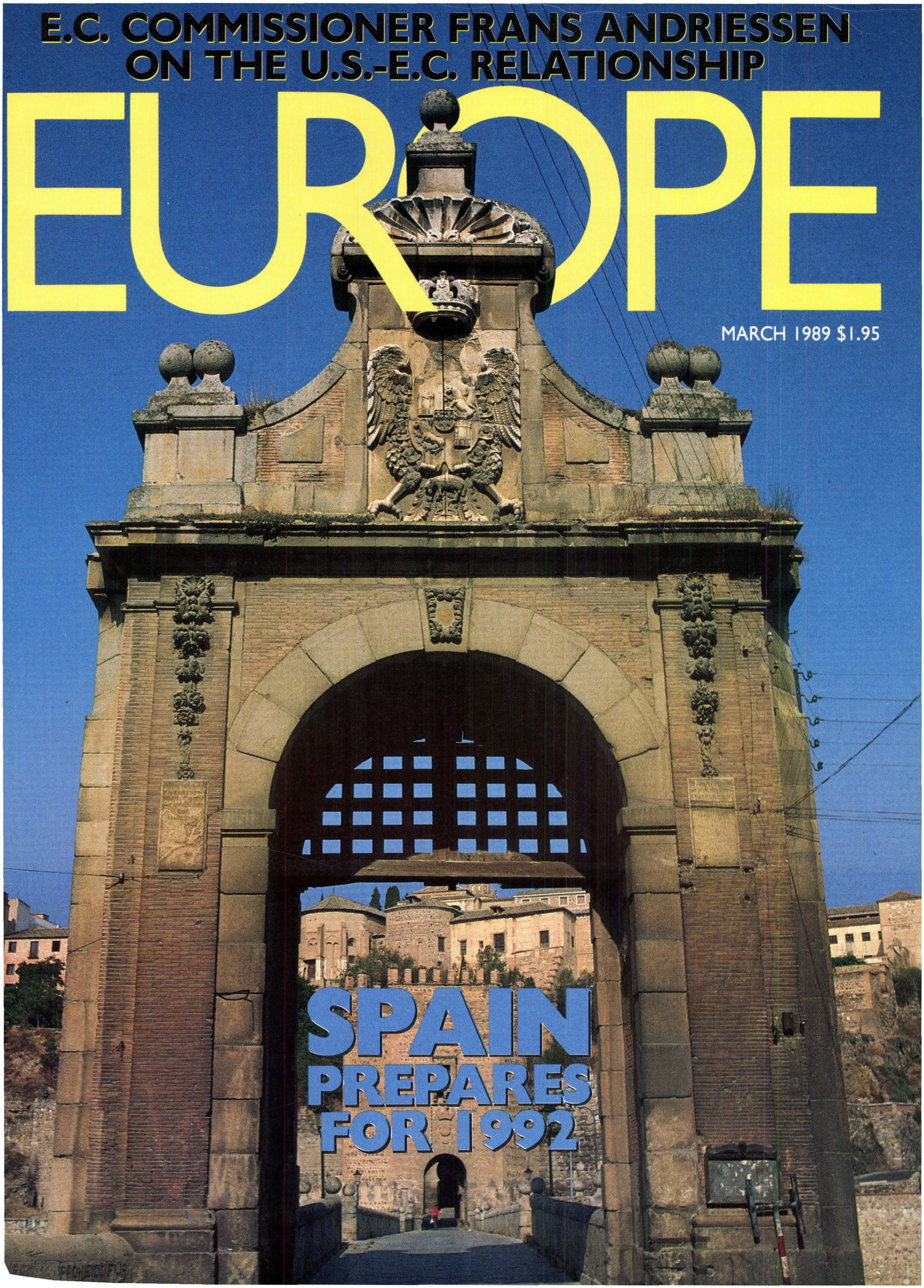

SPAIN PREPARES FOR 1992

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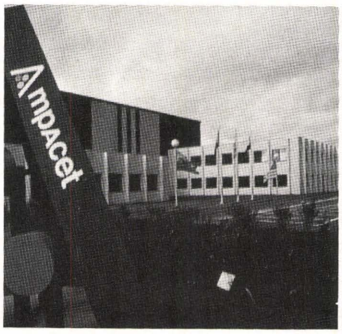

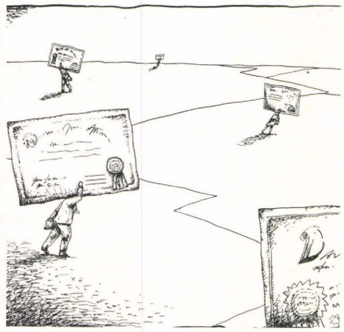

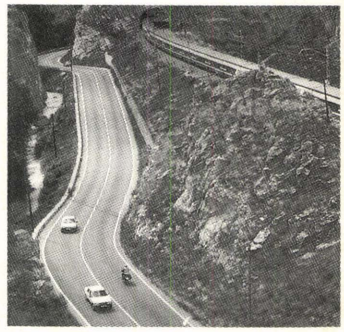

COVER: Spain holds the Presidency of the E.C. for the first six months of 1989. Photo: Alcantara Bridge in Toledo, Spain. © FPG International

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PUBLISHER'S LETTER

Contacts between members of both the new U.S. Administration and the new E.C. Commission have been numerous in the few weeks since both came into office. Talks in Washington on February 17-18 succeeded in cooling the heated trade dispute over hormones. On the other side of the Atlantic, the outcome of a meeting between U.S. Secretary of State James Baker and E.C. Commission President Jacques Delors in Brussels also was positive.

Relations between the United States and the European Community must become even closer and more politically oriented. In this issue, Frans Andriessen, new E.C. Commission Vice President for external relations, expresses his views on future developments in the E.C.-U.S. relationship, and John Lichfield writes about the most sensitive issues that today mark our trans-Atlantic relations.

Spain, our "country of the month," is busily preparing for 1992. Tom Burns reports on the dynamic economic growth that Spain has experienced since joining the E.C. in 1986. For the first six months of 1989, Spain holds the Presidency of the E.C., and Prime Minister Felipe González wants to progress in some of the areas that are vital to completing the E.C.'s internal market. Jane Monahan writes of plans to modernize and adapt Spain's railway infrastructure to that of the rest of Europe. Finally, Richard Lorant of the *Associated Press* outlines the importance of 1992 for Spain. Not only is that the year in which the E.C.'s internal market will be completed; it will also mark Spain's full entry into the E.C. following a six-year transition phase, the summer Olympic Games in Barcelona, and the quincentenary of Columbus' discovery of America.

On the final page of this issue, Sir Roy Denman, Head of the E.C. Delegation in Washington, pays tribute to our friend and long-time editor, Webster Martin, who died suddenly in January. We, the team at *Europe,* feel empty. We have been deprived of a young, talented man; we have lost in him a unique combination of both European and American qualities; and we have lost an editor who made this magazine what it is today. Most of all, we have lost a cherished friend. The best tribute we can pay him is to continue along the way he paved for *Europe* Magazine.

Giancarlo Chevallard

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AROUND THE CAPITALS

ATHENS

Archaeological Finds

This miniature carved ivory head of King Philip II, father of Alexander the Great, was found during excavations at Vergina in northern Greece.

COURTESY GREEK NATIONAL TOURIST ORGANIZATION

By far the most spectacular recent archaeological discoveries in Greece have come from a cemetery outside the village of Vergina in northern Greece, burial site of King Philip II of Macedon, the father of Alexander the Great, and a string of lesser Macedonian nobles. Manolis Andronikos, a professor at Salonica University, started digging there a half century ago, and triumphed in 1977 when he found King Philip's gold-filled tomb. Since then, he has unearthed another 10 royal tombs, most of them plundered, and has put Vergina on the map as the site of Aigai, the first capital of the Macedonian kings.

The finds from Vergina—Philip's skeleton, blackened from his funeral pyre, his gold-decorated armor, the solid gold funeral casket and delicate gold wreaths, sets of silver and bronze jugs and cups—are all on display in Salonica Museum, one of the city's major tourist attractions. In Vergina, on the other hand, the villagers complain bitterly that only a tiny proportion of visitors to Salonica make the 60-mile journey to see their royal burial ground.

It has been Greek policy for years to build local museums wherever possible to enable visitors to see, in one stop, both the site and the artifacts it contained. Such an arrangement also facilitates study and prevents the big city museums from getting hopelessly cluttered. In addition, it gives the villagers the satisfaction of looking after their local treasures, and the tourists who stop there provide them with a considerable economic boost.

There are problems, however, when finds are as unique as the contents of King Philip's tomb. For example, it is much harder to maintain security in provincial museums, rather than those in the large cities—which also have the resources to match international standards of display. Tempers in Vergina over this issue ran so high last summer that Andronikos was forbidden to resume his usual digging program and the villagers draped banners across the main street demanding the immediate construction of a local museum.

Although his schedule was curtailed, Andronikos still managed to make another remarkable find while cleaning a royal tomb first opened in 1987. The burial chamber had been looted but still contained an imposing six-foot high marble throne with a unique decoration that dated from the mid-4th century B.C. A gilt-edged marble panel that formed the back of the seat was painted with a scene of the rape of Persephone, a popular subject with Greek painters, and one that was also featured as a fresco in another tomb at Vergina.

Beneath the floor of the tomb, Andronikos unearthed a pile of pebbles to reveal another, much earlier, burial place that had escaped the notice of the tomb robbers. His finds here compare with the richest from Vergina. The skeleton had disappeared completely because of soil conditions, leaving only a set of teeth, surrounded by a splendid collection of gold jewelry that indicated a wealthy woman's grave.

She was buried in a garment bordered with strips of gold leaf and wore a pair of sandals with soles made of silver. She wore a gold diadem, elaborate earrings, a necklace of gold beads and a pair of long gilded dress pins. Designs that included scenes from Greek myths were repeated on different items of the jewelry that illustrated a rare craftsmanship, Andronikos said. He dated the burial to the Archaic period, close to 500 B.C., on the basis of imported Corinthian pottery found with the remains. This find told him that wealthy Greeks lived around Vergina more than a century and a half before King Philip made the Macedonian dynasty famous.—KERIN HOPE

ROME

The Old and the New

That ancient rivalry between Rome, the Italian capital, and Milan, which considers itself the industrial and business center and the real capital of the country, has just broken out again. The quarrel started a century ago, probably shortly after the signing of the Constitution that unified Italy.

This rivalry goes well beyond other provincial feuds, the so-called *campanilismo* that divides Italian cities and villages often only a few miles apart. But while the other famous rivalries, such as between Pisa and Leghorn and Venice and Genoa, have been slowly dying, the feud between "the two capitals" is heating up.

The *milanesi,* who consider themselves the real "engine" of the country, complain about Roman lethargy and bureaucracy. The *romani* respond—with wisecracks and indifferent smiles—about the excessive frenzy of the "Northerners." The fact is that Rome still considers itself the *caput mundi,* the capital of the world, as in the times of the Roman Empire, which only increases the irritation of the *milanesi.*

The northern Italian city of Milan is an important business center. Pictured here is the Teatro La Scala.

COURTESY ITALIAN GOVERNMENT TRAVEL OFFICE

The latest episode in the "war" was officially declared shortly before Christmas when Luigi Firpo, a 73-year-old scholar of humanism and Renaissance studies, and representative of the small, but highly-regarded, Republican Party, criticized Rome. The spark to ignite his attack was the latest public financing to restore some ancient Roman monuments. He argued that there was little point in providing more funds to restore works surrounded constantly by Rome's car-polluted air.

The interview provoked much reaction and led to widely publicized self-analysis. Sociologists asked if the dispute was not "a signal of *malaise* between the state and its citizens." Historians pointed out that this was just another episode in the same old fight. Already in 1894, Milan boasted in national newspapers that it, rather than Rome, was the real modern city. On behalf of the capital, writer Alberto Moravia reminded that "Rome has always been the spiritual capital but not the social and institutional one." Art historian Giulio Carlo Argan, once Rome's Mayor, broadened the discussion: "The crisis is not with Rome. The problem lies with the quality of life in all the cities of the world."

After the first week of debate, the controversy has settled, but the century-old scar has not healed. When will it burst open again? Businessmen from Milan and politicians from Rome both hope this will be delayed for as long as possible: In their respective fields, they are busily preparing Italy for the unified European market of 1992, and the last thing they need is a tiresome provincial feud.—NICCOLO D'AQUINO

COPENHAGEN

A Penchant for Mergers

Danish corporations have been smitten by "Mergermania." Anticipating the single E.C. market of 1992, mergers have been sweeping market leaders in basic Danish industries like sugar, spirits and foodstuffs since the beginning of this year, following the lead of the dominating corporations in the biotechnology and travel industries. It all amounts to the most far-reaching restructuring of Danish industry since the pioneers of industrialization were on the prowl 100 years ago.

By U.S. and average E.C. standards, the scale of events in Denmark may seem petty. Danisco, the new foodstuffs merger, has 12,000 employees and an annual turnover of less than $2 billion. Although this makes it Denmark's largest industrial employer, this size hardly alarms global competition.

Apart from the fact that Danish business is now acting rapidly—and far more so than the politicians—in adapting to the new competitive environment in the E.C., both popular and trade union views on the future of Danish industry have taken an interesting turn.

Gone are the days when trade unions believed it was possible by legal, political or financial means to prevent mergers and acquisitions, especially cross-border ones. Trade unions have actually welcomed the newest wave of mergers, although they did stress the need for more comprehensive labor relation rules to provide better safeguards against layoffs. This is not an unrealistic ambition. Nowhere in the E.C. is it as easy to fire people as in Denmark, and the harmonization of Danish rules will thus provide more protection.

The largest shareholders in the Danisco merger are the Danish pension funds. Though not given advance notice, they welcomed the initiative. This signaled a truce between the formerly more conservative barons of Danish business and the pension funds, many of which have strong political affiliations with the Social Democratic Party and the Danish unions. The situation is still nowhere near as apolitical as in the United States, but a good start has been made.

Mergermania is not confined to business alone, however. The Danish Government has launched a program to reorganize and restructure the public sector, although decision-making is predictably slow in the face of vested bureaucratic interests. And proposals, although still in the early stages, have even been made to merge some of Denmark's more than a dozen political parties.—LEIF BECK FALLESEN

LISBON

A New Party Leader

Portugal's political temperature is rising after a long tepid season. Partly responsible for the largely doused political debate were the unabashed confidence of the Social Democratic (PSD) Government, and its early near-miraculous feats of pruning inflation and simultaneously kindling hot economic growth, wage gains and an aura of lasting prosperity.

The last general election returned a clear parliamentary majority for the Social Democrats (which, for the first time in 16 governments, ensured a four-year mandate). Coupled with E.C. accession in 1986, this bred a feeling that Portugal's ship was finally in safe harbor after 12 years of rough sailing. The Socialist Party (PS), the main opposition and loser of that election, soldiered on, until its voice had trouble being heard when its charismatic leader Mario Soares left the party to become President of the Republic in 1986. This development gave the PSD an opportunity to skillfully occupy the newer middle-left ground while also staying on its more traditional middle-right territory.

The respected former Governor of the Bank of Portugal, Vitor Constancio, succeeded Soares as leader of the Socialists. He strove valiantly to put critical points across, but was rarely heard. His unassuming probity and skills, organization and a doggedly honest sense of economic reality, served him ill in an arena dominated by the PSD, which preached the "ignorance" of its critics and clamored that the proof of its genius was in the country's fabulous growth and plummeting inflation.

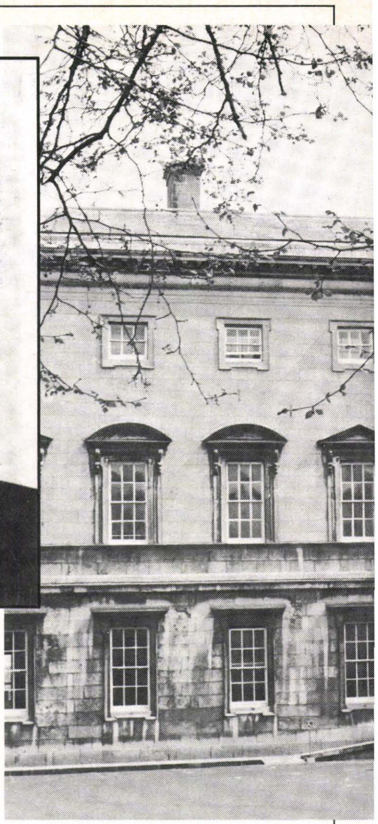
Constancio warned that fabulous growth and dropping inflation would be jeopardized if deflationary external factors, such as cheap oil and a weak dollar, waned. That warning also went for the possible resurfacing of weaknesses in Portugal's economy, such as too much state control, big budget deficits and debt, too great a gap between production and demand, and too little real redistribution of income (profits grew four times faster than wages, for example).

By mid-1988, external benefits faded and inflation began to climb after a four-year drop, reaching 11.4 percent by December (over twice E.C. averages), against 9.4 percent in 1987. In addition, 1989 tax reforms went into effect that hit the Portuguese twice, with new "pay as you earn" taxes, on top of 1988 taxes paid in retrospect. Government-set increases on January 1 of utilities, fares, staples like bread and milk, soaring rents and house prices with tougher mortgages, and other factors also increased the cost of living. In short, wage earners were rudely awakened after three years of fantasies of forever staying on the fast-spending track.

Into this soured scene stepped a new Socialist Party leader, Jorge Sampaio, elected this January by an emergency party congress after Constancio's disgruntled resignation last autumn. Sampaio's reputation for quietness seemed to herald another low-key and intelligent—but hardly incendiary—leader. Not so. In a fiery 90-minute speech at the Congress, in which he demanded unity, drive, passion and compassion, he rallied a demoralized party and whipped it into believing that it could offer a more caring, yet dynamic, alternative to PSD hegemony. Indeed, he brought the PS back into the limelight just as Anibal Cavaco Silva had done to a flagging PSD in 1985.

Before it had even a chance to prove whether its actions would be as dynamic as Sampaio's words, the PS shot up in opinion polls. Sampaio's own standing raced beyond that of the Prime Minister by 45 points to 31 points in a poll in Portugal's top weekly, *Expresso*. Readers gasped, for

COURTESY EMBASSY OF IRELAND



In many respects, the Irish economy has improved over the past two years. Above, Irish Prime Minister Charles Haughey. Right, Leinster House in Dublin, seat of the Irish Parliament.

not only had Sampaio, an outsider, galloped past Anibal Cavaco Silva, but the Prime Minister's standing also hit an all-time low, pushed down by shrinking wallets that spoiled the giddy sense of invulnerability on which the Government brilliantly played when economic odds were in its favor.

Sampaio and his reinvigorated party are trying to advance as champions of the underpaid, paladins of European modernity and defenders of growth and opportunity—exactly the same as what Cavaco Silva and the PSD promised in 1985. But, says Sampaio, the PS has heard: Modernization with solidarity is its shibboleth.

Elections to the European Parliament in June and local government elections in December will let voters signal which champions they prefer. The PSD is not short of skill, and, as the party in power, it can woo votes by priming public spending and pensions and subsidizing prices. At this point, the Socialists may have passion, but no perks, to offer voters, and Cavaco Silva did not earn an awesome reputation by sitting back while his adversaries advanced. The 1989 political debate and the competition for voter loyalty promises to be more ferocious than it has been in years.—Diana Smith

DUBLIN

Economic Growth At A Price

A little over two years ago, during the election campaign that brought the Fianna Fail party back to power, the Irish economy was being held up to widespread criticism. Foreign reporters were appalled by the country's huge national debt, soaring unemployment and emigration, and the general air of doom and gloom.

Today it is fair to say that the economic climate is far removed from the bleak outlook of spring 1987 and a feeling of confidence is in the air. The recent budget forecasts 3 percent real growth in gross national product (GNP), an inflation rate of less than 3 percent, further reductions in the national debt—which has peaked

COURTESY IRISH TOURIST BOARD

at a frightening 132 percent of GNP—and 40,000 new jobs over the next two years.

Personal taxation has started to fall for the first time in years. Social welfare benefits have been indexed to inflation and have been raised to four times the inflation rate for the unemployed. A tax amnesty brought in a windfall that drove the current budget deficit below 2 percent of GNP, the lowest figure in a decade.

On the capital side, the economy is being geared up to take maximum advantage of the doubling of the E.C.'s structural funds to help Ireland and the other less well-off countries to face the challenge of the 1992 single market. A national plan is being finalized for presentation to Brussels so that the new criteria for "integrated programs" will be seen to be incorporated and thus release the flow of an estimated $4 billion in E.C. funds. Under the new rules, the Irish Government or private investors have only to put up matching finance of 25 percent for many of the projects. On the face of it, therefore, Ireland should be poised for a spectacular take-off in expansion of road-building, forestry, harbors, marinas, food-processing plants, fish farms, tourism amenities and hi-tech training for one of the youngest populations in the Community.

The worrisome social side of the Irish economic condition is far from being settled, however, and some observers say that it has deteriorated. A recent research institute report claimed that one-third of the population lives in poverty, although the Government has challenged the findings. Unemployment is still at a record high of about 17 percent, although a marginal improvement has been registered over the past six months. The target of 20,000 new jobs was met, but was canceled out by more than that number of job losses. The employment picture comes into focus only when the 70,000 people who have emigrated over the past three years to look for work in Britain, the United States and Australia are added to the 230,000 unemployed.

