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PUBLISHER'S LETTER

What was once a globe of many countries—living more or less independently of each other—has today become a truly “global village.” That means a growing interdependence between nations, both politically and economically. Countries have realized that they can no longer “make it on their own.” The prime example of such a development is, of course, the European Community, 12 nations who have learned that they must work together to improve their own well-being and to have a strong international identity.

Most of their cooperation has, until recently, been concentrated in the economic sphere—which, in the run-up to the single market in 1992, is affecting all areas of economic activity. Take banking, for example. Peter Wilson-Smith of *The Independent* looks at the growing number of cross-border joint undertakings in that industry in Europe. Some even suggest that the multitude of smaller banks might be replaced by a small number of “superbanks.”

Similar economic trends can be observed in most other industries. In this issue, we highlight fashion and apparel. Trends and designs are no longer confined to national boundaries. With its international network of stores, the Italian firm Benetton, for example, is a prime mover in this direction, as Luciano Benetton, one of the founders, told Arturo Zampaglione of *La Repubblica*. But, as Kathleen Beckett-Young points out, European and American fashions maintain their specific features, proving once more that interdependence can co-exist with distinctive ways of life.

Politically, too, the Europeans are making headway. The Single European Act, which amended the Treaty of Rome in 1987, gave the European Parliament extended powers. James Elles, a Conservative Member of the European Parliament, notes that this month's European election will influence the development in U.S.-E.C. relations. The Single Act also has facilitated joint action by member state governments on international issues. In the conflict in the Middle East, writes *The Independent's* Athens correspondent, Peter Thompson, European leaders have exerted considerable influence toward peace negotiations.



Giancarlo Chevallard



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Mars 1989

AROUND THE CAPITALS

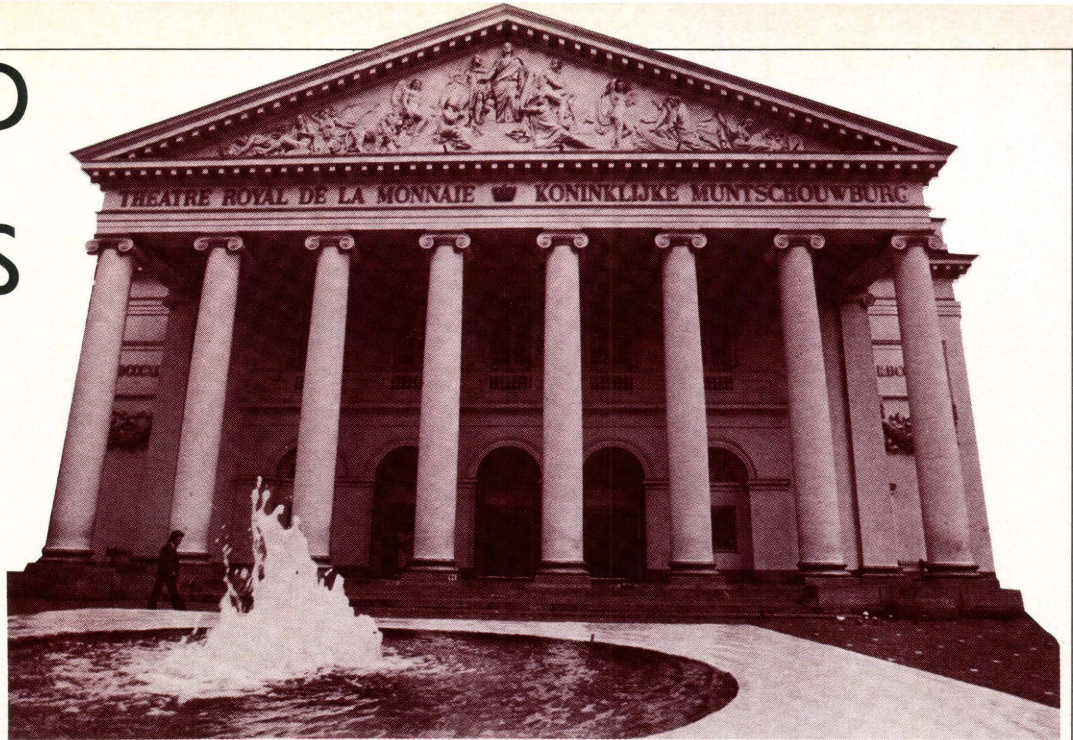
BRUSSELS

Dancing Up A Storm

Two years after the controversial departure of Maurice Béjart, the founder and inspiration of modern European ballet, Brussels is again at the forefront of cultural dispute. Béjart, although a Frenchman, created the Twentieth Century Ballet in Brussels and made the city a byword for all that passes in modern dance. One had only to attend one of his dazzling interpretations to be aware of the state of modern ballet. "He took old symphonies and made them seem important in a new way," wrote one music critic.