A high social cost has clearly been paid to get public finances back into order. The Fianna Fail Government has given absolute priority to this goal, despite its severe criticism of its predecessors for having practiced it. This social cost makes many people uneasy when foreign commentators now sing a new tune about the Irish "economic miracle."

In the run-up to the 1989 budget, the Catholic Church waged an unprecedented campaign to draw the Government's attention to the widespread poverty and misery among the unemployed, especially on the large soulless housing estates around the cities. It is a measure of the alarm felt by Church authorities that they encouraged their official aid agencies to demand political action.

The budget has not signaled a vigorous onslaught on the conditions that have pushed many into the poverty trap and to emigration. The message is still that priority has to be given, if possible, to national debt stabilization and reduction.—JOE CARROLL

BRUSSELS

A Rosy Outlook

It is not yet official, but most people now believe it: The five-year austerity drive, which drove up unemployment and lowered the average Belgian's living standards, has ended. Last year, real economic growth was a shade under 3 percent—the best since the 1970s—and for 1989 banks and economists predict a similar growth rate.

Moreover, this good showing was managed without price controls. The rise in the cost of living last year was less than 2 percent and there is little, apart from possible wage claims, to suggest much change in the current year. Best of all, perhaps, the return to growth appears to be founded in large part on Belgium's traditional strength in exports, suggesting to many pundits that the recent years of economic stagnation have achieved their desired effect of restoring the country's international competitiveness. "The vicious circle of recession, creating unemployment and feeding the budget deficit, has become the virtuous circle of healthy growth, stimulating higher state revenues and cutting the deficit," says a leading business consultant.

Those outside Belgium may need a little more convincing that the tide has really turned. Barely a year ago, the Organization for Economic Cooperation and Development (OECD) was less than inspired by Belgium's prospects, noting that "only by pursuing a corrective policy aimed at redressing the present imbalances, encouraging investment and strengthening the economy's capacity to adjust, will Belgium be able, in due course, to take advantage of a pick-up in foreign trade and resume a pattern of satisfactory and balanced growth." (The OECD was not alone in misjudging Belgium's growth prospects—and those of most other E.C. countries. As recently as last summer, the leading banks were predicting a real growth rate of 1 percent or even less in 1988.)

To anyone with faith in the curative powers of Wilfried Martens, the Belgian Prime Minister, the events of the past 12 months are a handsome pay-off. In 1988 as a whole, share prices on the Brussels stock market rose by 54 percent, very nearly the biggest gain in any of the world's leading financial centers. "I would not say that equity shares are overvalued now, but they were certainly undervalued a year ago," a stockbroking analyst comments. Most of the remarkable surge in prices, however, has been due less to basic economic factors than to a public reappraisal of the value of Belgian securities.

It took last year's dramatic takeover struggle for the giant Société Générale de Belgique to bring this about. The heavy bidding and counter-bidding for shares in "La Générale" led to a three-fold increase in that company's share prices and

COURTESY FRENCH GOVERNMENT TOURIST OFFICE

Paris' Louvre Museum, home of some of the world's most important artworks, now also houses Murillo's 17th-century painting, "The Spanish Gentleman."

PARIS

Of Paintings And Operas

Recent revelations in the French arts have offered some enticing clues as to how money, crime and politics interplay in the upper echelons of the world of culture.

Over the past few months, headlines announced revelations in an *affaire* that implicated a curator at the Louvre Museum and one of France's top lawyers in improperly acquiring works of art from an aged art collector. And, while that case was still unfolding, the Paris Opéra stole the attention with the surprise firing of world-renowned musical director Daniel Barenboim less than a year before the scheduled opening of the new Opéra de la Bastille.

The art fraud came to light when an 85-year-old woman living in Switzerland alleged that her eccentric sister, Suzanne de la Lombardière de Canson, had been held captive in her mansion on the French Côte d'Azur for two years until her death in 1986. The charges started investigators on a trail that began with an unscrupulous nightclub owner, Joëlle Pesnel, who was hired as a companion to Suzanne Canson. A few months before she died, Canson willed her entire priceless art collection to Pesnel.

The investigation led on to enquiries about the sale of one of Canson's most prized paintings, the "Spanish Gentleman," by the 17th-century artist Bartolomé Esteban Murillo. Pesnel had hired one of France's best-known lawyers, and a darling of Marseille society, Paul Lombard, to negotiate the sale of the Murillo—even before Canson died.

The painting's proof of ownership, apparently fabricated by Lombard, was highly questionable. While Christies of London smelled a rat and refused to buy the Murillo, the Louvre Museum acquired it for 5 million francs ($800,000). At the time, the Louvre's curator, Pierre Rosenberg, an art historian of international reputation, apparently knew that the painting still belonged to Canson, because he had personally written to her asking to buy it. Nonetheless, the "Spanish Gentleman," fraudulently acquired, now hangs in a gilded frame in the collection of the Louvre.

The nightclub owner, the high-society lawyer and the curator of the Louvre have now all been indicted—only because they were caught out by the money and persistence of an old lady in Switzerland, outraged that her senile sister in France had been mistreated in her dying years.

Intrigue of a different sort was exposed in another part of the arts world when Israeli pianist and conductor Daniel Barenboim was summarily fired from his post as musical and artistic director of the new Paris Opéra, scheduled to open next January. Barenboim was hired last May, just five days before the presidential election that ousted the conservative government that had drawn up his contract. That contract, which required Barenboim to be present in Paris for four months per year, provided for a salary of 7 million francs ($1.2 million).

Pierre Berge, the new director for Paris opera houses, and also the management genius behind the Yves Saint Laurent fashion empire, called those conditions unacceptable and, after unsuccessfully trying to negotiate new terms, announced at a press conference that Barenboim's job was "now vacant." He also objected to Barenboim's plans to stage only 160 performances a year in the new Bastille Opéra, personally considering 220 a better reflection of the "popular opera" concept. On his side, Barenboim retorted that a *maison de couture* was trying to dictate the future of opera in France, and promised legal action.

For many insiders, it was simply a more public round of permanent disputes and personality clashes that dominate the music world. In any case, the intrigue at the Opéra and the scandal at the Louvre have given a fascinating glimpse behind the scenes in a country where culture is permanently at center-stage.—Brigid Janssen spurred sympathetic buying of other likely merger targets. Perhaps even more importantly, it awakened the Belgian public generally to the charms of equity investment, which in turn prompted a major overhaul of stock exchange procedures, starting with the introduction earlier this year of the Computer Assisted Trading System (CATS).

CATS will allow brokers to deal directly on computer screens in the stock of more and more companies. It is also the first in a series of reforms aimed at rooting out the restrictive practices and inefficiencies that have long thwarted Brussels' claims to be an important international financial center. The next step will be the opening up of membership of the Bourse to banks and other financial institutions, reducing the high present cost and breaking the cozy circle of relatively small stockbroking firms.

The stimulus for these and other reforms (as for the Société Générale bid) is the proposed 1992 single European market and the prospect of sharply intensified competition in the financial services sector. Brussels, a late starter in the field, cannot realistically hope to compete with London, Frankfurt or Paris, financial centers with long experience and vast backing of quoted companies. Yet Luxembourg is showing that "smarts," not size, make for success in global finance.

With this new energetic onslaught on Belgium's sleepy and undeveloped financial services sector and bright hopes for the economy, many analysts believe the country offers the best bet in Europe for indirect investment with 1992 in mind.—ALAN OSBORN

The austerity measures, imposed on Belgium by Prime Minister Wilfried Martens to boost the economy, seem to have worked: The 1988 economic growth rate of just under 3 percent was the highest since the 1970s, and is predicted to be about the same in 1989.

BONN

Working on Weekends?

In 1964, after a 10-year battle, the West German labor unions achieved the goal of two-day weekends for all German workers. Many West Germans still remember the unions' posters of a smiling small boy with outstretched arms, boasting: "On Saturday Daddy belongs to me!" It is not surprising, therefore, that the unions strongly defend this "social achievement" against growing arguments from employers for greater competitiveness, improved productivity and more flexibility in working hours, which would encroach on the sacred free Saturday/Sunday weekend.

Last fall, when Federal Labor Minister Norbert Blüm suggested a 36-hour work week in the ordinary production process, which could include work on Saturdays, the unions were up in arms. Blüm's proposal envisaged four working days of nine hours each, from Monday to Thursday or from Wednesday to Saturday. The workers, he argued, could thus enjoy more time off in one block. The aim of his plan was to keep expensive high-tech production lines operating at their fullest capacity, if possible seven days a week.

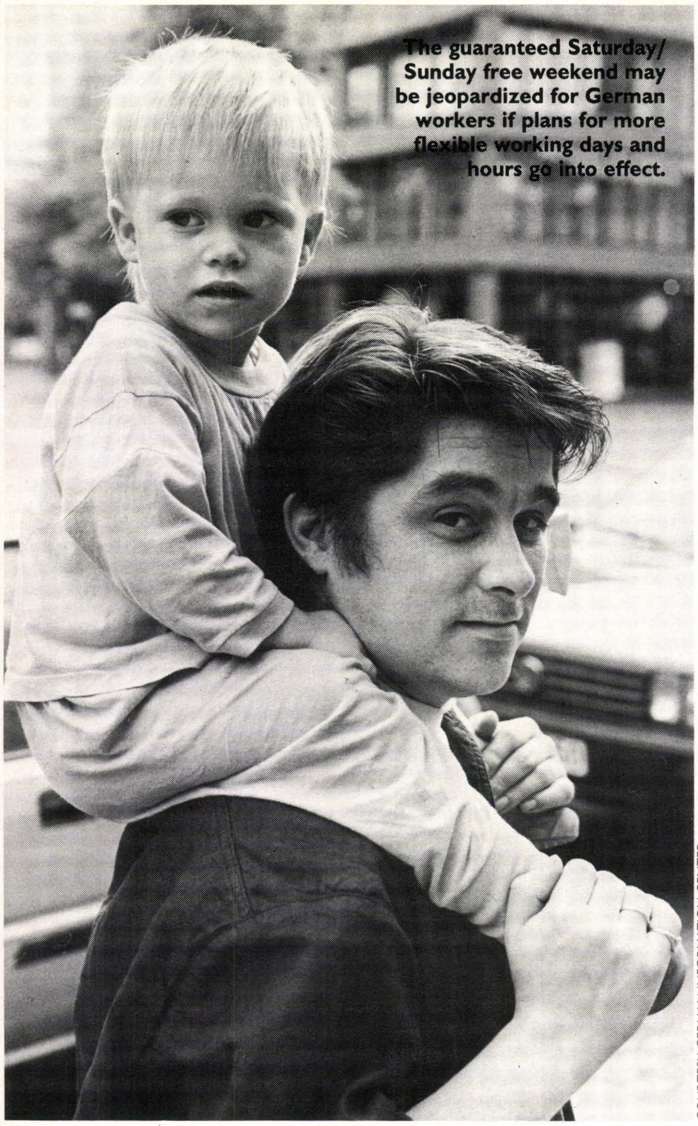
Oskar Lafontaine, Deputy Chairman of the Social Democratic Party (SPD) and Prime Minister of the federal state of the Saar, outraged the unions when, by agreeing with Blüm, he said: "Many workers prefer to work longer hours, or even on weekends, for the sake of three to four days off." He chastised the unions for refusing even to consider weekend work that would create new jobs. His stand was loudly applauded by employers but booed by the unions and fellow Social Democrats.

Hans-Jochen Vogel, leader of the SPD, emphatically stated that general work on Sunday is not debatable for religious reasons, adding that "even without religious considerations, there must be one day in the week that does not follow commercial rules." Unlike the unions, however, Vogel would consider a prolonged Saturday/Sunday weekend for one half of the working population and a Sunday/Monday weekend for the other half.

The separation of *working* hours, which average 38.5 hours per week, from *operating* hours is common practice in West Germany. Even retail shops, which have very rigid opening hours, are open 60 hours a week. The trend toward a service and leisure society has increased productivity by 70 percent since 1970—compared with an increase of 16 percent in agriculture and 25 percent in industry. About 25 percent of the work force work regularly or occasionally on weekends, mainly in the fast-growing service sector. Weekend work is also common in the transportation sector, the media, the police force, the health services and in the chemical, iron and steel industries.

The current discussion about weekend work was triggered when, in November 1988, IBM won a legal exemption to operate a microchip production plant at Sindelfingen on Sundays. IBM was able to prove that uninterrupted production reduced "scrap" and boosted productivity by 30 percent. The exemption was angrily criticized by the leader of the engineering workers' union, Franz Steinkühler, who pointed out that free Sundays had been legally introduced in 1891 and that "decoupling society from its weekend rhythm would result in a collapse of social relations." Meanwhile, the churches argued that Sunday work endangered and violated humanity.

By contrast, the seven-day production week introduced in 1985 by electronics giant Siemens for some 1,000 employees at its microchip plant in Regensburg was not disputed by the engineering workers' union. Last May, the local work



The guaranteed Saturday/Sunday free weekend may be jeopardized for German workers if plans for more flexible working days and hours go into effect.

COURTESY GERMAN INFORMATION CENTER

council also agreed to a new BMW plant in the same area, where production lines would also operate on Saturdays, and thereby boost production by 35 percent. To effect the new 36-hour worktime model, BMW had to hire an additional 900 workers in this region of low employment. How could the unions resist?

West German industry urges the unions to be more cooperative, pointing to the need for competitiveness within the unified economic market after 1992. Business managers argue that Germany must remain internationally competitive and be an attractive industrial location if jobs are to remain safe after 1992.

"The common living and working rhythm of a society," says social ethics professor Jürgen Rindespacher, "is indispensable for the fostering of the relationship with family, colleagues and neighbors." Ernst Helnstädter, professor of economics, on the other hand, is convinced that "the weekend has its future behind it" and asks mockingly: "Must we really relax collectively?"—WANDA MENKE-GLÜCKERT

LUXEMBOURG

Northern Wines

The charm of Luxembourg wines to residents of neighboring countries will continue for some time yet, following a decision earlier this year by the E.C. Council of Agriculture Ministers. Taking into account the "special situation" of Luxembourg agriculture, the Ministers decided to postpone for at least another year a proposal to phase out the exemption from duty of wines produced in the Grand Duchy.

The distinctive light, dry character of Luxembourg wines would no doubt ensure their appeal at a far higher price, but the price factor is an important one. It is reported that supermarkets and garages make special efforts to build up wine stocks during the three months of the year when the E.C. Council of Ministers meets in Luxembourg, and the spectacle of cars heading back to Brussels crammed with crates of Rivaner and Auxerrois wines is a familiar one during those months.

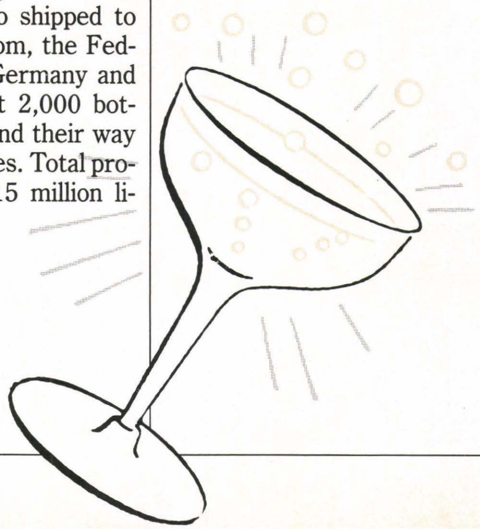
Yet, with gloomy recognition, Luxembourg wine growers know that the excise duty concession will have to vanish in time as the Community drives to harmonize indirect taxes. Next year, the E.C. Council will consider a proposal to cut the tax exemption by 25 percent each year, leading to its total elimination by 1992. The effects, according to the Luxembourg Moselle wine growers' cooperative, could mean that profitability will be undermined throughout the business and that many smaller producers will be forced out.

Though little known outside the Grand Duchy, Belgium and the Netherlands, Luxembourg wines form an important part of that country's agricultural production and an estimated 5 percent of all exports. Almost half of all wine is exported, and by far the biggest share to neighboring Belgium. Small quantities are also shipped to the United Kingdom, the Federal Republic of Germany and France, and about 2,000 bottles a year even find their way to the United States. Total production is some 15 million liters annually.

It is a tribute to Luxembourg enterprise that wine is produced at all in the Grand Duchy. The vineyards are among the most northerly in Europe and highly susceptible to frost, which, in some years, can kill off half of all production. The wine-growing area is tiny—a small strip of land about 300 yards wide, running for 15 miles on a south-facing bank of the Moselle River. It is so steep in parts that summer storms sometimes wash vines down into the water.

Equally striking is the difference in character of the Luxembourg wines from those of German Moselles—although both are produced from grapes grown only a few hundred yards away from each other. The explanation is that Germans prefer sweeter wines, which are achieved through sugar enrichment. In the Benelux countries of Luxembourg, Belgium and the Netherlands, tasters tend to favor less full-bodied vintages, like the Rivaner, Elbling and Auxerrois wines, while the distinctive Luxembourg sparkling, or *perlant,* wines at their best have been compared to champagne. Their admirers describe them as "delicate" and "cheerful," and they are considered excellent accompaniments to a heavy lunch.

It is reasonable to assume that far greater quantities of Luxembourg wine could be sold were production not limited by the capricious growing conditions and the relatively tiny area qualifying for the coveted *appellation contrôlée.* Higher prices may thus not



make much of a dent in the market. It is also worth noting that no wine to speak of is produced in Belgium or the Netherlands, and wine of the same character as the Luxembourg vintages tends to cost three or four times as much when exported from France, for instance. In contrast to other E.C. wine-producing countries, Luxembourg has so far never had to call on Brussels for assistance through the distillation of unsold wine.—ALAN OSBORN

AMSTERDAM

Toward A Cleaner Country

Pollution has become an obsession in the Netherlands and efforts are underway to clean up chemical waste and other pollutants. In 1985, the Dutch Government set up several ambitious programs to clean the environment and protect it from further pollution. A six-year program was drawn up to store or treat 85 percent of soil contaminated by chemical waste, aiming to decontaminate most of this material by the end of 1990.

The Government also has boosted measures to cut eutrophication of its surface and ground water. The first major program in this area was drawn up by Pieter Winsemius (the then Minister for Housing, Physical Planning and Environment), to improve soil, air and water. His successor, Ed Nijpels, is now completing a new national "environment policy plan," and Agriculture Minister Gerrit Braks will shortly submit a national "nature policy plan."

Car emissions also contribute greatly to polluting the environment. This is an issue over which the 12 E.C. member states have been quarreling since the mid-1980s. The Dutch Government is anxious to do away with car exhausts that increase acidification, and Nijpels is determined to enforce measures to promote sales of "clean" cars and unleaded petrol. In January 1988, the Dutch Parliament unanimously approved his legislation to allow tax cuts on new cars that meet the strict U.S. antipollution standards.

Late last year, however, the E.C. Commission asked the Netherlands to postpone the enforcement of this legislation. The Dutch Government took the question to the European Court of Justice in Luxembourg for a decision on the legal proceedings—a decision to be made independently of whether or not the Dutch action was justified.

Having rejected the E.C.'s request to postpone these tax incentives, Nijpels now faces a clash with the E.C. Commission. Nevertheless, the Dutch Government plans to introduce the new legislation immediately.

By the end of 1988, the delay in introducing these measures had already resulted in lower car sales. Orders for new cars had fallen by 65 percent, and dealers were worried that, because of the confusion, people had stopped buying cars.

Car prices will, in fact, remain unchanged because the proposed tax incentive will offset the extra cost of installing catalytic converters. Dutch importers of French and Italian cars—which are not routinely fitted with catalytic converters—are most affected by the delay, and small and medium-sized cars from those countries represent significant sales in the Netherlands. Dutch car dealers are threatening to present Minister Nijpels with a 100-million gilder claim and the French industry is arguing that the Dutch action represents a direct trade barrier. Dutch public opinion, on the other hand, supports Nijpels' stand.

The prestigious Institute for Public Health and Environmental Hygiene recently published a report entitled "Care for Tomorrow." It gave an alarming picture of ruined forests, disappearing heather fields and deteriorating drinking water, and awoke the nation to the dangers of pollution.

The president of the Nature and Environment foundation claimed that a billion-gilder plan is needed to remedy the living climate, saying that, "due to acidification, poisoning and eutrophication, lizards, owls, pike and cornflowers are disappearing.

A Dutch Member of the European Parliament, Hemmo Muntingh, has taken the initiative to set up a club of parliamentarians in the industrial countries, which will draw up environment legislation to be applied worldwide. There is general consensus that unless there is an E.C.-wide environment policy with cross-border legislation and measures, little progress can be made in Europe's environmental climate.—NEL SLIS

LONDON

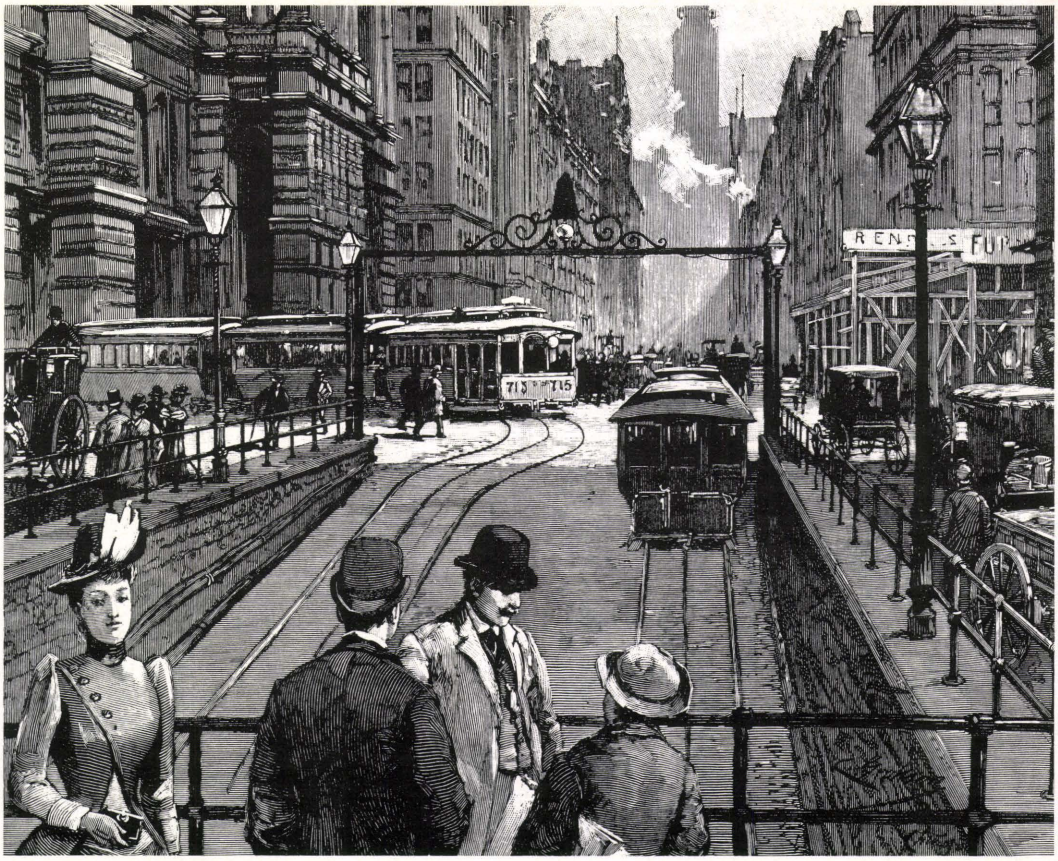
New Traffic Solutions

One of the unplanned joys of a journey on the M25, Europe's busiest motorway, is to gaze at the cows in nearby fields—which drivers often have too much time to admire because of bottlenecks and 20-mile-long tailbacks. Stung by a barrage of criticism of the orbital motorway that circles London through the green countryside, the Transport Department is now studying various proposals to "ameliorate present conditions," and plans to eliminate some of the congestion have moved to an advanced stage.

The need for a road carrying traffic around—rather than through—the British capital was first spoken about in 1905 by farsighted planners. At the time, however, not even they could have dreamed that the development of the motor car would eventually bring about the age of the urban grid-lock. Their worst nightmares could hardly have envisioned that by the 1980s traffic would be bumper to bumper from Boston to Bombay, or that London would become one giant bottleneck. Planners would have been even more astounded to learn that today the average speed in central London during rush hour is 11 miles per hour—slower than 100 years ago when horse-drawn carriages rattled through the streets of Mayfair at a heady 12 miles per hour!

By the 1960s, the growth of the cities and private wealth brought more and more cars onto the roads, and with them the demand of the citizen to be able to enjoy the freedom of private vehicle ownership. Everyone who had a car wanted to drive it wherever and whenever. However, it soon became apparent that, if one wanted to drive from the north to the south, or from the west to the east, of the great sprawling metropolis of London, the longest way around it might prove to be the shortest.

London's North Circular and South Circular roads were the first solution to the growing traffic problem. All too soon, however, they were engulfed by suburbs and became themselves as congested as the inner city roads they were supposed to relieve. That was when the plan was hatched for



the "Great Outer Orbital Ring," designated "M25" as it was the 25th motorway built in Britain. Work started in 1975 and the final stage of the ring road was completed in 1986.

Like many a planned solution to traffic problems, making the road bigger and better encouraged more motorists to use it. Now the M25 itself has become a problem. Designed to carry 80,000 vehicles a day, it carries double that amount on some sections of its 117 miles. The morning rush hour starts at 6:30 A.M. and rarely lets up before midnight. The massive volume of traffic has caused a faster deterioration of the highway than expected. This in turn has meant that various sections have to be closed for maintenance and repairs, interrupting the flow and thus adding further to the problems at overtaxed junctions with major motorways.

Road building and maintenance spending in Britain declined between 1975 and 1987 even though the number of cars on the roads grew by 26 percent to total 22 million. The British Road Federation estimates that congestion in the entire country costs $5 billion annually in wasted time and vehicle operating costs, and nearly half of it is wasted in London.

Transport Department officials know the situation is deteriorating. On the M25 alone, the volume of traffic rose by 7.5 percent in 1988, and officials have recognized that such growth is threatening to render the orbital route obsolete. They are now studying improvements, including an extra lane in each direction to make it an eight-lane highway, redesigned junctions, improved signposting and more computerized traffic control. A radical proposal has come from the Costain construction group: A six-lane highway on stilts above the existing motorway at Heathrow Airport, the busiest section, at a cost of $5 billion paid for by tolls.

As London's traffic sclerosis threatens to occlude all its arteries above and below ground, an efficient way around the capital becomes ever more urgent. The last thing London needs is an orbital autoroute that has become a barely-moving 200-kilometer ring of fuming vehicles and drivers.—DAVID LENNON €

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CLOSE U.S., E.C. COOPERATION VITAL FOR WORLD TRADE

DESPITE DIFFERENCES, THE POLITICAL AND ECONOMIC RELATIONSHIP REMAINS STRONG.

FRANS ANDRIESSEN

The importance of the relationship between the European Community and the United States, both for each other and for the world at large, is self-evident but nevertheless bears repeating. The political partnership between the United States and member states of the Community has been a significant factor of stability over the past decades. On the economic front, the interlinkages have multiplied and we are now each other's largest trading partner. We also have a significant direct stake in each others' economies. The prosperity of one is linked to the prosperity of the other and ever closer cooperation between us is imperative.

The new year began with the dispute over hormones, which is casting a shadow over E.C.-U.S. relations. In the meantime, a task force has been created between the E.C. and the United States to

Frans Andriessen is the E.C. Commission Vice President responsible for external relations and trade policy, and cooperation with other European countries.

find a fair solution to this issue. Our relationship has many positive aspects, and our common objective in 1989 should be to build on the strong bilateral ties that have developed over the years in order to resolve our differences and to reinforce further our relations. With a new U.S. Administration and a new E.C. Commission—even if some familiar faces remain on the scene—there may well be new ideas and a new approach to those long-standing differences that we have so far failed to resolve.

For the Community, the steps toward the completion of the single market remain a major priority on the internal front in the coming year. The Commission has already submitted to the E.C. Council of Ministers the bulk of the necessary legislative proposals, and almost half of these have already been adopted. Although much still remains to be done, I am confident that our drive for closer economic integration has acquired a self-sustaining momentum.

The economic advantages of a single Community market both for European and for third countries are, I think, self-evident. The prospect of greater competition in a wide, unified market of 320 million inhabitants speaks for itself. Furthermore, it should not be forgotten that the benefits of this step are not confined to the economic sphere. The political significance of a strong united Community should be particularly welcome to our U.S. partners.

Both the economic and political advantages seem to be well understood in Washington. Support for the E.C.'s efforts for closer integration has been expressed in Congress as well as by the Administration. The U.S. business community has also responded favorably. Naturally there are some reservations, particularly regarding the small number of areas for which the E.C. has not yet fully worked out the implications of the single market. Our own business people also dislike the ensuing uncertainty. However, there is no justification for assuming the worst, and generalizing from this to raise the false specter of a "Fortress Europe." The Community's objectives with respect to the single market—summed up in the term "Europe World Partner"—have been unambiguously affirmed and reaffirmed, most recently in the declaration of the Rhodes Council last December.

A point worth making is that, when the E.C. was first launched more than 30 years ago, there were scaremongers who, having completely misunderstood the spirit of the whole endeavor, predicted the emergence of an introverted, protectionist Europe. Events have proved them wrong. The E.C. is now one of the world's largest participants in world trade—on the import as well as on the export side. People generally tend to overlook the fact that, in the field of agriculture for instance, the E.C., as a unit, imports far more now than the individual member states, put together, ever did before. (It is worth noting that the E.C. accounts for approximately one-third of the United States' overall agricultural trade surplus.)

"The importance of the relationship between the E.C. and the United States . . . is self-evident but nevertheless bears repeating. The political partnership . . . has been a significant factor of stability over the past decades. On the economic front, the interlinkages have multiplied and we are now each other's largest trading partner. We also have a significant direct stake in each others' economies. The prosperity of one is linked to the prosperity of the other and ever closer cooperation between us is imperative."

I know that the future will prove that the fears being expressed today over the single market program are as groundless as the concerns expressed in earlier stages of our development.

On the external front, the Uruguay Round of multilateral trade negotiations is a major priority for the Community. As two of the world's major trading entities, the inadequacies of the present multilateral trading regime are painfully obvious to both of us. Our objectives in this field are broadly comparable. The Community firmly believes in finding multilateral solutions to the unfair trade practices that abound. It is also seeking commonly agreed international ground rules for the new forms of trade that have arisen with the rapid advance of technology. Our approach to the talks is a realistic one that seeks, through negotiation, to maximize the opening of world markets in all areas. This end, we feel, is best served by avoiding rigid maximalist positions.

Bilateral and, even more so, unilateral measures cannot provide an adequate alternative to a reformed multilateral trading system and our efforts should be concentrated on achieving the latter. The new U.S. Trade Act continues to worry us in the Community because it contains provisions that, in our opinion, run counter to the General Agreement on Tariffs and Trade (GATT) and confirm a tendency toward unilateralism that does little to encourage respect for the GATT. Even if no action is taken, the mere threat of action for which the Trade Act provides, is detrimental to the multilateral trading system. The Community will, of course, be monitoring closely the implementation of the legislation. It goes without saying that it will take prompt action to defend its rights if its interests are adversely affected.

For both of us the coming year will be a very important and busy one. I am certain that it is in our mutual interest to continue our fruitful cooperation for the furtherance of world economic and political stability. €

Frans Andriessen is the E.C. Commission Vice President responsible for external relations.

RECENT TALKS DE-ESCALATE TRADE

JOHN LICHFIELD

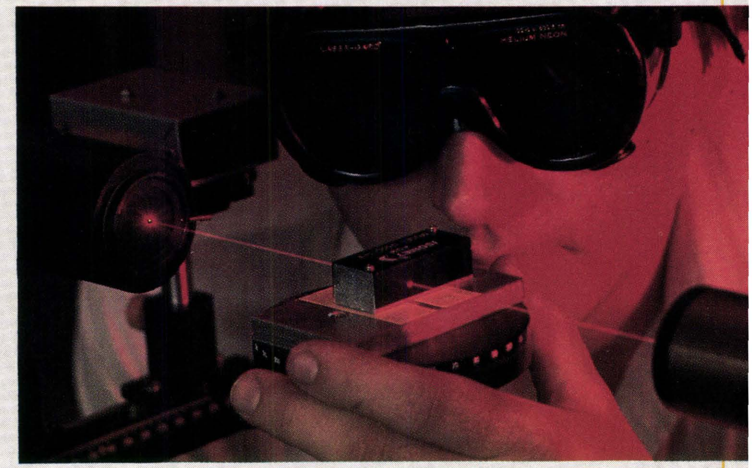
An amicable first meeting between new senior E.C. and U.S. officials for trade and agriculture on February 17-18 launched several interesting straws into the unpredictable trade winds blowing across the Atlantic.

The agreement to de-escalate the dispute over the E.C. ban on hormone-treated beef may seem trivial—unless you export U.S. beef liver to France, or German instant coffee to the United States. The dispute, now defused until May, affects only 0.12 percent of E.C.-U.S. trade. But the agreement to create a task force of high-level officials to resolve the quarrel suggested a more business-like approach by both sides and especially the new U.S. Administration. The dispute has always been more technical than political; now, for the first time, the U.S. Government has agreed to seek a technical solution.

Perhaps even more significant were the Bush Administration's new proposals for the General Tariffs and Trade Agreement's (GATT) Uruguay Round: a tentative first step away from the Reagan-era insistence on the complete elimination of price and trade distorting subsidies to agriculture. In both cases, the U.S. position did not alter formally but the Bush team showed a predisposition to solve disputes and manage problems, rather than strike ideologically exact, but practically unhelpful, public postures. This was not always the case during the Reagan years. Just as importantly, the new approach suggested a willingness to examine, and to take into consideration, the political realities on both shores of the Atlantic.

An extraordinary concentration of potential—and actual—trade disputes faces the United States and the European Community in the next four years. The United States is beginning to grow alarmed, and aggressive, about what it sees as protectionist dangers in the 1992 drive to complete the European internal market. The E.C. is apprehensive about the workings of the U.S. Omnibus Trade Bill (known to some as the ominous trade bill) passed last year. Ironically, both sides are accusing the other of seeking "reciprocal" openings in foreign markets as a pretext for fencing off their own. Meanwhile, negotiators in the Uruguay Round have less than two years to build a new world trading system for agriculture, which is not entirely, but largely, an E.C.-U.S. problem. There are also a number of hardy annuals: the European Airbus (other E.C.-U.S. trade disputes come and go, but Airbus flies forever) and the renewal of the voluntary restraint agreements on imports of U.S. steel.

There is a danger that these disputes, reacting chemically with one another and with political and financial arguments within the North Atlantic Treaty Organization (NATO), will come to be seen as the defining reality of U.S.-E.C. relations in the early 1990s. But there is another and less publicized reality. The United States and the E.C. are the world's two largest economic blocs and the world's largest trading partners ($165 billion of bilateral trade in 1988). Together they account for 30 percent of world commerce. The United States is the biggest customer for E.C. industrial goods; the E.C. is the biggest customer for U.S. agricultural goods and the second biggest for U.S. manufactured goods.



In the field of telecommunications, the United States, up against various different European standards, would welcome the introduction of one Europe-wide standard.

The visible trade figures cover only part of a vast canvas of E.C.-U.S. economic interdependence, however. Counting sales of U.S. subsidiaries in Europe and European subsidiaries in the United States, the two-way commercial relationship is worth over $1 trillion. Equally importantly in an age of massive U.S. trade deficits (despite an improvement in 1988), the U.S.-E.C. account has remained relatively well balanced. If sales of U.S. interests in the E.C. are included, the balance has always been hugely in favor of the United States. Talk of a lurch of U.S. economic activity toward the Pacific rim is all very well, but the U.S. account with all Asian countries is massively in deficit. Seen in context, the present E.C.-U.S. trade disputes are ugly waves on the surface of a great ocean of common interests.

But will they be seen in context? During last year's U.S. election campaign, a senior E.C. official predicted that, whoever won on November 8, the late 1980s and early 1990s would bring unprecedented economic warfare between the United States and the Community. Just before President Bush's inauguration, the same official said he believed that he had been over-pessimistic. "Unless we go into a deep recession, I think things will be tricky, but basically manageable. Under Ronald Reagan, despite free-trade rhetoric and many free-trade policies, the presumption was always that the foreigners were responsible for trade difficulties. I believe that under Bush there will be a new willingness to look at both sides of a problem. The real difficulty could be the U.S. Congress and, it has to be said, some E.C. national governments."

Mutual absence of understanding of the political systems on either side of the Atlantic is a problem in itself. European commentators and politicians, whatever their theoretical knowledge of the American system, often ignore the power of the Congress, especially in trade issues. The most well-informed Americans have the vaguest knowledge of how the E.C. works. An experienced U.S. business consultant insisted recently that Liechtenstein was a member of a 14-nation E.C.—and refused to be corrected. A senior member of the Bush Administration was quoted as saying that the United States should be allowed to sit in on 1992 negotiations in Brussels—should the E.C.

SPUTES

E.C. ENCOURAGED BY NEW U.S. ADMINISTRATION'S APPROACH TO WORLD TRADE.

also have a seat in the Bush Cabinet? American politicians refuse to accept that decisions, once reached by 12 governments in Brussels, are as hard to unravel as trade-offs between the White House and Capitol Hill in Washington.

The hormones dispute, however trivial and vexatious, is a perfect paradigm of this wider political problem, which the Bush team may be preparing to ease. The original E.C. ban on hormone growth promoters was based on scant scientific evidence, but followed a tidal wave of European public concern about the side effects of the drugs on human health. Other beef-exporting countries reluctantly agreed to supply certified hormone-free meat. The United States insisted that, since there was no scientific justification for the ban, the whole complex procedure within the E.C. was a conspiracy to block an annual $100 million trade in exports of American beef (mainly low-grade offal). The Reagan Administration, under pressure from Congress and beef exporters, imposed punitive tit-for-tat tariffs on $100 million of E.C. foodstuffs in January. At the recent E.C.-U.S. meeting in Washington it was agreed, for the first time, that ways should be sought to license U.S. exports of hormone-free beef. The Reagan Administration had refused for nearly two years to consider this possibility.

The changed approach was welcomed by E.C. officials as evidence that the new Administration would take a less "Americentric" view of trade problems. The new U.S. Trade Representative, Carla Hills, also rapidly extracted some of the venom from the GATT trade liberalization talks launched at Punta del Este, Uruguay, in 1986. The Reagan Administration proposed in 1987 that, as part of this so-called Uruguay Round, developed nations should abolish by the year 2000 all subsidies that distorted food prices or agricultural trade. However desirable such a policy might be in abstract, economic terms, it was plainly unacceptable to the Community.

The Common Agricultural Policy (CAP) system of price supports sustains comparatively small-scale European farms while allowing unhindered farm trade between E.C. countries. The system has proved costly and, by generating huge surpluses, politically embarrassing. The CAP is far from universally popular in the E.C. and has been severely straitjacketed in recent years so that the European food mountains are now mostly molehills. But even the CAP-bashing British Government accepted that a commitment to abolish all price supports would be politically unimaginable to its French, German, Italian and Irish partners, to name but four. The E.C. offered to negotiate a freeze on existing support levels and "substantial" subsidy reductions in the next few years.

At the Mid-Term Review of the Uruguay Round in Montreal last December, the United States insisted that there must be a long-term commitment to its "zero option" before it discussed the details of short-term reforms. The talks, although successful in other areas, broke on this U.S.-E.C. rock. Now it appears the Bush Administration is prepared to accept somewhat weaker language on the "zero option" and detailed talks on short-term farm policy changes. A further E.C.-U.S. ministerial meeting has been scheduled to discuss the new U.S. proposals on March 10 and 11. Prospects for the GATT talks, when they resume in Geneva in April, look considerably rosier.

It will be interesting to see if the new, more realistic Bush-Hills approach carries through to U.S. attitudes toward the European 1992 internal market plan. As the Community's largest trading partner, the United States has huge, legitimate interests in preventing the E.C. from turning into an introverted "Fortress Europe." There are influential voices within the Community who believe that internal liberalization should be matched by higher external barriers. A tough and vigilant American attitude will help the E.C. free traders—internal and external—to hold the line against the protectionists. That being said, there will inevitably be some protectionist aspects to the final shape of the E.C. internal market. No one, not even the United States, is perfect. Over 35 percent of goods produced in the United States are protected from foreign competition in some way, according to Robert Reich of Harvard's Kennedy School of Government. The rules of the E.C.'s single market will inevitably reflect some existing E.C. and domestic barriers—tougher on agricultural produce than the United States, but much more liberal with manufactured goods.

American complaints about 1992 have tended to obscure the fact that the single market will bring many benefits to the United States. The U.S. Department of Commerce has completed a detailed study of 86 of the key directives in the 1992 campaign. In over two-thirds of the cases, the investigation finds that the new rules will be beneficial, or at worst neutral, for U.S. exporters and subsidiaries. U.S. exporters will gain as much as E.C. producers from increased economic activity, reduced red tape at frontiers and the drive to harmonize standards or agree mutual recognition of national standards. The American grievances fall into two categories: anxiety that the E.C. will develop standards for manufactured goods that do not match U.S. or International Standards Organization norms, and the fear that the E.C. may bar U.S. banks and financial organizations from fully benefiting in the single European market for financial services, unless "reciprocal" access is granted to E.C. companies to the entire U.S. market.

A few of the U.S. standards complaints are justified. Some E.C. nations see common European, but internationally separate, standards—especially in the telecommunications and information technology sectors—as a means of strengthening domestic European industry. But in many cases, U.S. industry already faces different standards in Europe and frequently a jumble of standards. A single standard, even if different from the U.S. standard, would be an improvement. Some of the U.S. complaints in the information technology field appear dubious. They appear from the Commerce Department document to be based partly on the fear that a resurgent E.C. industry will erode America's dominant market position.

The financial services "reciprocal" access case is an awkward one and still under consideration in Brussels. The irony is that the United States turns out to be less of an internal market for banks than the E.C., even under existing law. The second irony is that a somewhat different principle of reciprocity is built into the new U.S. Omnibus Trade Act. In cases where the U.S. Administration decides that foreign countries are not allowing reciprocal volume of access to U.S. goods or services, the White House is

Continued on page 45.