Béjart was lured to Lausanne, Switzerland, two years ago. The Belgians pondered about how to replace him and eventually settled on the much-acclaimed American dancer, Mark Morris. It was a brave gamble. Morris had won marvelous reviews in New York, but there was a feeling that his avant-garde productions in America might be "over the top" for European tastes.

Morris's first production in Brussels—a provocative reworking of the Purcell opera "Dido and Aeneas" that made much of bare-breasted women—won international attention. Belgian critics were divided. One said it was "sound in its frankness and nudity," but another thought it was "down-graded to the level of street theater." Some went further, such as one local reviewer who called it "down-right pornography." Another found it a "loathsome spectacle" and urged Morris to "go home."



The Théâtre de la Monnaie is the home of the Brussels opera and the Twentieth Century Ballet.

The "Dido" matching of classic opera with sensual dancing, however, won rave reviews outside Belgium. British critics proclaimed Morris' production "a triumph" and "the greatest." Even in France, where they are slow to acknowledge non-Parisian successes, critics proclaimed the work as "succeeding beyond belief."

But has Morris now fallen flat on his face? It is a legitimate question, given the presentation of his latest work, "Mythologies." By any measure, this is an odd piece. Its subtitles are: "Soap Powders and Detergent," "Strip Tease" and "Championship Wrestling." One can watch the three presentations and draw some vague parallels, but to the uninformed observer it seems like total nonsense. So, too, do the music and the dance.

Belgian critics pummeled the work. "Go home, Mark Morris," said the headline in Belgium's leading daily, *Le Soir*. It claimed that Morris had given "a pathetic demonstration of his creative poverty." Even the Flemish newspapers, which had earlier backed Morris' appointment, said the work "was lamentable" and "must be forgotten as soon as possible."

Gérard Mortier, director of the Brussels National Opera, home to the ballet company, believes that the reaction is partly political. "People who dislike me seem to have been using Maurice Béjart in a war against me. They hoped that Béjart's departure last year would spell the end of me. Perhaps they now think that, if Morris is a failure, then I'll have to go," he said in a recent interview in the English-language weekly *Bulletin* magazine.—ALAN OSBORN

PARIS

21st-Century City Planning

In this bicentennial year, tourists are flocking to Paris in greater numbers than ever to revel in the beauty and excitement of the city. But residents and politicians are worried that the profile of Paris is being distorted by the rocketing expense of living in the French capital.

Since 1983, the price of accommodation has doubled. Costs in the posh embassy quarter of the 16th district, or *arrondissement*, have broken records, with apartments in one neighborhood selling for

more than \$10,000 per square meter. That record was, in turn, broken when property by the Champ de Mars—the gardens under the Eiffel Tower—went for more than \$15,000 per square meter. Rents are ratcheting correspondingly upward, and headlines in the French press repeatedly ask the question in the minds of many Parisians—can one afford to live in Paris?

Many are concerned that the very limited amount of available land within Paris city limits will boost prices. Also, there is a strong trend to convert apartment buildings—especially the old bourgeois apartments in core areas—into more lucrative office space, which puts added pressure on demand for housing and forces up prices.

When Paris' Mayor, Jacques Chirac, was the French Prime Minister until last year, he lifted rent controls in order to encourage new building. Yet now, recently re-elected as mayor, he sees the cost of housing in Paris as the city's most serious problem. Chirac predicts the problem will be aggravated by the greater European unity after 1992, as Paris becomes, in his view, the unofficial capital of Europe. Already, he says, prices are ballooning because foreign specu-

lators still consider Paris one of the world's cheapest great cities.

The French Government spent months deliberating over new legislation that would restore some rent control to end the outrageous increases that some Paris landlords were trying to impose. But the fundamental problem goes beyond simply controlling housing costs. Rocketing real estate prices threaten to redefine the whole makeup of Paris and unstitch the patchwork that makes this such an unusual modern cosmopolis.

Paris is still a city where virtually every neighborhood of each of its 20 *arrondissements* mixes residences, businesses and shops. Even within individual apartment buildings one can find upper-class residences, middle-class apartments and working-class maid's quarters. Also, the city seems to stay alive 24 hours a day: Barely a block in Paris comes to a standstill when businessmen take the Métro home at the end of the working day. Urban philosophers like Jane Jacobs have called this urban mix critical in preventing crime and retaining vitality.