E.C. STUDIES WAYS TOWARD MONETARY AND ECONOMIC UNION

THE "DELORS COMMITTEE" IS CHARGED WITH FEASIBILITY STUDY FOR ACHIEVING THIS GOAL.

PETER NORMAN

It looks like a cross between a pile of pennies and a power station cooling tower, set incongruously in a sleepy town square close to luxury hotels and the main train station. Since last September, however, the headquarters of the Bank for International Settlements in the Swiss border city of Basle have been the scene of the most exhaustive debate in a decade over the economic and monetary future of the European Community.

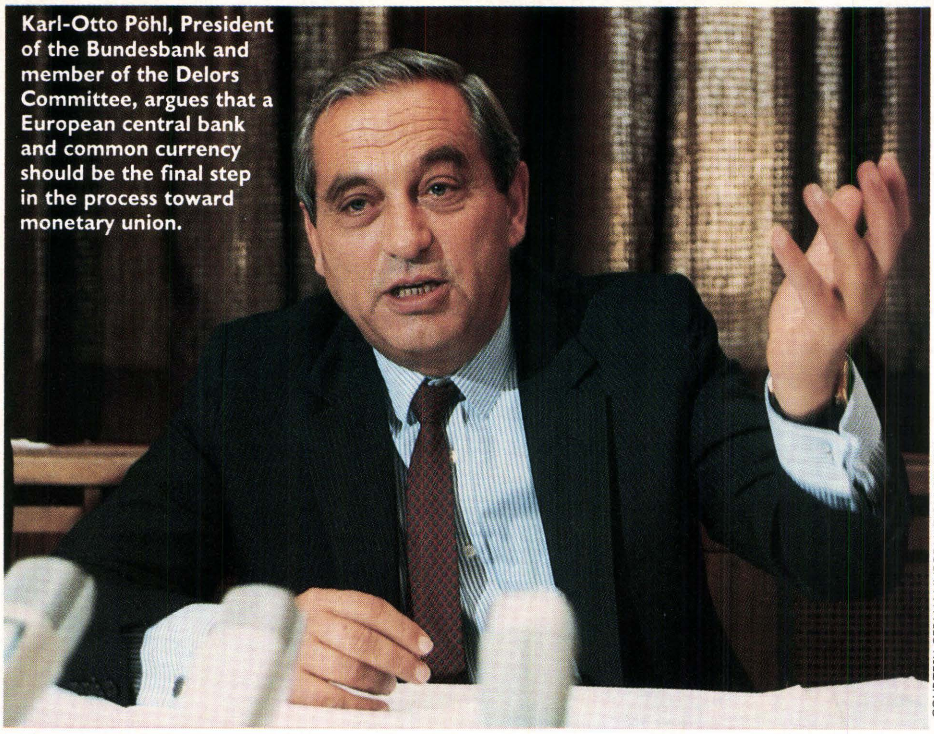
Meeting on the second Tuesday of every month, a 17-strong committee has been studying "concrete steps toward economic and monetary union" in the 12-nation bloc. The committee consists of the 12 heads of the E.C.'s national monetary institutions and four outside experts on European monetary affairs, and is chaired by Jacques Delors, President of the E.C. Commission in Brussels.

The mandate, handed down by E.C. Heads of State and Government at their summit meeting in Hanover in June 1988, should result in a report to Finance Ministers this April for further discussion by the leaders of the Twelve at their Madrid European Council meeting in June.

While the deliberations of the Delors Committee are formally shrouded in secrecy, its work has become a major focus of controversy. The British Government, in particular, has taken the view that all talk about movement toward monetary union in the E.C. distracts effort and attention from what it regards as the far more serious task of completing the barrier-free Community-wide internal market by its end-1992 deadline. The British objections were spelled out most forcefully by Nigel Lawson, the Chancellor of the Exchequer, when he said in January: "It is clear that economic and monetary union implies nothing less than European Government—albeit a federal one—and political union: the United States of Europe. That is simply not on the agenda now, nor will it be for the foreseeable future."

The Delors Committee was not set up in a vacuum, however. The decision of the Hanover summit reflected a gathering political head of steam, especially in Italy, France and the Federal Republic of Germany, during the early months of 1988 in favor of greater economic and monetary integration in Europe:

- The 1992 program itself gave a major impetus to talk of more economic cohesion. With Europe dismantling internal barriers to trade, it was argued that business would increasingly question why the region should have 11 currencies and 12 monetary authorities and all the inconvenience that entails.
- Ahead of the Hanover Summit, backers of monetary union were able to point to a more favorable economic environment than in the past. Inflation had fallen in all E.C. countries during the 1980s, reducing differentials that were a major cause of monetary disturbance.
- The European Monetary System (EMS), set up in March 1979 to limit currency fluctuations among either of the 12 E.C. nations, had defied the skeptics. As members of the EMS exchange-rate mechanism (ERM), West Germany, France, Italy, the Benelux countries, Denmark and Ireland could look back on a record of currency stability with each other that compared very favorably with the wild gyrations of free-floating currencies, such as the British pound sterling (which, although a member of the EMS, does not participate in the ERM), the U.S. dollar and the Japanese yen.
- Yet, despite the success of the EMS, many of its supporters feared for its future unless the system were strengthened by institutional steps toward economic and monetary union. Looking ahead to the planned abolition of exchange controls in most E.C. countries in 1990, officials such as Tommaso Padoa-Schioppa, Deputy Director-General of the Bank of Italy and now one of the two secretaries of the Delors Committee, warned that EMS member states would face an "impossible task" of reconciling free trade, full capital mobility, fixed exchange rates and national monetary autonomy.
- Early in 1988, some notable political leaders, including West Germany's Foreign Minister Hans-Dietrich Genscher, came to the conclusion that if anything had to give, it had better be national monetary autonomy. Ahead of Hanover, he advocated the creation of a European central bank and common currency, a call that was echoed by eminent political leaders from the past, like former German Chancellor Helmut Schmidt and former French President Valéry Giscard d'Estaing, who both brought to the discussion the added authority of their having been the driving forces behind the creation of the EMS.



Karl-Otto Pöhl, President of the Bundesbank and member of the Delors Committee, argues that a European central bank and common currency should be the final step in the process toward monetary union.

COURTESY GERMAN INFORMATION CENTER

At the Hanover summit itself, the keenest supporters of institutional progress toward economic and monetary union were West German Chancellor Helmut Kohl, French President François Mitterrand and Italian Prime Minister Circiaco De Mita. Perhaps significantly, none of these leaders had accumulated financial experience in their careers.

By contrast, most of the central bank governors who make up the Delors Committee are not natural supporters of economic and monetary union. As a breed, central bankers tend to be conservative administrators rather than mercurial innovators. In consequence, those hoping that the Delors Committee will point the way to rapid economic and monetary integration in the E.C. are likely to be disappointed.

The brief of the committee is in fact quite narrow. It was not specified that a future European central bank and common currency should be at the center of its discussions, although it has always been clear that these two issues would never be far from the debate. Nor was the committee set up to determine whether monetary union was desirable, or to provide detailed plans for achieving union. Instead, its members have to answer the question: If Heads of Government think economic and monetary union to be worth while, then how might it be achieved?

In their first meetings, the committee members looked to the past for inspiration. But, judging from their accounts, their discussions also began to uncover potential costs of monetary union. It scrutinized previous ideas for moving toward economic and monetary union that had foundered in the monetary chaos of 1972 following the collapse of the postwar Bretton Woods system of fixed exchange rates. They also studied the economic experience of countries like Italy and Germany, which had been united through the amalgamation of many smaller sovereign states in the 19th century.

The committee produced a preliminary, confidential report in December, which appeared to suggest that non-monetary moves toward economic integration should take precedence over the creation of a European central bank or common currency.

In speeches, some senior European central bankers had already pointed out that too rapid an advance toward monetary union could cause havoc in Europe's outlying areas in the absence of steps to coordinate fiscal and budgetary policies and overcome the large gaps between economically strong and weak regions. Maurice Doyle, Governor of the Irish central bank, warned that premature monetary union would turn peripheral areas into "national parts suitable for vacations or suppliers of basic commodities and products (but) denuded of enterprises and people." Helmut Schlesinger, the Bundesbank's Vice President, cautioned that moving to irreversibly fixed exchange rates as part of economic and monetary union would deprive weaker EMS countries of the ability to adjust their exchange rates. Such freedom to adjust rates could, he argued, be an important safety valve in the face of tougher competitive conditions ahead of 1992.

It also transpired that the various members of the Delors Committee had very different ideas about what "concrete steps" should lead to economic and monetary union. West Germany's independent Bundesbank made clear that it would agree to the creation of a European central bank only if it were as independent of E.C. Governments as the Bundesbank is of Bonn and had price stability as its prime goal. A common currency in the Bundesbank's eyes would have to be every bit as solid as the German mark.

Indeed for Karl-Otto Pöhl, the Bundesbank President, the creation of a European central bank and common currency should be the final, "crowning" step in a long process toward monetary union. He argued that before going further, Britain should become a full EMS member, participating in the ERM, while Italy should give up the lira's special EMS status that allows it to fluctuate 6 percent either side of agreed central rates rather than the 2.25 percent allowed other currencies in the ERM.

Other members proposed interim steps. Jacques de Larosière, Governor of the Bank of France, has advocated a limited pooling of E.C. central bank reserves and more formalized discussion of na-

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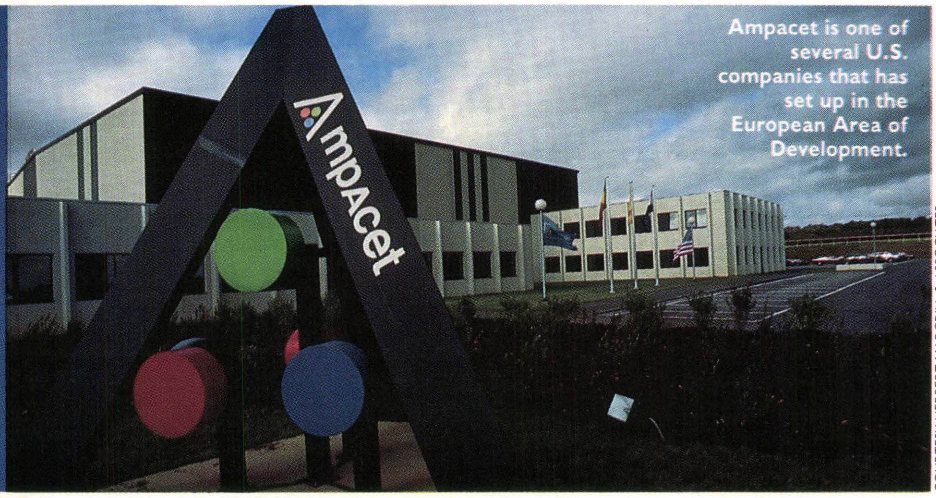
E.C. HELPS DEVELOP CROSS-BORDER INDUSTRIAL ZONE

THE "EUROPEAN AREA OF DEVELOPMENT" ILLUSTRATES AIMS OF SINGLE MARKET PROGRAM.



Ampacet is one of several U.S. companies that has set up in the European Area of Development.

COURTESY HERBERT MARGRILL & ASSOCIATES

HENRI TRIEBEL

For more than a century, the French region of Lorraine was synonymous with the steel, coal and textile industries. As in many parts of the world, however, these industries have suffered a major decline over the last decade. In Longwy alone—a city located on the border of France, Belgium and Luxembourg—the steel industry employed 24,000 workers in 1974; today all steel mills have been demolished. A similar situation occurred in Artus in Belgium and in Luxembourg's Rodange. Altogether, the steel center of Longwy-Artus-Rodange once employed 40,000 workers; today that figure stands at only 1,500.

Lorraine, however, is fighting back. In what is considered an unprecedented move, France, Belgium and Luxembourg have decided to pool their resources in order to solve the growing unemployment problem. With help from the E.C., the solution became known as the "European Area of Development" (EDA), a cross-border industrial zone on 1,200 acres within one hour's drive of Luxembourg's international airport.

The plan for creating the European industrial zone was approved by the E.C. in December 1986 and adopted as what E.C. Commission President Jacques Delors called "the laboratory of 1992"—referring to the creation of the single European market by the end of 1992. Jacques Planchard, governor of the Belgian province of Luxembourg, said at a press conference in New York last November that "[the European Area of Development] officially is the first step of the 1992 market," jokingly adding that "it is an outstanding rocket launcher, so please don't miss the take-off."

The EDA goes a step beyond the general principles of free movement of labor, capital and goods as stipulated in the Treaty of Rome, recognizing the importance of integrated markets, rather than national territories, in international business decisions. The task of setting up a cross-border zone has not been an easy one, however. For example, since all communication infrastructures have always been internally oriented in each country, joining them across the borders was the primary, although not the simplest, goal. On another note, one Belgian official said that even buying the requisite amount of water from the French side proved a problem. In the end, however, the tremendously high unemployment in the area played a crucial role in resolving the cultural and other differences between the representatives of the three countries.

Moreover, financial support from the E.C. authorities greatly helped realize the project. To attract new businesses to the area, the three national governments and the E.C. Commission are offering a package of advantageous conditions, ranging from a direct grant of up to 37.5 percent for investment in buildings, land and machinery, and up to 50 percent in reimbursements to hire and train staff.

Tax breaks provided by the three governments were a further incentive. Companies setting up operations in the Belgian zone will be exempt from real estate taxes for five years. On the French side, they will be exempt from local business tax for five years. Should the company choose Luxembourg, 25 percent of its profits will be exempt from income and commercial taxes for eight years.

Other beneficial factors include location, only about an hour away by highway from Luxembourg's international airport, and therefore also close to the many financial institutions in the same city. A further innovative idea was the creation in the EDA of a European Technology Center, drawing students from the three participating countries and geared to the technical training of a young workforce for the high-technology sectors. Finally, within the scope of the E.C.'s 1992 single market program, the EDA's site at the crossroads of three countries allows easy access to 75 million consumers within a 260-mile radius.

A number of international firms, mostly non-E.C. corporations, have already established manufacturing operations in the zone. These include such U.S. companies as Mobil Plastics Europe, General Motors, Catalyst Recovery, Luxguard and Ampacet, as well as the Japanese Victor Company (JVC), Panasonic, Yuko or Korean Daewoo.

Because of the new opportunities that the single market presents, it is becoming increasingly important for non-E.C. corporations to establish a strong presence in Europe. For companies, the simplification of standardization procedures and the reduction in cross-border distribution costs will eventually mean easier access to the European marketplace and increased profitability.

At the same time, there will also be greater challenges. Mega-deals in merg-

Continued on page 46.

Europe 1992: The Single Market

Dramatic changes now underway in the European Community will, by 1992, remove trade barriers and create the world's largest single market. These changes present challenges and opportunities for U.S. companies doing business with the Community.

At Ernst & Whinney we take the impact of 1992 seriously—both for ourselves and our clients. As advisors to European institutions, and major companies doing business in Europe, we can help you understand the proposed changes, how they will affect your business, and how you can turn to your advantage the new European business environment.

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EUROPE'S COMPUTER INDUSTRY PREPARES FOR 1992

EUROPEAN R&D PROGRAMS AND INVESTMENT HELP CLOSE TECHNOLOGY GAP.

NIGEL TUTT

Europe's computer industry is stirring from a long slumber. The strength of the industry varies across the hardware and software sectors of the market, but strategies for research and development and for developing common standards are beginning to pay off.

The Community still runs an overall deficit on computer trade with its international partners, most noticeably Japan, whose cheap integrated circuits and office equipment have prompted antidumping inquiries. The Japanese, in fact, have cut into the U.S. share of computer imports in the E.C. market. The American share of E.C. imports slipped from 61 percent in 1985 to 49 percent in 1987, while the Japanese share rose to 25 percent. Total E.C. computer imports in 1987 amounted to 1.4 billion European Currency Units (ECU) ($1.6 billion), against exports of 742 million ECU ($824 million).

Running to stay in place

These import shifts have occurred in a burgeoning and increasingly competitive market. Europe's computer industry has grown along with its home market as offices and factories, linked by telecommunications, become more and more dependent on computers. The home market for hardware doubled to 34.2 billion ECU ($38 billion) from 1980 to 1985. New technology is also churning out higher capacity and faster machines at shorter and shorter intervals. The new and replacement market for computers is likely to go on expanding geometrically well into the future, and software and programs to run computers will assume a greater share of industry activities. Leaders in this information society have to run to stay in place.

The software market

Official data on the software market is few and incomplete. Private studies, including some ordered by the E.C., estimated the market at 22.7 billion ECU ($25 million) in 1987 and predict a market size of 52 billion ECU ($58 million) for 1992. The largest segment, the standard package software market, shows the fastest growth—24 percent in 1987. This type of software is becoming more powerful and costs less as production runs lengthen.

Much of Europe's industry is nationally based and involves many more entrepreneurial small and medium-sized companies. Only in packaged software and system software sold with computer equipment is the industry international and are there any clear trade statistics with major trading partners.

The U.S. position in the packaged software market is strong, with well-known products for personal computer (PC) applications, such as Lotus 1-2-3 and, in the mainframe market, products from McCormack Dodge and Cullinane. In

COURTESY OLIVETTI USA

European collaboration in R&D is leading to common standards in office and factory automation. The next generation of European computer equipment, from companies such as Olivetti, pictured here, will therefore fit into an overall framework, and consumers will go by price and performance rather than by whether new systems are compatible with older ones.

1987, two million pieces of standard software were imported into Europe from the United States.

Esprit and joint research

Trends in the hardware and software markets are increasingly influenced by research and product development (R&D). Work on micro-circuitry and techniques for building fast computers and software to run them eventually turns into new products. Investment by companies and within the Community's 10-year-old Esprit program is beginning to reach that point. Production costs have been lowered and aggressive marketing could improve Europe's position.

The Esprit program has led to joint ventures between European companies that have changed the attitudes of previously chauvinistic players. Between 1983 and 1986, international research agreements by European companies shot up sevenfold. This type of cooperative research has helped to close Europe's technology deficit in key areas, for instance, in making smaller and cheaper semiconductor integrated circuits—chips. Here, Europe is now abreast of the United States and Japan in some aspects and not far behind in others.

Outside Esprit, major European chip manufacturers have launched the JESSI initiative to rival the U.S. Sematech R&D venture. Companies, including the Dutch Philips, the French SGS-Thomson and the German Siemens, plan to invest heavily in chip design for computers and telecommunications.

Other European chips, such as the world-beating transputer, could bring supercomputing to the high street. Already this superfast chip has led to the development of cut-priced machines for engineering and scientific applications.

European collaboration is also leading to common standards in office and factory automation, two major markets of the future. Within Esprit projects, all the major manufacturers are joining forces to make sure that their computers link up easily and according to the Open Systems Interconnect guide. This means that the next generation of computer equipment from such European companies as Britain's ICL, France's Bull, Germany's Siemens and Italy's Olivetti, will fit into an overall framework. Data processing managers will buy by price and performance, not just because the new kit hooks up to the old one.

These Esprit developments are beginning to lead to more product-oriented collaboration. In the second phase of the program, the basic shape of products will be developed. These could include new types of office work stations and superfast computers produced by consortia of European suppliers.

In software development, Europe is putting its faith in the Unix operating system. This American AT&T-developed system has become an international standard. One European strategy promotes the system by forcing the public sector to buy the Unix kit.

Computers and 1992

The computer industry is receiving a strong boost from the E.C. program to complete the single market by end-1992. The standards to make it easy for computers to link up and for enterprises to buy from a number of suppliers are a high priority. Many important areas are already covered by standards.

Legal directives to protect chip technologies and software programs are being put in place. The first on the topologies of integrated circuits is agreed by governments and gives protection against piracy in many western nations outside Europe as well as within all 12 E.C. states.

The copyright protection of software programs is covered by a more recent proposal from the Commission. This legal form will give programmers, like authors of literary works, protection of their work for 50 years from creation.

External trade policy is also being enforced by the Commission. Far Eastern makers of computer printers and other electronic gear have been assessed anti-dumping duties for unfair pricing.

The Commission's antitrust division still has an eye on IBM, the U.S. computer giant. The two parties meet regularly, although no formal complaints against that company are pending. Recent inquiries cleared IBM against complaints of unfair competition in the Netherlands and lack of access to interface data by Amdahl, the mainframe maker.

Despite cooperative ventures, European computer companies need more major restructuring to compete in the 1990s. U.S. majors, such as IBM, Unisys and NCR, still hold an enormous share of the European hardware market. IBM, for example, is easily the largest operator in the market of every European country it has entered. IBM and other U.S. companies are still better prepared for 1992 than many of their European rivals. They have subsidiaries in each European country and know their markets well.

Most European makers scarcely do any business outside their own backyard. Siemens sells mostly in Germany, Bull in France and ICL in the United Kingdom. European players, through mergers and takeovers, will have to learn quickly to work the continental field. €

Nigel Tutt is a freelance writer based in Brussels.

THE E.C. AND CULTURE

COMMUNITY-LEVEL POLICIES IMPORTANT COMPONENT IN DEVELOPING EUROPEAN UNION.

Europe's cultural dimension resides in its peoples' collective consciousness of their common heritage and shared values, based on democracy, justice and freedom. Arousing an every-day awareness of this cultural Community has become a political and socio-economic imperative not only for European union but also for the internal market.

This is the *leitmotif* of a recent communication from the E.C. Commission for reviving E.C.-wide cultural activities and progress on the mundane realities of cultural life as influenced by laws governing the internal market. Tight budgets and member state reticence have blocked earlier initiatives under communications from the Commission in 1977 and 1982. Little progress has been made despite the endorsement of joint action in the field of culture by both the European Parliament and the E.C. Heads of State or Government.

Politically, a cultural Europe is important for European union. This means encouraging people to participate in cultural life and giving them new possibilities for exchange and cooperation that enrich their appreciation for Europe's diverse local, regional and national cultures.

European joint cultural action is also important for socio-economic reasons. Technological progress transforms an industrial society into one based on communication, which intensifies the interplay of economy, technology and culture. A conference organized in Florence in March 1987, under the aegis of the Commission, showed the challenge that such a transformation poses to Europeans: They must preserve their distinct cultural assets, adapt to new means of expression (particularly audio-visual ones) and maintain their competitiveness vis-à-vis the rest of the world. The stakes are high because of the growing importance of cultural activities. At the same time, for the cultural sector of industry and for those who work in it, progress toward a large European market without internal frontiers carries risks that must be reduced and opportunities that must be grasped.

To relaunch E.C. action in the cultural sector, the E.C. proposes:

• *general orientations* to provoke debate on ways and means to be employed. The E.C. Commission and the member states want to complement the activities of those who work in the cultural sector, in close cooperation with them. In some cases, this can be done within the Community's legal system, based on the E.C. Treaties. In areas not covered by Community law, it can be done by coordination or cooperation.

A permanent structure will be created in the E.C. to see that action plans are carried out, either within the Community system or through "coordination" or "cooperation" with member countries.

• *a priority action program* for 1988-92, as a framework for the revival of E.C. and European cultural activities. The program contains a limited number of significant activities in five major areas: the creation of a European cultural area, promotion of the audio-visual industry, access to cultural resources, training for the cultural sector and dialogue with the rest of the world.

A European cultural area

The world of culture cannot be excluded from the benefits of a single European internal market. Close coordination of E.C. policies—cultural, social, regional, industrial and technological—should ensure the integration of the cultural dimension with the rest of the E.C.'s activities. The aim is to encourage the adjustment of the cultural sector to the demands of


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Maintaining Europe's rich and diverse cultural heritage is an important aspect of the Community's many cultural activities. Above: restoring a facade in Rome.

the creation of the internal market, taking account of technological changes. Four priorities have been set out:

• Free circulation of cultural goods and services. Special measures are needed to regulate the movement of works of art, such as harmonization of criteria and procedures for protecting national treasures that have artistic, historical or archaeological value; the implementation of a code of ethics, of descriptive records and of a specialized information center, all to help combat art theft; harmonization of fiscal regimes, especially the value-added tax; and the abolition of the temporary import deposit.

• Better living and working conditions for artists. Many artists have no protection either as employees or as self-employed against unemployment or ill health, and thus are vulnerable to the ups and downs of life. The E.C. will therefore initiate a study of national legal systems and the way in which they attempt to reconcile the special nature of artistic pursuits with the need for genuine social protection.

• The creation of new jobs in the cultural sector, in association with regional, rural, tourism-related and technological development.

• The emergence of a cultural industry that is competitive both within the E.C. and on a world scale. A special chapter of the Commission program is devoted to the audio-visual sector. This requires priority treatment to help it respond to both domestic and global challenges and to enable Europe to deal with the social, industrial, technological, cultural and political implications of that challenge.

Information about the little-known cultural aspects of Europe is another area needing attention. Statistics and sociological studies are few and difficult to compare, and exchanges of information between countries are still scant. To support their efforts, European, national and local administrations, as well as private operators and organizations, need more precise data. Working together, the E.C. and the Council of Europe should be able to see to the establishment of a reference center for cultural statistics, the initiation of a survey program on Europeans' cultural activities and habits, and the compilation of a "European cultural diary" carrying information on cultural activities throughout Europe.

Business sponsorship of cultural projects on both a European and a national scale is being encouraged by the E.C. and its member states . The E.C. Commission has proposed to concentrate efforts on small and medium-sized businesses, which are less well equipped in this area than the multinationals. Legal measures, especially fiscal provisions, should be adopted at the Community level. The various foundations set up at the national level to match offers from the business world should be able to extend their activities to the whole of the E.C. and gradually also to all the member countries of the Council of Europe. A European data bank would enable them to exchange information and to coordinate their work, and its creation has high priority.

A policy for publishing should balance the legitimate interests of authors, publishers, distributors and readers alike. The E.C. already provides support for the translation of certain literary works, and the European Advisory Committee on Books is examining problems such as book pricing. Other priority tasks include the protection of authors' and publishers' rights from infringements ranging from wholesale photocopying to piracy, and encouraging cooperation between European libraries. New technology should enable the computerized catalogs of principal libraries to be interconnected and the whole of their book stocks to be made available to the public. First, common standards for indexation and interconnection have to be agreed.

Promotion of the European audio-visual industry

In this era of communications, satellites can deliver hundreds of new television channels. Europe could see its own industry squeezed out of its own market by the Americans and the Japanese.

Since technical progress, and the opening up of frontiers and program content, are so closely related, a European response is required in three complementary areas: common technical standards for satellite broadcasting, a legal basis for sending broadcasts from one member country to another, and the promotion of the European audio-visual industry. These needs have given rise to three major initiatives: laws to ease the exchange of broadcasts, a media program and the European Cinema and Television Year.

Cultural action at the Community level has been recognized to play an important complementary role in the E.C.'s goal for European union.

- *A proposal for a European directive* to strengthen the legal basis for sending broadcasts from one member country to another and for requiring television stations to reserve part of their programming time for programs originating in other E.C. countries. The reserved time would have to include programs that have not been televised previously. To encourage creativity and develop new sources of production, a part of programming budgets would have to be devoted to Community programs made by independent producers.
- *The* MEDIA *program* should exploit, at E.C. level, distinctive qualities and the diversity of the European audio-visual industry, by creating the synergy needed to make it internationally competitive. The current phase of research and experiment covers three areas: distribution, production and financing.

To encourage the *distribution* of national productions throughout the Community, a cooperative of European distributors is charged with administering a budget, partially financed by E.C. funds, for advances on revenue. In addition, because of the important problem of multilingualism, the MEDIA program takes account of the needs of small language areas, developing cooperation with the technical research of the European Broadcasting Union. This should help perfect multilingual satellite television broadcasts that can be received in the different languages chosen by the viewer.

The second area of the program deals with *production* and the use of new technologies. Pilot projects focus on major fiction series and computer-assisted production.

Prompted by the MEDIA program, several banks have set up a European group to provide financial backing for the cinema and audio-visual industry.

- The *European Cinema and Television Year* was organized in 1988 in 24 European countries under the aegis of the E.C. and the Council of Europe. It was a good way of getting the public to focus on some major issues in the audio-visual industry. It brought to public attention Europe's technical race with Japan over high-definition television and to prod producers into making high-definition television programs in the European technical standard in time to influence the worldwide choice of a new standard.

Japan, the leader in the high-definition race, wants a world standard based on its system, which is incompatible with every other system. Under the "Eureka" program, Europe is trying to perfect a compatible system that protects its industry's future and lets television owners trade up to new receivers when convenient.

Also in the context of the European Cinema and Television Year, the E.C. Commission has an interest in two particular projects. One is the creation of a European cinema and audio-visual arts academy as a contact point for European audio-visual professional and as the designator of European prizes for cinema and audio-visual arts. The other is the proclamation of a European audio-visual charter. Cinema and television producers and many intellectuals in other fields are enthusiastic about this project because it calls attention to the creative and democratic problems posed by external competition and by budgetary and programming constraints.

Improved access to cultural resources

Europe's cultural heritage is too rich and diverse to lie buried in the past, behind national, linguistic and regional barricades. The Community is trying to put these resources into the hands of every E.C. national

Multilingualism is part of Europe's cultural diversity, but it can also prevent understanding between Europeans. The Commission intends to strengthen measures already taken to develop language training in schools and to support the translation of important literary works written in minority languages. It proposes the creation of an experimental system of travel grants for young people who, as part of a multilingual group, would like to make cultural cross-border visits involving at least two E.C. coun-

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E.C., LOME NEGOTIATE NEW TRADE-AND-AID AGREEMENT

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E.C.'S INTERNAL MARKET PLAN WILL BRING CHANGES TO THE NEW CONVENTION.

DAVID BUCHAN

The Lomé Convention operates on several economic levels: It provides aid (roughly $9.4 billion between 1985-90), and trade provisions that permit most industrial products from ACP countries to enter the E.C. duty and quota free. Above: Mozambique.

The group of 66 African, Caribbean and Pacific (ACP) countries is a disparate collection of states, even by the standards of international organizations. They range across three regions of the world, have diverse languages and cultures, political and economic systems and different sizes of population, ranging from 95 million people in Nigeria to less than 100,000 in some Caribbean and Pacific islands. Their one common denominator is that they were all once European colonies.

In a year or two, the ACP countries will have more reason than ever to hang together—for fear of hanging separately. By February 1990, they are due to renegotiate with the E.C. the Lomé Convention on aid and trade that links them institutionally to the Community. And before 1992, they hope to negotiate arrangements that will preserve historic, colonial-era niches for their products in certain E.C. states, even after the planned subsuming of all national subdivisions into the E.C.'s single market. All of this, meanwhile, is going on against the backdrop of world trade bargaining in the Uruguay Round of the General Agreement of Tariffs and Trade (GATT) negotiations, due to end sometime in 1990.

In theory, these developments should bring gains as well as losses. A unified and expanding E.C. market should, for instance, suck in a higher absolute level of imports from developing countries than from elsewhere. Hovever, the ACP countries, which include many of the world's poorest nations, fear that they may be far less suited to cope and compete in the post-1992 E.C. market than many non-Lomé developing countries, the newly industrializing countries (NICs) and the economic tigers of Asia.

ACP worries about losing relative E.C. market share are compounded by general tariff-cutting within the GATT, which erodes the ACP's margin of preference over other third countries in the Community. Increased aid (as distinct from trade in the new post-1990 Lomé Convention) may not be much consolation, either. And allocation is likely, from the ACP's viewpoint, to be less predictable, with less of the total being earmarked individually, beforehand, to each of the 66 ACP states, and with more strings and conditions attached in structural adjustment programs.

But none of these fears makes the ACP want to dispense with Lomé. Indeed, the reverse is true. The Lomé concept, as it has evolved since 1960 when the then Yaoundé Convention was created for France's mainly African colonies, is unique for several reasons. It exists on a group-to-group basis—the 12 richer E.C. states and the 66 poorer ACP ones—bridging the North-South divide. It is not narrowly political. Dominated numerically by black African countries, the ACP is strongly anti-apartheid, and denunciations of South Africa are a regular feature of the twice-yearly assemblies of Members of the European Parliament and representatives of the 66 ACP states. Many of the latter have, however, grown less touchy about criticism of human rights records in their backyards.

Most significant is the variety of economic levels on which Lomé operates. It provides aid—during the 1985-90 lifetime of the Lomé III Convention, this amounted to about 8.5 billion European Currency Units (ECU), about $9.4 billion, including 1 billion ECU ($1.1 billion) in soft loans from the European Investment Bank. This represents about half the total

E.C. aid each year; the other half goes in emergency food aid and in financial and other assistance to Mediterranean and other countries with which the E.C. has bilateral association agreements. It also represents about 12 percent of the total European aid effort (national aid programs of the Twelve plus Lomé itself).

Trade volumes, of course, dwarf this. ACP countries sell 26 billion ECU ($28.9 billion) a year worth of goods to the E.C., compared to about 1.7 billion ECU ($1.9

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In negotiations for the fourth Convention, the E.C. has stressed that ACP countries need to encourage private enterprise and structural adjustments. Above: Lomé, where the first Convention was signed.

billion) in aid that they receive from the Community each year.Lomé's trade provisions are therefore very important. Virtually all ACP industrial products—even textiles—enter the E.C. duty and quota free, without reciprocity. Some restrictions exist for agricultural commodities that compete with European ones—sugar, beef, strawberries and bananas.

Then there are trade-related aid measures, such as "Stabex," a system set up to stabilize the earnings of ACP commodity exporters, and "Sysmin," designed to do the same for mineral exporters. Finally, Lomé has joint training centers on industrial and agricultural development, run jointly by the E.C. and ACP. It is therefore not surprising that new members still want to join—as Haiti and the Dominican Republic made very clear when they sent their Foreign Ministers to lobby the European Parliament-ACP joint assembly in Barbados in January.

Despite all this, however, the results have hardly been dramatic. No ACP country has yet "graduated" from the club. Marked improvements in certain countries, like Mauritius or Nigeria (when the oil price is up), seem unrelated to Lomé, although of course it can be easily shown that many countries would do worse without it. Perhaps most worrying is the way in which the ACP countries are being slowly but surely squeezed out of the E.C. market. Edwin Carrington, the engaging and able secretary-general who runs the ACP secretariat in Brussels, gives a graphic statistic.

In 1975, the ACP (then numbering 46 countries) supplied 20 percent of what the E.C. bought from all developing countries. By last year, this share had dwindled to 14 percent, even though in the meantime the ACP had gained 20 more members, some of them large, like Zimbabwe.

Thus, it is not surprising that much of the battle in negotiating Lomé IV will be over its trade provisions. The E.C. contends that decline in the ACP's relative market share is not the fault of Lomé's trade provisions, but rather generally declining competitiveness of ACP products on the world market. No one, however, contests that the ACP margin of relative preference over other third countries in the E.C. market has been whittled away as Brussels has cut its tariffs in successive GATT rounds.

The current stand of E.C. Governments is that, while the ACP may not like this, they will have to put up with it. Luis Yañez-Barnuevo, the Spanish Minister of Aid and currently in the chair of the E.C. Council of Ministers, spelled it out bluntly to ACP delegates in Barbados: "The Community's willingness to maintain and consolidate the conditions for access of ACP products to its markets obviously cannot extend to guaranteeing the relative level of preferences that ACP states enjoy on the E.C. market, nor to compensating for the erosion of preference that is the logical result of our contribution to the process of liberalizing world trade—which is in the interest of all."

The ACP states are shifting their ground. "A new margin of trade preference needs to be defined, which would touch less on tariff preferences as these have all been bargained away, and more on a relaxation of rules of origin and on the abolition of non-tariff [quota] restrictions," Carl Greenidge, Guyana's Finance Minister and current president of the ACP Ministers, told the Barbados assembly.

Rules of origin are vital to any free trade arrangement to prevent outsiders from funneling their products through, say, the ACP states straight into the Community. But the ACP regards the Lomé rules of origin as requiring a degree of transformation or processing in their countries (for goods to qualify as ACP products) that is often beyond their industrial capability to meet.

The E.C. is unlikely to increase or abolish overall quotas for ACP products. But there appears to be growing sympathy for the complaints of some ACP tropical producers about the way in which the forging of the single E.C. market will hit them. The case of bananas is particularly illustrative of ACP difficulties in competing in the more competitive post-1992 world.

For a welter of historical reasons, the E.C. banana market is highly fragmented. At present, some 20 percent of bananas entering the E.C. are imported duty free from former British, French and Italian colonies. Another 25 percent to 30 percent come from within the E.C.—the Canary Islands, Crete and elsewhere. The remaining half comes from the so-called "dollar areas" in Central America—some of it duty free but the rest bearing a 20-percent tariff.

The problem is that, if and when the national subdivisions and quotas disappear in the E.C., the highly competitive dollar area bananas could probably sweep off the market most ACP bananas (grown on Caribbean smallholdings rather than the plantations of Central America). This would happen, even if all dollar area bananas bore a 20-percent duty, according to Carrington. Eugenia Charles, Prime Minister of Dominica, put in a powerful plea at the Barbados assembly for the Caribbean's dependence on banana culture, and for the E.C. to see the Caribbean smallholder as just as deserving of support as the European peasant farmer.

The Stabex and Sysmin schemes are coming under fire in the Lomé negotiations. It is not that their overall purpose is under attack—they are brave attempts to stabilize the wild price swings on which so many ACP countries depend. They are seen, in particular by the United Kingdom these days, as simply encouraging ACP producers to stick to the same crops and commodities rather than inducing them to switch to other sectors. But as Dieter Frisch, the E.C. Commission's energetic development director-general, has pointed out, "no ACP country has remained a monoculture just because of Stabex."

Most of the criticism centers on the funding and mechanics of the stabilization schemes. For instance, "justified" ACP claims for compensation on lost commodity earnings on the E.C. market in 1987 amounted to 920 million ECU. But there is only cash to meet 40 percent to 53 percent of these claims, depending on whether ACP states make some advance Stabex repayments to help fill the gap. With Sysmin, claims outstrip resources even more.

There are two other key elements in
Continued on page 46.

EUROPE WITHOUT FRONTIERS

E.C. PROGRESSES ON MUTUAL ACCEPTANCE OF DIPLOMAS

THE WAY IS CLEAR FOR FREE MOVEMENT OF PROFESSIONALS IN THE COMMUNITY.

LOUIS H. ORZACK

Five hundred years after discovering the New World, the Old World is becoming the New Europe.

By the end of 1992, a barrier-free internal market will override national boundaries between the 12 countries of the European Community. The E.C. intends to implement the original vision of its founders and to move toward significant integration of the economies of its member states.

This concept of a "common market" also includes the concept of free movement within the E.C. of persons in the 12 nations who provide services to clients and to patients, whether individuals or groups. For professionals licensed in any E.C. member state, this means the right, guaranteed by law, to move, open offices and practice in any other E.C. country—under the same conditions the host-country allows its own citizens. The Treaty of Rome establishing the European Community (1957) calls this the "right of establishment" and the "right to provide services." Basic to these rights is the "mutual recognition of diplomas," acknowledgment that skills and knowledge acquired and certified in one member country are adequate for practice in any other part of the Community.

For the citizens of its 12 member states, the E.C. is therefore moving boldly toward geographical mobility for its professionals. Such multinational recognition of earned credentials and credit for work experience contrasts with practice accepted in the United States, where the issue of foreigners' professional qualifications is often referred to as a "foreign doctor problem." For many professions in the United States, state and federal statutes and administrative regulations require skill tests, evaluations of language

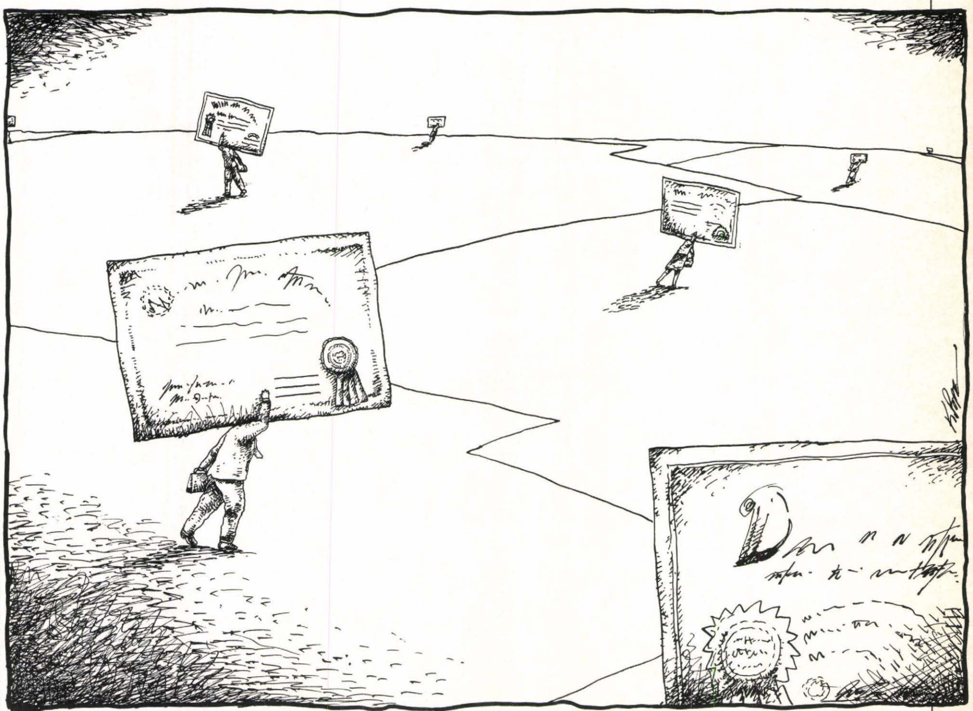


ILLUSTRATION BY KEVIN POPE

competency and immigration documentation. Credentials from abroad or from other states are often not accepted at face value.

Europeans have gone far in another direction. One striking example, perhaps startling to American ears, is that, within the E.C., competency in the language of a host country *cannot* be required as a condition for accepting credentials offered by migrating professionals. The European Court of Justice has ruled that any test for language competency would offend nonresidents' rights to practice, since language testing would let host countries discriminate against otherwise qualified immigrants, thus favoring nationals and violating the rights guaranteed by the Treaty of Rome. While prospective employers, clients or patients may nonetheless turn away from practitioners with limited language competency—which will undoubtedly continue to shape career opportunities for migrating or transient professionals—a government license cannot be withheld from them. And, thus armed, they may well develop niche markets for their skills.

The E.C. has moved ahead with development of its concept of broader freedom of movement for qualified professionals in two stages. The first consisted of laborious consideration of each professional field and means of attaining freedom of movement within it. The second and present stage comprises every other aspect in which higher education is a prerequisite in any E.C. country.