If all but the most prosperous Parisians are forced to live outside the city, however, a core made up of the rich, the upper middle classes and businesses could be left behind in it. To avoid that prospect, the city has put enormous effort and investment into transforming the old industrial quarters on the east side of the city into lower- and middle-class neighborhoods. Judging from the rising housing prices and the hordes of yuppies who are moving in, the tactic is indeed attracting middle-class buyers.

As a result, however, the lower classes, and many of the immigrants who have lived in eastern Paris, are being pushed further out to the bleak public housing projects beyond city limits. This new strategy also bothers architects, like France's most popular urbanologist Jean Nouvel. He regards much of what the city has done to upgrade eastern quarters as

superficial "pastiche architecture" that imitates the shapes of old Paris, but is shoddily built and badly designed. So, along with forcing out whole categories of residents, it is damaging the physical beauty of Paris.

Paris is now facing a phenomenon of urban evolution that cities like New York and London underwent years ago. The French capital's City fathers are hoping to learn the lessons of those cities so that Paris will be just as attractive when the tourists arrive to celebrate France's tricentennial.—BRIGID JANSSEN

AMSTERDAM

Political Realignments

When Dutch Prime Minister Ruud Lubbers submitted his resignation to Queen Beatrix in the early morning hours of May 3, all of Dutch politics burned with a brighter intensity. His departure pre-empted an imminent vote of no-confidence during a late night debate by the Dutch Parliament of the increasingly uneasy Christian Democrat-Liberal Dutch Government coalition.

At stake was a motion concerning the financing of a multi-million-dollar environment policy plan to clean the waters, soil and air. This had been drafted by the Liberal Party's Ed Nijpels, Minister of Housing and Environment, in cooperation with another Liberal Party colleague, Neelie Smit-Kroes, Minister in the coalition government for Transportation and Public Works. Their support for the massive environment plan, which would have raised taxes, provoked a crisis atmosphere in the Liberal Party, which was opposed to raising taxes, and therefore called for the motion of a vote of no confidence.

The 50-year-old Lubbers has played a dominant role in Dutch politics, and speculations are that he will resurface

in a future government, be it as Prime Minister or as a Minister for Foreign Affairs.

Having studied economics at Nijmegen's Catholic University, Lubbers seemed destined to enter his family's construction firm. This led him to become chairman of the Christian Employers' Association. After this post, he was called upon to serve as Economics Minister in the Christian-Democratic coalition government from 1973 to 1977. Following this ministerial stint, he returned as a Member of Parliament for the Christian Democratic Party until 1982, when he became Prime Minister of his first government, a position to which he was re-elected in 1986.

Most people expect—and many wish—to see Lubbers



Ruud Lubbers has resigned as Dutch Prime Minister following a crisis over an ambitious environment plan.

return to politics in a future government. But the next Dutch Government could possibly have a different composition. Latest polls predict that the opposition Labor Party will score a majority of votes.

Under normal circumstances, elections would have taken place in May 1990, at the end of the government's four-year term. In the present situation, however, the Dutch Constitution stipulates that general elections must be held within 80 days from the fall of a government.

The Christian Democrats are anxious to hold the election as soon as possible, thereby hoping to benefit from the present crisis within the Liberal Party. Polls taken during the crisis showed that 50 percent of Liberal voters felt that differences among the coalition

partners over financing the bold environment policy were not worth a government crisis. A similar percentage considered division in the Liberal Party as disastrous. But 70 percent would like to see the Liberals in a new government coalition with the Christian Democrats.

Presently, however, it looks as though the next government will see a new coalition comprised of Christian Democrats and Labor. If that should be the outcome, the Netherlands' new Prime Minister could be the Labor Party's Willem Kok, currently his party's floor leader in the second chamber of Parliament, and formerly head of the Federation of Dutch Trade Unions, and chairman of the European Federation of Socialist Trade Unions.—NEL SLIS

COPENHAGEN

Farmers Go Global

An old Marxist dream of sorts is coming true in Denmark: Workers and farmers are uniting, not to throw off their chains, but to maximize their profits.

Ideology, not pragmatism, is causing Denmark's free enterprise farmers and pension-conscious trade unions to develop a shared interest for maximizing profits. Danish agriculture is facing its greatest challenge since World War II, and the union-controlled pension funds fear that there will be neither jobs nor pensions for tens of thousands of their members, unless the food industry survives its present crisis. Europe's single market program is just a symbol of this development, not the instigator.

Danish farmers have to define a new strategy for the food industry, breaking with their 100-year-old tradition of controlling food production from the farm to retail delivery. For most of those 100 years the strategy was highly successful, which now makes the shift even more difficult.