Sectoral Directives

From the Treaty of Rome's signing until 1985, the E.C.'s approach was to consider various professional fields individually and to issue "sectoral directives."

These were approved for physicians (1975), nurses (1977), lawyers (1977), veterinarians (1978), midwives (1980), pharmacists (1985) and architects (1985). For each of these professions, the directives called for the mutual recognition in all 12 member states of general and specialist diplomas awarded in one member state. They further specified the minimum education and training required for awarded diplomas to be recognized reciprocally within the Community. The directive for lawyers, however, allows them to practice only temporarily in another member country.

This effort was protracted, involved almost endless discussions with diverse practitioner groups from the member nations, and included diplomatic exchanges that occupied a great deal of effort and bargaining. By 1986, the E.C. Council of Ministers had approved sectoral directives for only seven professional fields, and deliberations about many other fields of professional work had bogged down. To say the least, reaching consensus on equivalence of credentials was a tedious process, because the negotiators had to reconcile variations in structure and content, in format and curricula, of the various countries.

To illustrate the dilemma, a telling example in this process is whether a certificate from a German *Fachhochschule* in engineering, given after three years of didactic learning, a diploma from an engineering faculty at a university and a certificate of qualification from a practitioner association, awarded after an apprenticeship, amounted to the same thing. If the different diplomas do not produce equally competent persons, then who is more and who is less qualified? Assuming agreement on that preliminary question, Europeans had to decide how any deficits in competence could be rectified. What periods of formal education, of practical experience or professional training would fill such gaps? Once completed, would certification, didactic testing or practicums validate the retooled person's skills? Which body would be recognized as competent to manage such rites of passage and confer approval? For the 12 nations and a host of professions, the resolution of such matters through consideration of new sectoral directives promised further cycles of virtually endless patience and many years of effort.

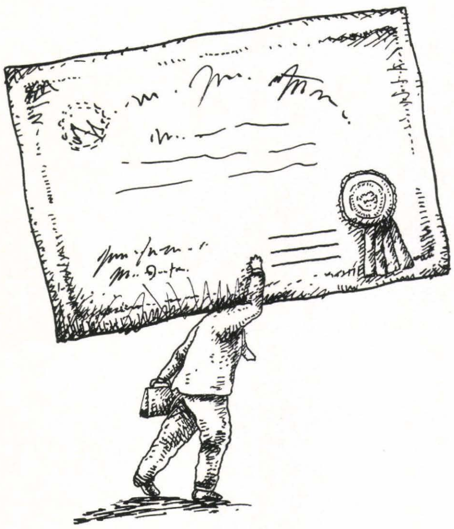
General Systems Directive

The Single European Act, approved by the E.C. Council of Ministers and enacted by the E.C. Governments by the end of 1986, emphasizes the concept of *mutual recognition* and essentially replaces the previous concept of *harmonization.* This second phase of European thinking focuses on 1992 as the deadline for instituting a common market.

For professions, this led the E.C. Council of Ministers to approve the general systems directive on December 21, 1988. This directive covers the flows across national borders of all professionals not covered by the earlier sectoral directives and outlines the terms of a *general* system for the recognition of higher education diplomas awarded on completion of vocational courses of at least three years' duration.

The scope of this directive is extensive and its significance for European professionals is vast. An E.C. official stated recently that "we can only have an approximate idea of the number of professions concerned . . . ."

This new directive applies to all self-employed E.C. citizens and employees with higher education diplomas awarded in any E.C. member state. If individuals from a member state not requiring a higher education diploma for pursuit of a particular profession move to another member state that does require a diploma, the host country has to allow such persons to practice under the same conditions that apply to its own nationals.



Licensing European Professionals

Three years of study are required for virtually automatic recognition of higher education diplomas. If education or training is less than three years, a host country will evaluate the applicant's professional experience. To remedy any deficits, the migrant, rather than the government of the host country, will choose between an adaptation period or an aptitude test. Only for advice-providing professions, whose practice requires precise knowledge of national law, does the host country have the discretion to require an aptitude test or an adaptation period.

A critical example underscores the challenges confronting Europeans in their projected broadening of the mutual recognition of diplomas. Using data prepared by the Council of Bars and Law Societies of the E.C., *The Economist,* (October 15, 1988) noted the following:

"In Italy, a young person hoping to be a lawyer completes six years [of preparation consisting of four years] of university, [one year of overlapping apprenticeship and] professional training and [a further one year of] apprenticeship before qualifying, aged about 25 . . . In Spain, the usual starting age [for university] is 17, with the new lawyers qualifying [after completion of university studies] at 22. A 22-year-old Spanish lawyer will in theory be at liberty to set up practice in West Germany, where the studies and training [comprising three-and-a-half years of university preparation followed by a combination of apprenticeship and professional education for a further two and a half years] go on until 26.

"In France, the age of 18 marks the onset of four years of university education for prospective lawyers, followed first by a year of professional training, and then two subsequent years of apprenticeship, culminating in entry to practice at age 25. France thus requires seven years for legal preparation, Spain only five, while Italy and West Germany demand six."

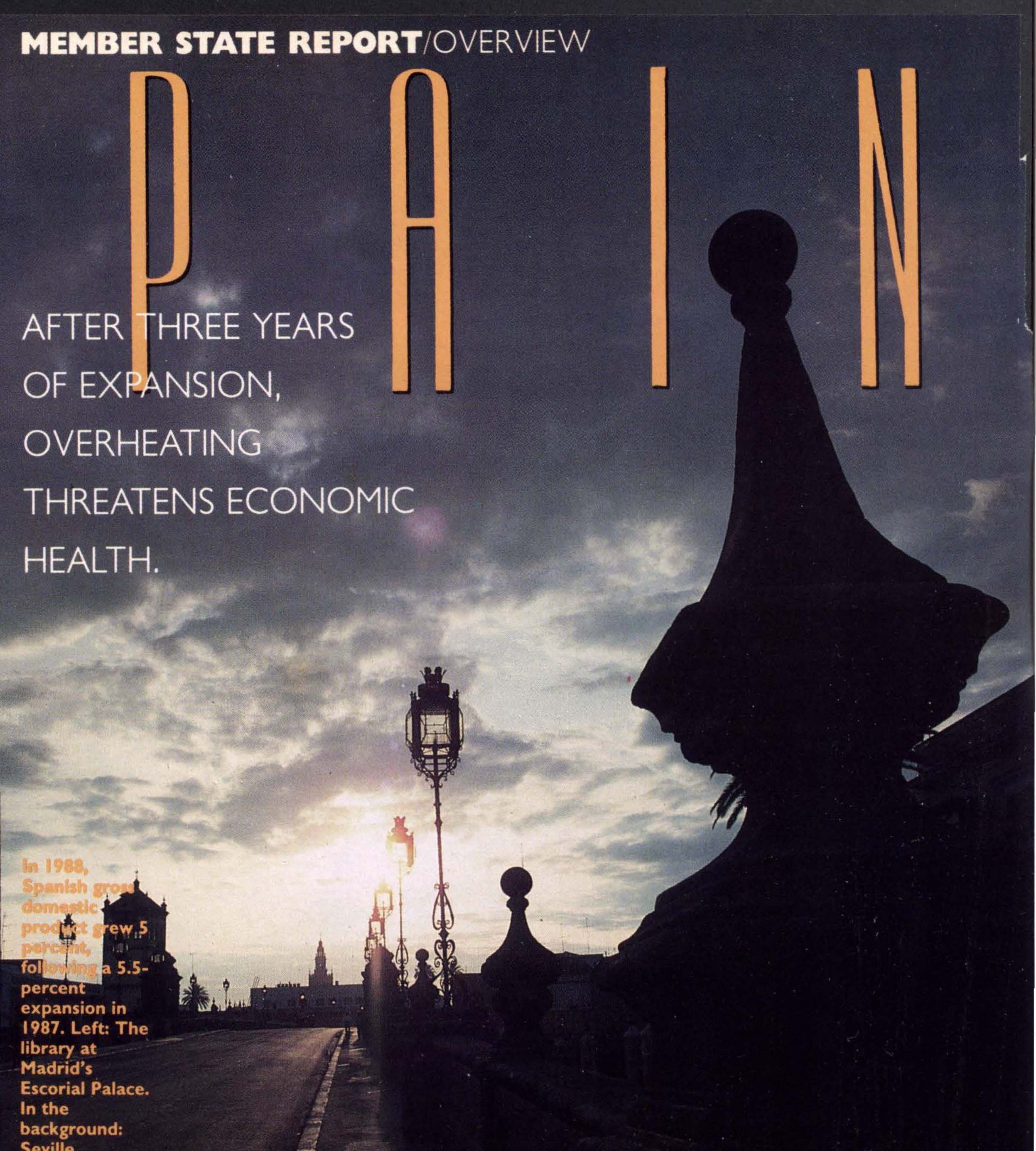
Thus, for this single professional specialty and these countries alone, there is a difference in starting ages, length of preparation and combination of university education, professional training and apprenticeship. The principle underlying the mutual recognition of diplomas would seem to call for mutual acceptance among the above four and the other eight member states of such varied credentials, when persons so diversely qualified wish to migrate or practice temporarily.

As the Community moves toward its objective of a common internal market by the end of 1992 for its citizens and many of its institutions, this will undoubtedly include the right for professionals to have their educational qualifications accepted anywhere within the E.C. and thus to acquire whatever license is necessary to practice professionally. €

Professor Louis H. Orzack is professor of sociology at Rutgers University in New Jersey. He has studied and written about the organization of professions in both Europe and the United States.

SPAIN

AFTER THREE YEARS OF EXPANSION, OVERHEATING THREATENS ECONOMIC HEALTH.



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In 1988, Spanish gross domestic product grew 5 percent, following a 5.5-percent expansion in 1987. Left: The library at Madrid's Escorial Palace. In the background: Seville.

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The Spanish economy has gathered a very fast pace. Gross capital formation last year, and high interest rates may not deter companies with good business prospects from further borrowing. Left: steel manufacturing.

TOM BURNS

For the past three years, Spain has been earning an above-average share of rave reviews. It adjusted well to its 1986 entry into the E.C.; its economy grew faster than those of its European partners; there was sound financial management and a stable government. It was therefore ironic that, when Spain took on the presidency of the E.C. for the first time at the beginning of the year, storm clouds began to gather at home.

Prime Minister Felipe González' Socialist Government is presiding over the E.C. Council of Ministers for the first half of this year. During that time, it had hoped to devote itself fully to the 1992 single market agenda and to the task of edging its Community partners toward a "Europe without frontiers." For González and his colleagues, who have been in power for more than six years, the Council presidency presented an opportunity to stride the larger European stage and to display Spain in the international shop window. Instead, domestic considerations are demanding increasing attention.

Spain's problems are essentially the result of success. The economy has grown so fast that it threatens to overheat. By the same token, the creation of new wealth in Spain has created growing demands by the labor unions for a better slice of the cake.

The Government and monetary authorities at the Bank of Spain have been forced to raise interest rates and to soak money out of the system in order to restrict company and private consumer spending. Spain's inflation index at the end of 1988 stood at 5.8 percent, nearly double the target of 3 percent set at the beginning of the year, and a whole point above the end-of-year inflation in 1987. Moreover, the current-account balance worryingly switched from a surplus of $1.3 billion at the end of 1987 to a deficit of $3 billion in December 1988.

The unexpected spurt in inflation has fueled discontent on the labor front. Unions are demanding across-the-board two percentage-point backpaid wage increases for public-sector employees, and pension raises for Spain's elderly. These demands, together with a call for increased subsidies for the jobless, formed the main planks of a national strike platform last December, which brought Spain to a complete halt for 24 hours. It was the first successful general strike in the country for more than 50 years—and it seriously jolted the Government.

Aside from the inflation statistics, with their negative effects on Spanish competitiveness, evidence of an overheating economy came with Finance Ministry provisional figures. These showed that the gross domestic product (GDP) had grown by 5 percent last year in the wake of an extraordinary 5.5-percent expansion in 1987. There were positive sides to the borrowing profile, especially the figures that showed a 16 percent increase in spending on capital goods in 1988 after a 21.7-percent rise in 1987. That was a clear indicator that Spain was retooling.

Alarm bells began to ring when it emerged that private consumption during 1988 had grown by 4.7 percent, after a 5.5-percent hike in 1987. In December 1988, there appeared to be a carefree rush into debt. In spite of double-digit interest rates, private-sector demands on banking credit rose by 15 percent against a rise of 11 percent in loans during December 1987.

These mixed signals of economic buoyancy and excessive consumption caused concern. The construction sector, always a favored indicator of the economic authorities, underwent a second consecutive strong year with a rise of 13.5 percent. On top of 341,000 new jobs created in 1987 came 320,000 new ones in 1988.

Unemployment nevertheless remained high. This was partly because 200,000 school leavers joined the labor market each year and partly because more and more women, currently a very small proportion of the working population, are demanding work. Nearly 2.9 million Spaniards were registered as looking for jobs in December 1988 and 1.5 million of them for the first time. This figure represented 19.7 percent of the active labor population and was only a marginal improvement on the 20.5-percent jobless rate at the end of 1987.

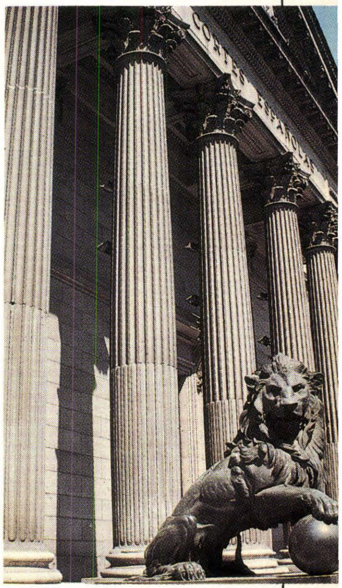
The auto sector was buoyant, but there was little enthusiasm that new car registrations in 1988 had topped the one-million mark for the first time—for this was largely due to excessive borrowing. The car figures were in themselves a comment on the widening balance of the trade gap, and the current-account deficit for imports of foreign cars totaled 312,000 units—a staggering rise of 46 percent over the previous year.

The Government's economic team could hardly feel gratified that, for the first time, more than three out of 10 cars registered in Spain over the year had not been manufactured there. This jump in imports was a direct consequence of the import tariff reductions. Before entering the E.C., Spain's domestic car manufacturers (which include Ford and General Motors) were guarded by 33-percent duties on foreign imports. Those days of cozy protection have now well and truly passed. Tariffs on car imports, for example, have been lowered since Spain joined the E.C. in 1986. In 1988, they dropped by a further five points to 17.4 percent. In 1990, they will be lowered again, to 12.8 percent, and will disappear altogether after 1992. Foreign imports in a free-market Europe upset the Spanish trade balance.

At the beginning of February 1988, recognizing that it was high time to cool the economy, the Bank of Spain pulled some $3.46 billion out of circulation by ordering the banks to raise their obligatory cash reserves to 6.5 percent from 5 percent. Under Spanish banking legislation, these cash reserves have to be deposited in non-interest bearing accounts; an order to raise them automatically reduces a bank's profitability.

In an allied move, the monetary authorities imposed a 30-percent obligatory reserve requirement on foreign-currency borrowing. The idea was to put a brake on lending by soaking money out of the system, which, in turn, would push interest rates in Spain sharply upward. The government had no intention either of allowing Spanish companies to borrow more cheaply on foreign markets.

Spain holds the presidency of the E.C. for the first six months of 1989, and will try to advance in the areas of financial services deregulation, harmonization of standards, standardization of copyrights and patents, and liberalization of public works and utility contracts. Right: the Spanish Parliament.



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Whether the measures will cut money supply and reduce inflation remains to be seen. The economy has begun to move very fast—gross capital formation in 1988 rose by 14.5 percent for the second consecutive year. With good business prospects and expanding order books, high interest may not deter companies from investing. According to the latest official estimates of corporate profitability in Spain, combined profits of companies listed on the Spanish stock exchange grew by 54 percent in 1987, and were set to grow more than 30 percent in 1988 and some 25 percent this year.

Wages pose the other immediate danger to inflation. The Government economic team particularly believes the relationship between salary increases and rising prices has long been taken as an article of faith. González' Socialist Gov-

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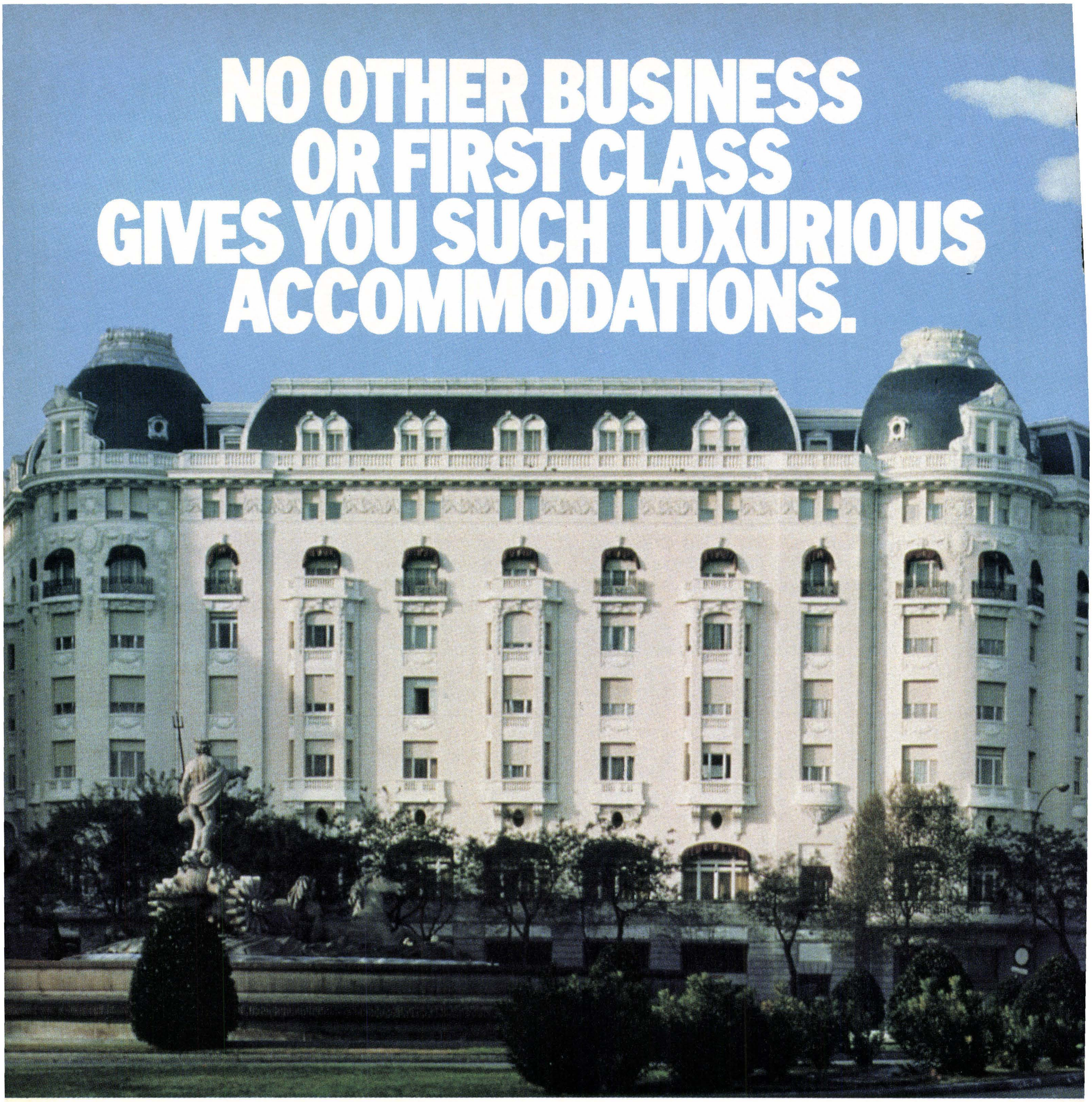

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1992 EUROPE WITHOUT FRONTIERS

SPANISH BANKS PREPARE FOR 1992

ALFONSO J. GONZALEZ

In the past few years, the Spanish financial system has undergone a profound change as it plans for full incorporation into the European Community in 1992.

Without a doubt, the entire Spanish economy will become more competitive, and the banking sector and specifically the Big Seven banks have begun to prepare for major changes.

Traditionally, the banking industry in Spain has been an essential pillar of the Spanish economy. In return, the banks have had advantages not generally afforded to other European banks. They have hitherto enjoyed a protection intended to foster national economic development in the postwar years.

In December 1987, the Big Seven held 77 percent of all deposits in Spain and 66 percent of outstanding loans, the highest gross margins (4.9 percent) of any country in the Organization of Economic Cooperation and Development (OECD). With a scant three years until 1992, these dominating figures represent not only a responsibility but also an opportunity and a challenge in building for the future.

Once the financial crisis that affected Spain at the end of the 1970s was overcome, the banking sector faced another problem, the necessity of adapting to a rapidly changing environment. Surrounded by highly competitive neighbors, the industry undertook a major liberalization program covering the entire Spanish financial system. This program helped to prepare Spanish banks for the new economic and financial context, and to foster closer cooperation between a new generation of financial management professionals.

Conspicuous among the liberalizing changes were the following:

- Liberalization of interest rates on deposits and loans as well as reductions in "obligatory coefficients," investments in certain sectors of the economy mandated by the Bank of Spain.
- Liberalization of the range of products and services permitted to savings institutions (Cajas de Ahorros), thus promoting more direct competition with the commercial banks.
- Authorization to foreign banks to acquire small and medium-sized banks with branch networks, thus giving access to retail banking. Already, Citibank, Chase, Barclay's and National Westminster have made direct investments in domestic banking.

To accompany these steps, the Spanish banking sector is vigorously evaluating management practices prevalent in international banking. It is also training staff for new technical and senior management posts. The aim is to bring into banking the enterprising entrepreneurial skills displayed by such commercial leaders as March, Conde and the Albertos.

Liberalization and competition have reached the point where, for the first time in many years, the Seven no longer act in unison and are now pursuing separate policies. Each bank has adopted a separate and distinct strategy for the future. Among these strategies the following stand out:

Mergers

Two mergers have received significant recognition:

- Banco Central and Banco Espagnol de Credito with assets of $57.8 billion;
- Banco Bilbao and Banco Vizcaya with assets of $49.6 billion.

These new entities seek to consolidate their domestic markets with an enhanced capital base and an increase in efficiency through economies of scale, the goal being to strengthen their position in European and world capital markets.

Notably, through the merger of Banco Central and Banco Espagol de Credito, the new group has become the twentieth largest European bank and the tenth most highly capitalized. It is now one of the major industrial conglomerates of Europe.

Acquisitions

Other banks, such as Banco Santander and Banco Hispano Americano, have opted to acquire small European banks or to exchange shares with European banks in order to establish a footing in European retail markets.

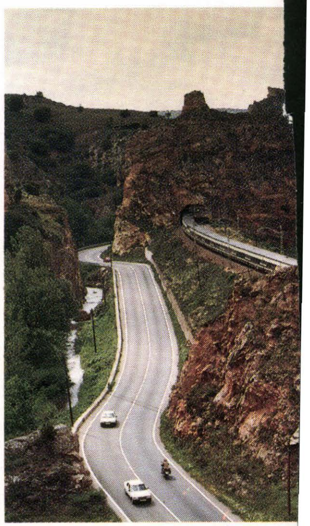
Investment Banking

Investment banks and investment banking divisions in the existing Spanish financial sector are being created to penetrate new markets. These developments will require a sophisticated knowledge of modern banking and be an important new revenue generator supplementing the

Continued on page 45.

SPAIN REVAMPS ITS RAILWAY INFRASTRUCTURE

PLANNED GAUGE CONVERSION AND HIGH-SPEED TRAIN NETWORK WILL LINK IBERIAN PENINSULA TO REST OF EUROPE.



Spain is developing its own high-speed rail system, the TALGO. Though not included in the recent round of contracts because at the time it had not passed the speed requirements, it has since tested successfully at speeds of up to 291 kilometers per hour (182 mph), and is now seen as a firm contender for the next round of contracts, to be awarded in the mid-1990s. Opposite: Madrid's Atocha train station.

Shortly before Christmas, the Spanish Government announced two major transportation projects. Spain's first high-speed trains will be developed, and its narrow-gauge railway system will be adapted to the one used in the rest of Europe so that rail cars do not have to be switched at the border. The best of modern engineering is being challenged to design a modern system for Europe's second most mountaineous country after Switzerland.

Much has been said in favor of the proposed changes. For instance, Spanish officials have stressed that, in order to give the Spanish economy a chance in the E.C.—especially in the run-up to the 1992 single market date—the country's infrastructure generally has to be brought up to date. And that includes the infrastructure of what is now one of Europe's slowest, oldest and financially troubled railways.

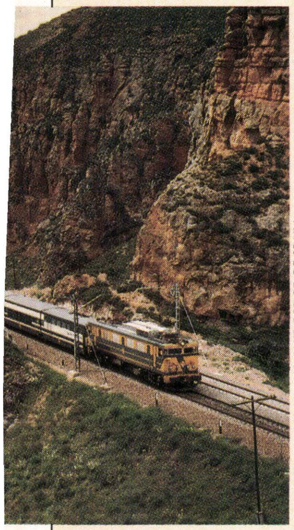
In an initial move, the Spanish Government approved the first part of a 12-year modernization plan for Renfe, Spain's national railway company, at a cost of 2.01 trillion pesetas ($17.2 billion) in 1987. This foresaw the introduction of high-speed trains between Madrid and Seville, and between Madrid and Barcelona, the nationalization of Renfe's existing services and the restructuring of the company's rickety finances. In 1988, Renfe's losses amounted to a huge sum of 182 billion pesetas ($1.6 billion), but the ultimate aim of the modernization plan is to make the company profitable by the end of this century.

Meanwhile, the Spanish Businessmen's Association recently completed a study showing that, while in France 32.4 percent and in West Germany 24.8 percent of all merchandise was transported by rail, only 9.7 percent traveled this way in Spain. These findings imply that almost 90 percent of all goods in Spain are transported by road, demonstrating a great dependence on this mode of transportation, which is further aggravated by the large numbers of tourists that visit the country each year (1988 figures recorded 54 million visitors), roughly half of whom travel through the country by car. On top of this, Spain's civil air authorities have pointed out that if the number of passengers who use Spain's main airports of Madrid, Barcelona, Malaga and Palma de Mallorca continues to grow at last year's rate of 12 percent, air traffic control procedures at these airports will break down in the 1990s.

These warnings are not new: Similar alarm has been expressed by most of Europe's Transport Ministers. The growing need to find alternative forms of

JANE MONAHAN

transportation recently led to an E.C. proposal to develop a huge 230,000 kilometer-long pan-European high-speed train network that would link the Community's 12 member countries, as well as Austria and Switzerland, between now and the year 2015.



COURTESY NATIONAL TOURIST OFFICE OF SPAIN

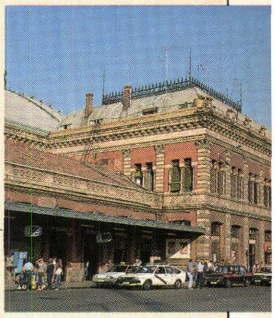
Against this background, the timing of Spanish Prime Minister Felipe González' decisions to modernize the Spanish railway infrastructure and his success in persuading his Portuguese colleague and counterpart, Anibal Cavaco Silva, to do the same in his country, are most opportune. The two countries will now be in a position to participate in one of Europe's biggest technological adventures.

In addition, González' decisions enabled Renfe to go ahead and adjudicate two key contracts with a joint worth of 95 billion pesetas ($8.3 million). The first of these, which calls for the supply of 75 high-powered locomotives to be put into service throughout Renfe's network, was awarded to a consortium in which the West German companies Siemens, Asea, Thyssen and Kraus-Maffei, and the Swiss company Brown-Boveri, hold a majority, while Spain's privately-owned rolling stock company Macosa holds 30 percent. The inclusion of this latter company was essential, according to the Spanish Ministry of Industry, to ensure the company's survival and its participation in the manufacture of the technologically advanced locomotives, at least 70 of which will be made in Spain.

There were also guarantees for Spanish companies in the second contract, for the supply of 24 high-speed passenger trains, awarded to the French company Alsthom. A condition of the $430-million deal was that Alsthom set up a company in Spain, in which two ailing Spanish state-owned rolling stock firms, Maquinista Terrestre y Maritima and Ateinsa, will have a 15-percent stake, while Macosa and Alsthom will have a stake of 30 percent and 55 percent, respectively. In this way, 2,800 jobs will be maintained in four Spanish factories in Madrid, Barcelona, Valencia and Ciudad Real. In addition, the contract provides a guarantee that all the rolling stock for the new high-speed train lines will be produced in Spain.

The adjudication of Spain's next high-speed train contract may not be as straightforward as the one just awarded to Alstholm, however, for Spain has a highly competitive passenger train of its own, the TALGO (Tren Articulado Ligero Goecoechea y Oriol). This train was not a candidate in last year's bid only because at that time it had not yet been tested at speeds of over 250 kilometers per hour, one of the bid's conditions. Since then, however, the TALGO successfully tested in West Germany at speeds of 291 kilometers per hour (182 miles per hour), and the Spanish Ministry of Transport now considers the train a firm candidate for Spain's next high-speed train bid. That will probably be in 1994 or 1995 in time to serve the country's second high-speed line between Barcelona and Madrid, which should be completed by then.

Nevertheless, the Government's decision to introduce high-speed trains in Spain has stirred up regional rivalries. Immediately following González' announcement on December 9 that Spain would initially change its gauge system only on those high-speed train lines that will eventually run all the way down from Spain's north-east border with France to Seville—via Barcelona, Zaragoza, Madrid and Cordoba—the north-west Basque region's biggest nationalist party, the PNV, declared its dismay at the decision, arguing that "the natural route to Paris from Madrid is not via Spain's north-east border but via Irun in the north-west of the country."



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Regional sensitivities only exacerbate the basic problem, Spain's rugged topography. Excepting Switzerland, Spain is the most mountainous country in Europe and Spanish engineers say that it is technically impossible for a train to run faster than 160 kilometers an hour in many places. Even the line linking Madrid with Barcelona will have to traverse two mountain chains and a river valley.

Finally, because of Spain's terrain, the costs of both converting the gauge system and introducing the high-speed trains will be formidable. Early estimates by Renfe put the costs for gauge conversion alone as high as 1 trillion pesetas ($8.7 billion). The Spanish Government will try to obtain financing from the Community, despite opposition to such a request from its northern E.C. neighbors, such as the United Kingdom, who do not want to give Spain and Portugal special loans on top of the aid they might normally receive from the E.C.'s structural funds and the European Investment Bank.

Yet, even with all the railway changes in the Government's pre-Christmas package, and the modernization of Renfe already under way, travelers should still count on having to spend more than five hours to get from Barcelona to Madrid and more than eight hours to travel from Barcelona to Bilbao for some time to come. €

Jane Monahan is a freelance journalist specializing in Spain and Latin America.

VIVA ESPAÑA!

1992 MARKS COLUMBUS QUINCENTENARY, OLYMPIC GAMES AND FULL ENTRY INTO E.C.

RICHARD LORANT

Five centuries after Ferdinand and Isabella underwrote Columbus' first voyage across the Atlantic and inadvertently changed the face of the world, Spain is spending enormous amounts of money and effort to catapult itself once again into the center of international attention.

In Seville, construction is underway on the site of "Expo 92," an international exposition that will run for six months until October 12, 1992—500 years to the day after the explorer set foot on Santo Domingo. The state-run Quincentenary Commission is coordinating efforts with similar organizations in Ibero-America to strengthen trans-Atlantic bonds through a range of educational, cultural and scientific projects. The Commission also plans a "rediscovery" of Spain's Jewish and Moslem heritage to coincide with the 500th anniversary of the expulsion of both groups from the country.

However, if much of 1992's initial importance derived from the fact that it marks the Quincentenary of "The Discovery," as it is known here, it has gone well beyond that. Barcelona will host the 1992 Summer Olympic Games, the biggest event of the year along with Expo 92. Madrid, in turn, will be the European Cultural Capital.

In 1992, Spain will also complete its integration into the E.C., which will be undergoing its own much-heralded market unification. In a country where certain terms acquire almost mystical significance—when Spain joined the E.C., for instance, the phrase "We are finally Europeans" symbolized a return to the modern fold after what seemed like centuries of isolation—"1992" is perhaps the most resonant of them all.

In short, 1992 has become the year in which Spain plans to launch itself into the 21st century by modernizing its transportation and communication network at

The Quincentenary Commission's main purpose is to coordinate projects with other countries. One event will retrace Columbus' first voyage in replicas of the original caravels. Below: Columbus' statue in Barcelona.

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home, and by promoting its image abroad. Quincentenary Commission spokesman Mario Garcia de Castro explains: "1992 is a pretext, a time when a number of important events converge and provide us with an opportunity. The framework, the stage for all these events is the Quincentenary."

Expo 92 is the biggest single event by far under the commemorative umbrella. By early this year, 83 countries had agreed to participate in the Expo, more than have taken part in any previous exposition or world's fair. Organizers expect 20 million visitors to visit the pavilions built around 15th-century Santa Maria de la Cuevas monastery, where Columbus planned his final voyage to America and where his body was buried for a time in a specially built chapel.

The government of Socialist Prime Minister Felipe González has billed the Expo as a springboard for the economy of Andalusia, one of Europe's poorest regions, of which Seville is the capital city. According to the government, even if ticket sales and concession fees fail to make back the 85 billion pesetas ($743 million) budgeted for the Expo's construction and personnel costs, a vastly improved infrastructure will compensate for the loss. By the time Expo 92 opens, the government estimates it will have spent 500 billion pesatas ($4.3 billion) to improve highways and railways to link Seville with Madrid, Barcelona and the hotel-studded Mediterranean Costa del Sol. That money will also go toward enlarging airports in Seville, Malaga and Jerez.

These outside improvements are vital to the Expo's success, since Seville's hotels alone will be unable to handle the influx of visitors, and the country's system of four-lane highways is one of the least developed within the Community. Just one of the necessary projects is a high-speed train now being built by French and German firms, which would cut down travel time between Madrid and Seville from seven to three and a half hours. (see also p. 38)

"The Expo will have as many visitors as are able to get there," the daily *El Pais* quoted one disgruntled official and expressed concern that the public works plan would not be finished in time.

Another legacy of the Expo will be the fair site itself, which organizers hope to convert into a public park and high-tech center. Six corporate participants, including Telefónica de España, IBM, Alcatel Standard Electric, Fujitsu and Rank Xerox, have agreed to stay behind after the exposition closes and to convert their pavilions into research, development and job-training centers.

In addition to Expo 92, which forms part of the 500th anniversary events but has its own planning organization, there are hundreds of smaller commemoratory projects coordinated by the Quincentenary Commission, which acts as a clearing house and conduit for funds. In Spain the programs include "Al-Andalus 92" and "Sefarad 92," a series of conferences, architectural restoration projects and educational programs aimed at highlighting the Moslem and Jewish cultures that once flourished on the peninsula. Last year, international Jewish leaders and a group of Arab mayors mapped out the beginnings of the projects with Quincentenary officials in separate visits to Spain. Two academic conferences with participants from Spain, Israel and several Arab countries have already taken place in Toledo, which was an important cultural meeting point in the late Middle Ages and will host most Sefarad and Al-Andalus activities.

Another Quincentenary project is the computer cataloguing of the Archives of the Indias in Seville, a collection of more than 100,000 official papers and maps documenting Spain's 400-year administration of its overseas empire in America and the Philippines. Some 50,000 documents have been catalogued since work began in 1986. When the project is completed, the 17,000 researchers who visit the Archives yearly will be able to access full-color, "restored" versions of the documents on their computer screens and make laser scan copies. Researchers at Madrid Autonomous University and the Culture Ministry will also be able to call up the documents on their computer network.

In addition, the Quincentenary Commission division is co-editing new editions of major books related to the "Age of Discoveries," including first-hand accounts of Columbus' trips. And the Royal Spanish Academy is revising its "Common Dictionary" in an attempt to update its entries and standardize linguistic usage throughout the Spanish-speaking world.

The Quincentenary Commission's main purpose, however, is to work with its counterparts in Portugal, Italy, Japan and every North and South American country to fund and coordinate individual commemorative activities. Some are one-time events, like the plan to retrace Columbus' first voyage with reproductions of the *Nina,* the *Pinta* and two versions of the *Santa Maria* currently being built in Spain. These tiny *caravelas* will leave Palos de la Fronteria in November 1991, put in at the Spanish Canary Islands, then head out to the open sea for the island of San Salvador. After a Columbus Day regatta in New York harbor, three of the ships will stay to form part of the Metropolitan Museum's permanent collection, while the second *Santa Maria* heads through the Panama Canal for Japan, the land Columbus dreamed of reaching.

> Events to celebrate Columbus' discovery of America include "Expo 92" and a range of educational, cultural and scientifc projects.

In a different type of trans-Atlantic voyage last September, 500 Spanish and Ibero-American teenagers followed Columbus' route in the *Guanahani,* a ship specially outfitted as a floating classroom. The trip, "Adventure 92," is planned as an annual event with participants chosen through an essay contest.

The Quincentenary Commission is also cooperating on the production of several television programs, including a series based on stories by Jorge Luis Borges and a $5-billion coproduction with the Smithsonian Institution called "The Buried Mirror." Written by prize-winning Mexican author Carlos Fuentes, the five-part "Buried Mirror" series will explore the effect of Spanish colonization on Ibero-America.

Most of the Quincentenary Commission's activities have a lower profile: computerizing Ibero-American universities and libraries; restoring historic monuments, seeking funds for scientific research and rural electrification. Officials say those projects will have a long-lasting effect. They also hope that the new level of cooperation will redefine Spain's relations with Latin America, where The Discovery is seen in terms of the destruction it wrought on indigenous cultures.

"For its historical tradition and geographic position, Spain is European. At the same time, however, it will always form part of the Ibero-American community of nations," Garcia de Castro said. "We want to act as a link between the two continents and to be Ibero-America's advocate in Europe. We also want to help with its economic, educational, cultural and scientific development," he said. "1992 can be the starting point." €

Richard Lorant reports for the Associated Press from Madrid.

BUSINESS

BUOYANT STEEL DEMAND TO SUMMER 1989

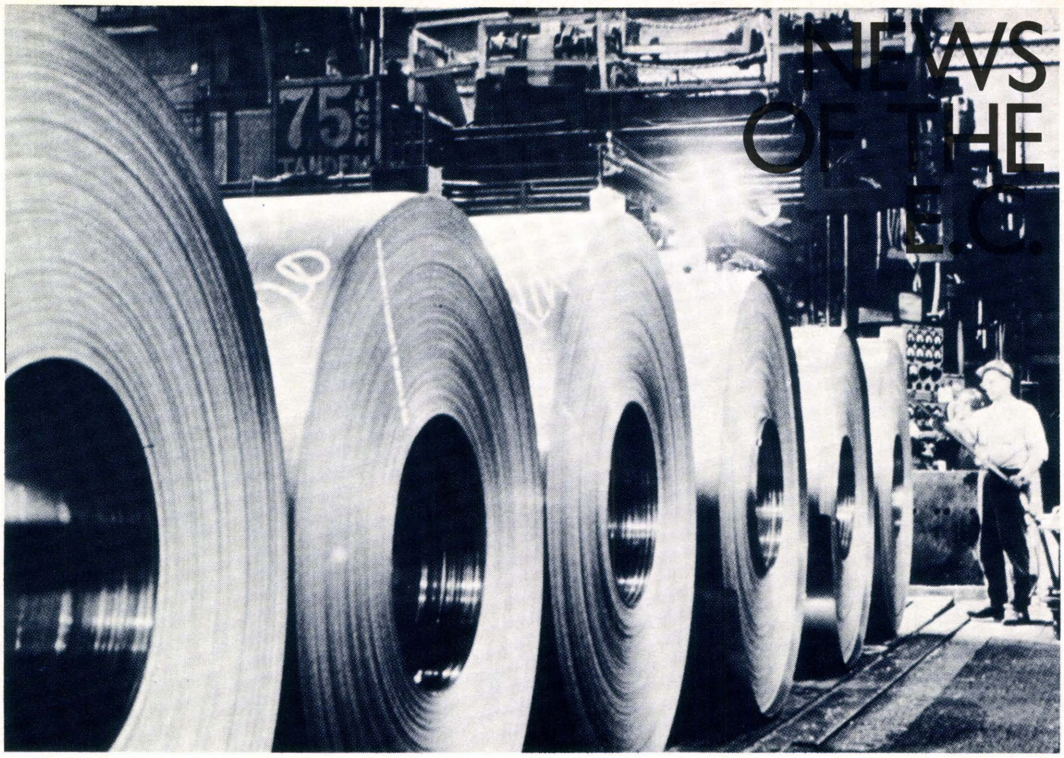
Now that the economic climate has improved in the European Community, demand for steel is up and should remain buoyant through June 1989.This forecast was made by the E.C. Commission in its forward program for steel, in accordance with the European Coal and Steel Community Treaty.

The Commission has forecast crude steel production at around 34 million tons for the first quarter of 1989, and consumption (6.8 million tons of exports and 2.4 million tons of imports) at around 29.6 million tons.

The forecast for hot-rolled strip, cold-rolled sheet and heavy sections is up slightly, wire rod remains unchanged, and merchant steel is higher than in the last quarter of 1988. Demand should be firm, both internally and on export markets. Prices should continue rising. Employment in the steel industry will probably continue to decline, but more slowly than in 1988. Although fears are being expressed about a possible build-up of stocks and a decrease in demand for indoor vehicles in France and the Federal Republic of Germany, these two factors are not likely to curtail steel demand for at least the first three months of 1989.

The final output for 1988 was, at about 135 million tons, 8 percent higher than in 1987. Total production of crude steel for the third quarter of 1988 was about 32.6 million tons, which exceeded the forecast 31.5 million tons and represented an increase of 11.1 percent over the corresponding period in 1987. Demand in export markets also remained high in 1988, and prices for internal deliveries and exports continued rising.

Prices of flat products within the Community, such as reversing mill plate and galvanized sheet, stabilized at a high level during the last quarter of 1988, after modest increases. Prices of long products, such as reinforcing bars, wire rod and merchant steels, increased significantly. Export prices also rose, by about 30 percent over the last 12 months, in response to a substantial increase in world steel production.