The Danes were the first to form cooperatives on a large scale, which allowed for the introduction of the most advanced new technology and provided the volume required for the mass marketing of meat and dairy products of high, standardized quality. An early example of Danish service management was the bacon pig, the specialized breeding techniques of which met the specifications of the only important export market, the United Kingdom. Moreover, control of the slaughter houses gave farmers the power to ensure that Danish consumers had no alternative to the bacon pig. The same system was applied to dairy products, cheese, canned meats, and so on. In Denmark or the European Community, "Danish" is not a pastry, but, until recently, primarily a brand name—and virtually the only brand name—also known as Danish Farmers, Inc.

It still is, but trends are shifting both globally and in the E.C. toward value-added food products, that is, requiring independent brand names for marketing purposes. The current structure and standardized product philosophy of the Danish cooperatives are seen to strongly impede acceptance of and profit from this new tendency. Another obstacle is a lack of capital. Danish farmers—like farmers all over the world—are having to adapt to lower, more market-oriented prices, and they have neither the inclination nor the means to come up with new, large amounts of cash.

The multi-billion-dollar pension funds are awash with cash, however, and those affiliated with Denmark's trade unions are especially prepared to cooperate with the more enlightened parts of agricultural cooperative management. In the dairy sector, the strategy of *Mejeriet Danmark* (MD-Foods) in the past has been to be the only dairy in Denmark. Now MD-Foods is preparing an international platform for its cheese production. This includes buying a dairy in the United

States, and processing American milk, something that is still difficult to stomach for many Danish farmers who believe that the cooperatives should process only Danish raw materials, and not have dealings with the farmers of other countries.

The effects of internationalization are not confined to the farmers. When German milk is processed into cheese by German workers in West Germany in a Danish-owned dairy, only two things will be Danish: the brand and, hopefully, the profits. Some argue, convincingly, that in a united Europe, the brand must be European in order to succeed. For fiercely independent Danish farmers and left-of-mainstream Danish workers, this is a far cry from the more prosaic starting point. But they are preparing to reap the profits of the joint effort with no ideological qualms.—LEIF BECK FALLESEN

ROME Media Reorganization

Italians got a boost in April from the tremendous accomplishments of Italian soccer teams in the final rounds of prestigious international tournaments, which helped Italy to finish up the month in style.

Another news item, even though occupying many newspaper columns for several days, was slightly neglected: the "reorganization" of the editorial group that until now has controlled separately, and in varying measures, the publishing house of Mondadori, the weekly magazine *L'Espresso* and the daily newspaper *La Repubblica*.

The latter, which has a standing battle for first place in circulation with the Rizzoli group's *Corriere della Sera*, has lost the apparent autonomy it had so far enjoyed from its publisher Mondadori and has been absorbed by the company. *L'Espresso*, which had battled with *Panorama*, Mondadori's

DUBLIN

Is The Sky The Limit?

The head of Guinness Peat Aviation (GPA), who recently announced the biggest ever aircraft order in the history of civil aviation, for \$17 billion, was once a lowly clerk in the Irish national airline, Aer Lingus. Today, Dr. Tony Ryan has an estimated personal fortune of \$300 million, and his company is ranked as the 30th-largest financial institution in the world.

The story of GPA is a sort of Celtic fairy tale where everything has turned into gold. It is only 14 years since Ryan, now 53, left Aer Lingus with capital of \$50,000 to set up what is today the biggest aircraft leasing company in the world. The \$17-billion order for 308 aircraft from Airbus, Boeing and McDonnell Douglas brings the total GPA orders to 819 new aircraft worth \$30 billion.

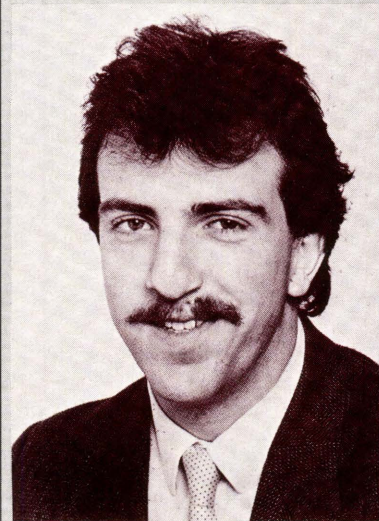
Yet the headquarters of all this staggering wheeling and dealing is a modest office block in the Irish countryside beside Shannon Airport with barely 200 people on the payroll. The man who dreamed it all up is the eldest son of an engineer-driver. With little more than a basic education, Ryan today has an honorary Doctorate of Law from the National University of Ireland and a castle with 400 acres of rich farmland in his native County Tipperary.