According to Commission forecasts, demand for steel has been rising and will remain buoyant in the first half of 1989.

E.C. IMPLEMENTS CLOSER MONITORING OF COMPETITIVE TENDERING RULES

In an effort to open up public procurement, the E.C. Commission approved the introduction of a monitoring system to ensure that competitive tendering for public-sector contracts are observed.

The monitoring of how national public bodies award contracts for equipment or work, in connection with projects financed by E.C. structural funds or other structural instruments, will be carried out both by the Commission and national authorities. Monitoring by national authorities will be especially important in cases where Commission financing is provided for a number of decentralized investment projects.

The monitoring system involves preventive measures to inform recipients of E.C. funding of the obligations they thereby assume. These will include wide dissemination of E.C. legislation and an informal guide in which E.C. rules on open government procurement and its applications are explained. Training courses for national public purchasing and contracting officers will be held, and authorities will also be informed of the monitoring machinery, which will be based on a payment claims form currently used and a "procurement questionnaire." This questionnaire will have to be filled out for every contract awarded, and will serve both as a monitoring device and as a guide toward better compliance.

With the help of this questionnaire, the Commission will easily be able to ensure that the most important rules of the E.C. directive have been observed. If they appear to have been breached, the Commission can authorize a thorough investigation that could include on-the-spot inspection of the project's implementation. If public procurement rules have definitely been breached, the Commission can consider suspending further payment of funds or ordering past payments to be returned.

If demand for E.C. project financing exceeds supply, priority will be given to applicants who open their contracts to E.C.-wide competition. The Commission will also try to tighten up the monitoring of competitive tendering rules in procurement not associated with projects financed by E.C. structural funds or other financial instruments.

E.C. ENCOURAGES FRANCHISING AND KNOW-HOW AGREEMENTS

To encourage the spread of technical innovation, guarantee genuine competition for technically new products, allow their free trade in Europe's 1992 single market and aid the growth of independent firms, the E.C.

Commission has adopted two regulations making franchising operations and know-how agreements subject to E.C. rules. These activities, which have been increasing throughout the E.C., are viewed as beneficial for the E.C.'s economy, its consumers, and technological innovation.

Franchising allows independent firms to market a well-known company's goods or services under the franchiser's logo and other designs associated with the product in advertisements. American companies that developed the system include McDonald's, Hertz and Computerland. In Europe, Pronuptia, Yves Rocher and Lacoste are examples of companies operated by franchisers.

The Commission regards franchising as an activity that encourages the spread of independent firms and benefits consumers. Thus, it has decided to exempt agreements linking franchiser to franchisee from the E.C.'s competition rules. Know-how agreements, through which one firm possessing technical information not covered by patents authorizes another to use it to produce goods or services, will also be exempt from the competition rules.

TOYOTA AND MAZDA CONSIDER EUROPEAN FACTORIES

Two large Japanese automobile makers, Toyota and Mazda Motor Corporation, are considering setting up factories in the Community. So far, Nissan and Honda are the only Japanese car makers with production plants in Europe, but E.C. internal market plans are spurring other companies to do the same.

Toyota is conducting feasibility studies into a possible $1-billion car plant in Britain that, beginning in 1992, could produce 200,000 cars annually and create 3,000 jobs. Initially, about 60 percent, and eventually 80 percent, of the parts needed for the production of Toyota cars in the United Kingdom would be bought in Europe. Toyota is also studying the possibility of producing engines in Europe and exporting cars from Britain to the rest of the Community. Decisions on what, if any, incentives Britain might offer Toyota to set up shop there have not yet been made.

Mazda Motor Corporation is negotiating with Spain's state-owned car company Empresa Nacional de Autocamiones, S.A. (ENASA), about setting up a factory in Spain, but no final decisions have been made. Unconfirmed reports stated that Mazda had planned to buy an ENASA factory in Valladolid, north of Madrid, where it would produce 25,000 cars annually for sale throughout the Community.

Limits on Japanese car exports to the E.C. have made the idea of a factory in Europe attractive to Japanese companies: "These companies were moving into Europe anyway, but [1992] has accelerated things," said Geoffrey Wilkinson, a car industry analyst at the Solomon Brothers brokerage in Tokyo.—*Reuters*

Substantial price increases in some member states raised the E.C.'s inflation rate in 1988. In Belgium, right, prices dropped slightly, however.

BUSINESS & ECONOMICS

1988 E.C. UNEMPLOYMENT RATES FALL, INFLATION RISES

Eurostat, the E.C. statistical office, reported in January that unemployment in the E.C. had fallen to 10.1 percent in November 1988, as the number of registered jobless fell by 50,000 to 15.4 million. Unemployment has been falling since its 10.5-percent peak last summer. Eurostat estimates the overall unemployment rate for 1988 to stand at 10.3 percent, down 0.3 percent from 1987. At 20 percent, the unemployment rate for people younger than 25 remained high throughout 1988, although that figure was a little lower than 1987's 21.5 percent. Women had more trouble finding jobs than men, and their 1988 unemployment rate is expected to rise by 0.2 percent to 13.4 percent, while male unemployment fell by 0.6 percent to a rate of 8.3 percent during the same time period.

Inflation in the first 11 months of 1988 ran 4.2 percent in the E.C., considerably higher than the 2.6-percent rate a year earlier. The highest in 31 months, this rate is attributed to substantial price increases in the United Kingdom, Denmark, Greece, Italy and Portugal. The Federal Republic of Germany, Luxembourg, France and the Netherlands fared better in terms of price control. Spain recorded no rise in prices while those in Belgium dropped slightly.—*Reuters*

POLITICS

ANDRIESSEN ATTENDS CLOSING SESSION OF CSCE CONFERENCE

In January, Frans Andriessen, the Vice-President of the European Commission responsible for external relations and cooperation with other European countries, attended the closing session of the Vienna Conference for Security and Cooperation in Europe (CSCE), which had opened in November 1986.

The concluding document of this conference reflects the new developments in the Soviet Union and Eastern Europe and the evolving relationship between these countries. The conference called for further efforts on conventional arms reductions and confidence-building measures and endorsed important new commitments by the participating states on human rights and contacts, an area Community members consider especially important.

In Vienna, the E.C. Commission participated fully in the debates on the implementation of earlier commitments made during the Helsinki process, and in the negotiations on economics, science and technology, the environment and Mediterranean cooperation. It welcomed the results reached by the conference, which will influence the Community's bilateral and multilateral relations.

SOCIAL ISSUES

E.C. PROPOSES PLANS TO COMBAT AIDS

At their December meeting, the E.C. Council of Health Ministers discussed the problem in Europe of AIDS, also known as acquired immune deficiency syndrome. According to a report submitted by the Paris-based Institut de Médicine et d'Epidémiologie Africaines et Tropicales, 15,295 AIDS cases had been reported in Europe by September 1988—an increase of 97 percent since September 1987 and a 17-percent rise in reported cases since June 1988. Data showed a rise in the number of heterosexually transmitted cases, while the rate of increase among intravenous drug users had remained largely the same. Of these, most cases were reported in Southern Europe, where the virus was introduced relatively early.

On the basis of this report, the Council drew several conclusions. It noted that, while the increase in the number of cases and rate of spread of infection were less alarming than in the past, there was a need to improve and extend the existing system for exchange of epidemiological data on AIDS at the Community level. The Council suggested that this could be done by increasing cooperation between the ad hoc working party on AIDS, the E.C. Commission and the World Health Organization (WHO) collaborating center in Paris.

The Council further affirmed the need to continue to improve the exchange of specific data to make it easier to recognize the development of epidemiological patterns, such as changes in sexual behavior or rates of HIV infection, and also to aid in assessing the effectiveness of prophylactic measures taken in the member countries. In addition, it called upon the Commission to study the possibility of exchanges between member states of qualified personnel experienced in dealing with AIDS.

The Council also agreed that education programs, advertising campaigns, help and advisory services, access to sterile needles and syringes and one-to-one counseling, should be made available to drug addicts in order to reduce the spread of AIDS among that population group.

Concerning the problem of AIDS at the workplace, the Council concluded that, although there is virtually no risk of HIV infection in work settings, firms should be encouraged to deal sensibly and responsibly with the problem. Large firms, which are able to draw upon greater resources, should take the lead in promoting education on AIDS and in ensuring humane treatment of employees with the disease, by treating them as normal employees or as employees suffering from other serious illnesses, maintaining medical confidentiality and making counseling and education programs available to them.

Moreover, the Council stressed that since those suffering from AIDS provide no threat to collegues at work, there were no grounds for screening potential recruits for AIDS or for establishing the practice of regular medical check-ups at work. It also maintained that employees should not feel obliged to notify their employer of an HIV infection.

AID AND DEVELOPMENT

E.C. TO HELP PROTECT THE AFRICAN ELEPHANT

The African elephant, which is suffering a rapid decline in population, became the focus of an E.C. Commission communication on the preservation of that species last December. The communication, forwarded to the E.C. Council of Ministers, stipulates the introduction of restrictions on ivory imports in order to eliminate the ivory imports of illegal origin, ivory being produced outside the framework of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), and ivory that is produced outside of a sustainable management plan.

The Commission will support activities by WWF, the World Wide Fund for Nature (known in the United States as the World Wildlife Fund) aimed at protecting the African elephant population. It has allocated 500,000 ECU to a program to be implemented by WWF in African countries that are seeking assistance to protect their elephants. In addition, with help from the CITES secretariat, an integrated action plan is currently being organized by African states and major conservation organizations, including WWF, the International Union for Conservation of Nature, Wildlife Conservation International and the E.C. Commission.

"IRIS" TO HELP EASE FEMALE UNEMPLOYMENT PROBLEM

Female unemployment varies in severity from country to country within the E.C. Though increasingly recognized as a serious problem, member states have not adequately dealt with it, concluded a Commission report on actions to combat unemployment among women. The disparity between the levels of female and male unemployment, already wide, increased in 1988. Male unemployment, which was stable at approximately 9.3 percent between 1984 and 1986, fell in 1987 and again in 1988 to about 8.3 percent. Female unemployment, on the other hand, has risen from 12.5 percent in 1984 to 13.4 percent in 1988.

The Commission launched IRIS, a network providing better access to training programs, to help combat the E.C.'s rising female unemployment rate.

Most member states have taken some measures to remedy this situation, although, on the whole, commitment to solving the problem has been weak. Member state policies include the adoption of measures to make it easier for women to join training programs, to target certain groups of disadvantaged women, to introduce quotas and the possibility of part-time work, and to improve working conditions for female employees.

The Commission recently launched IRIS, the European network of vocational training for women, a major new initiative to open further all types and levels of training programs to women. The program, which will continue until 1992 as a complement to the November 1987 Commission Recommendation on Vocational Training for Women, has as its goal the achievement of equal treatment for men and women in regard to employment, vocational training, promotions and working conditions.

Funds provided for IRIS will be used for activities such as exchanges between projects involved in the IRIS network (71 projects from the 12 member states had been chosen by December 1988), national seminars in each state to discuss strategies to promote full access for women to vocational training, and research. Funds will also be used to increase access to information publications and to a database on vocational training for women.

MONETARY UNION

Continued from page 19.

tional monetary policies among E.C. central banks as a way of initiating the process of European monetary integration. Carlo Ciampi, the Italian central bank Governor, has produced a bold suggestion for European central banks to set common growth paths for monetary aggregates. Niels Thygesen, a professor of economics at Copenhagen University and one of the four outside experts in the Delors group, has published a plan to create a European Monetary Policy Committee, based on the U.S. Federal Open Market Committee, which would gradually take over tasks at present fulfilled by national central banks. But Thygesen's ideas, like all the plans for radical institutional change on the monetary front, would require amendments of the E.C. Treaties and ratification by all the parliaments of the Community's 12 member states.

It is here that the limits of the Delors Committee exercise are apparent. Britain's Prime Minister Margaret Thatcher has made clear that she is not prepared to contemplate the cession of sovereignty that economic and monetary union would entail. Britain has said it will therefore block the necessary Treaty revisions.

Does the British attitude mean that the Delors Committee's work is a waste of time? It would be wrong to pass judgment before the committee has produced its final report and without knowing whether the Heads of Government who commissioned the report still will have the same enthusiasm for economic and monetary union when they meet at the Madrid Summit in June. If they have, Margaret Thatcher could find herself isolated.

But it seems clear that while some European central banks—most notably the Bank of Italy—are strongly in favor of greater monetary integration, one effect of the Delors Committee's deliberations will have been to focus attention on the possible economic, social and regional costs of Europe's moving too quickly to being like the United States: an integrated economic area with a single currency.

The "concrete steps" for creating a European central bank and common currency will be in the final report for all to read. But some European central bankers now suggest that its publication could well shift attention back to less distant goals, such as completing the EMS. €

Peter Norman is economics correspondent at the *Financial Times* in London.

TRADE TALKS

Continued from page 17.

empowered to retaliate against that country's exports. As this article went to press, it was not clear whether the Bush Administration intended to challenge the closed public procurement market for telecommunications in several E.C. countries under one of the "reciprocity" clauses in the new Trade Act.

Overall, however, the first meeting between Carla Hills and the new E.C. Commissioner for external relations, Frans Andriessen, gave cause for optimism. Andriessen described the arrangement on beef as a "political agreement to seek a technical solution." Maybe he was thinking of the old E.C. adage that the Community was doomed to ever-lasting frustration because its problems were always "too technical for the politicians and too political for the technocrats." The progress in the 1992 program suggests that the E.C. has at least partly resolved this conundrum. A more judicious separation of the technical from the political may also be the key to a harmonious E.C.-U.S. relationship in the next four years. €

John Lichfield is the Washington correspondent for *The Independent* of London.

SPANISH INVESTMENT

Continued from page 37.

traditional services of the Spanish commercial banks.

Modernizing Spanish banks will call for some reduction in the large size of the work force and also a similar reduction in the number of branches located in every town.

At the same time there will need to be some adjustment of services to meet customer needs, to face new markets and to provide facilities consistent with those offered by European competitors.

Spanish banks continue to enjoy preeminence in the domestic market with one of the highest levels (5.2 percent) of gross domestic product (GDP) within the OECD. Yet the banking system must also serve as a bridge for Spain to its more established European partners in order to capitalize on the opportunities represented in the potential market of 320 million customers that will be formally created in 1992.

Just as 1992 marks the quincentenary of Columbus' discovery of America, so does the Spanish banking community look to that year to set new sights on new horizons. €

Alfonso J. González is the manager of Banco Central, S.A., in New York.

CULTURE

Continued from page 28.

tries.

To *promote culture in the regions,* the E.C. is already supporting various initiatives for young artists and cultural events. It wishes to develop and decentralize this policy to enable a wide public to benefit from intercultural exchanges, to support the creative activities of authors, actors, musicians, and to increase the contribution that cultural tourism can make to regional development. The "European City of Culture," designated annually since 1985, (Berlin in 1988; Paris in 1989; Glasgow in 1990), could become an appropriate meeting place for young artists who will determine the future of European culture.

Preserving and exploiting Europe's cultural heritage includes the restoration of monuments in all member states, toward which the E.C. has already given many grants. Because of the limited resources available, this aid must be very selective, and E.C. efforts each year are concentrated on a priority theme, such as Roman art or industrial architecture. The E.C. also assists research to preserve monuments against the effects of atmospheric pollution, and would like to extend these efforts to the preservation of such institutions as museums and libraries (books, films, videos and records).

Better training for the cultural sector

Training for the cultural sector must be improved, modernized and adapted to Europe's new realities. The Commission's proposals to improve training in the cultural sector deals with *cultural administration, audio-visuals, communication, translating and interpreting,* and *restoration* of precious objects. E.C. activities rely heavily on transnational seminars and study exchanges, improving teaching methods and developing special software for use, for example, by translators and interpreters.

Dialogue with the rest of the world

To project a three-dimensional *world image,* going beyond economics and trade, the Commission would like the Twelve to participate jointly in such activities as international book fairs and expanded tours for, say, the European Community Youth Orchestra.

Within the Community, joint action could help to enrich awareness of outside and regional cultures. When a cultural event is organized in Paris, for example, why not arrange for it to appear in other parts of the Community on the same tour?

SPAIN

Continued from page 35.

ernment managed, between 1982—when it came to power—and the end of 1988, to bring the annual rise of the consumer price index down from close to 12 points to under 5 points. Strict austerity measures included a clamp-down on public spending and wages. The 24-hour national work stoppage on December 14 showed that this policy was seriously threatened and probably no longer viable.

In the coming months, some 3,000 wage agreements have to be settled in Spain. Unions will push for raises within a band of 6 percent to 9 percent—a good two to four percentage points higher than what the Government believes is required to control inflation. Arduous negotiations throughout January between Government ministers and labor union leaders failed to moderate labor demands. González singularly failed to make the union leadership co-responsible for economic management. The Prime Minister had wished to cement a far-reaching agreement with both unions and employers that would assure orderly growth within a framework drawn up by the Government's economic team.

Trust had broken down between the Socialist executive and the labor organizations. A confrontation between the Socialist Party and its "fraternal union," the Socialist *Unión General de Trabajadores* (UGT), came out into the open. The UGT had been a key government ally at the start of the González Administration, where it played a vital supporting role to the austerity program. The Socialist union was now saying that the lean years were over and that it was time workers received some of the rewards of economic expansion—just as employers were doing. The underlying issue, which had clear political overtones, was that the Government had abandoned its Socialist principles because it was failing to redistribute wealth.

The confrontation was highlighted by the UGT's decision to join forces with its long-time rival, the *Comisiones Obreras,* a union led by the Spanish Communist Party. It was the tactical alliance between these two organizations that ensured the success of the keynote December strike. The open quarrel with the UGT has also hurt González' political standing. Polls show that the Socialist Party might no longer command an overall majority in Parliament. González is fortunate that general elections are not due until June 1990.

In June 1989, however, elections will be held in Spain, as elsewhere in Europe, to vote for a new European Parliament. This poll will be treated as a primary in Spain and could show a major erosion of Socialist support. Under Madrid's electoral law, the 60 Members that Spain sends to the European Parliament are elected proportionally from lists presented nationally by the parties instead of by single member constituencies.

Felipe González had wished for an easy first half of 1989 so that he could put his undoubted political stature and skills at the service of the E.C. presidency. The Prime Minister wants to create movement on at least four fronts before he hands the presidency of the E.C. over to France on July 1, 1989. Those four areas are deregulation of financial services and movement of capital, steps toward harmonization of standards in industry and agriculture, standardization of copyrights and patents and liberalization of public works and utility contracts. All fronts are complex, and the domestic storm clouds do not make his task any easier. €

Tom Burns is a freelance writer based in Madrid.

EUROPEAN AREA OF DEVELOPMENT

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ers and acquisitions are no longer the exclusivity of the United States but now increasingly appear in Europe as well. For example, the French firm Carnaud is merging with Metalbox, the foremost British company in the packaging industry. The Compagnie Financière de Suez became the principal shareholder of Société Générale de Belgique in a much-publicized takeover attempt of the Belgian company by Italian financier Carlo De Benedetti. New industrial and financial gains are appearing in Europe with worldwide ramifications. A growing wave of investment from Japan is also occurring in Europe.

For all the fuss around the completion of the single European market, one thing is clear: if the cohesion of European society has to be preserved, unemployment in Europe has reached politically unacceptable levels. As a result, any inflow of capital and technology, whatever the origin, will always be welcome. In this regard, the EDA is certainly an opportunity that many companies will eye in the near future. €

Henri Triebel is director of the French Industrial Development Agency in New York.

LOME

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the Lomé renegotiations that the E.C. has been pushing and the ACP has, generally, come to accept. These are the need for greater receptiveness by ACP states to private enterprise and for structural adjustment in macroeconomic policies. Many at the Barbados assembly were somewhat surprised to hear these twin themes stressed by a Spanish Socialist, Manuel Marin, the new Commissioner responsible for development.

Emphasis on these themes is in fact part of a wider Commission attempt to get ACP countries to look not so much to Europe, but more to themselves in matters of structural adjustment, more to each other for regional cooperation and, collectively, more to the rest of the world, for example in the GATT talks. The message from Brussels to the ACP seems to be: On trade, we have done virtually all we can do. You must now get your act together, tackle some of these other countries that have been expanding in the E.C. at your expense and try to get your wares into their own markets.

Commission officials admit the economic bargaining power of ACP countries, of whom only 33 are participating GATT members, is limited. Nonetheless, they believe the ACP could capitalize on its diversity. Why should not the Caribbean states take the lead with North America in trying to get new concessions on behalf of the whole ACP? Why should not the Pacific Islands take the same approach toward Japan and South Korea? Surely, they add, no grouping with a Nigeria in it can be a pushover? Many ACP leaders are deeply skeptical, however. Prime Minister Erskine Sandiford of Barbados, for one, fails to see how the ACP can exist except in relation to all the historical ties with E.C. countries.

But there is equally a counter-message from ACP states to Brussels: We are part of the social dimension of your 1992 single market, too. It is not just a question of certain poorer regions inside the E.C. finding it harder to compete in the single market—there are much poorer countries outside the E.C. with similar problems. No ACP state seriously expects E.C. aid to be doubled from Lomé III to Lomé IV, as money for structural aid within the E.C. has been doubled. But they will all be looking for a hefty increase. €

David Buchan reports from Brussels for the Financial Times.

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