Ryan has also helped two of his sons set up RyanAir, a small airline that has slashed fares on the Dublin-London and other routes by competing head-on with Aer Lingus and British Airways, whose charges used to make the 300-mile journey one of the most expensive in the world. Ryan also has a 5-percent shareholding in the Bank of Ireland, one of the country's two top banking groups. No one knows where his ambitions may end.

A workaholic, he has a reputation for driving his executives hard but for rewarding

them richly with share options that would be extremely valuable holdings if GPA goes public, as it is assumed it must some day. As the headquarters is inside the Shannon industrial zone, profits, estimated at \$150 million for 1989, are tax exempt, as are the dividends paid to the employees.

Originally, GPA consisted of Aer Lingus and the London merchant bank, Guinness Peat, both with 45 percent holdings, and Ryan, with 10 percent. He had to raise the \$5,000 for his stake when he resigned from the airline after having failed to



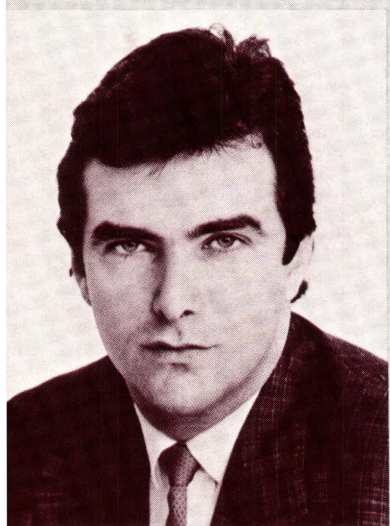
Tony Ryan, head of Guinness Peat Aviation and one of Ireland's most successful businessmen.

convince it of the lucrative prospects for aircraft leasing. Today, the shareholders are Air Canada, General Electric Credit Corporation, U.S. Prudential, Mitsubishi, Rolls Royce and about 30 other institutions and companies. Ryan also has chosen the best economic, legal and even political expertise for the company's board. Directors include the former Irish Prime Minister, Dr. Garret FitzGerald, who, like Ryan, was once an Aer Lingus employee, and Peter Sutherland, Ireland's E.C. Commissioner from 1985-89.

GPA is now poised to take full

advantage of the enormous growth in air passenger numbers over the next decade, which, Ryan says, will soar from one billion carried in 1988 to two billion in the year 2000. GPA says it has acquired 10 percent of aircraft deliveries to be made in the next seven years. Furthermore, three new aircraft will be delivered every working day until the turn of the century.

GPA is already looking to diversify. One project being closely studied is a "technical service park" that would employ up to 5,000 people—



elped his sons Declan and
athal, pictured here, to set up
yanAir.

though not necessarily at Shannon or even in Ireland—and would involve joint ventures with top airlines to provide a range of services for airlines, including maintenance.

Ryan has hinted that, in the future, he will be taking a less active role in GPA. Although he calls himself a "farmer," no one can imagine him swapping the present role of jetting around the world for country squire. The *cognoscenti* are keeping their eyes on that 5-percent stake in the Bank of Ireland and where it might lead.—JOE CARROLL

top weekly, for first place among Italy's "serious" magazines, has resigned itself to become part of the same publishing group. It is as though *Time* had suddenly been sold to *Newsweek*.

Many journalists and media experts fear that this concentration of newspapers under one publishing umbrella could lead to a restriction in the sources of information distribution and so-called democratic pluralism.

Who really wanted this latest reorganization of the press world? And why? The answer to the first question can be synthesized into one name: Carlo De Benedetti, the resourceful head of Olivetti, who last year justified his clamorous takeover bid for the Belgian Société Générale by asserting that European companies absolutely must acquire an international dimension.

The answer to the second question is almost simple. De Benedetti, who entered Mondadori's management already a while ago, wanted to consolidate and rationalize his "possessions" in the field of information. Again, the official motivation was the need to enlarge his personal line-up to better resist international competition, particularly in view of the unification of the European market. Still, this move is the latest in the radical transformation of Italian newspapers over the past several years—with enormous political and social results.

For the first time since Italy was created last century, the press is no longer directly controlled by political power and political parties. Today's masters of information are the "lords of the economy," industrialists and financiers, majority stockholders and businesspeople of the main conglomerates of the Italian economy. Until a few years ago, some newspapers were owned by industries and companies, such as Turin's *La Stampa*, a part of the Agnelli family which owns Fiat, Milan's *Il Giorno*, which belongs to ENI, the state-owned energy

and petroleum agency, and a few others. The rest, beginning with the prestigious *Corriere della Sera*, belonged (at least officially) "to themselves." Ultimately, each paper, according to its preferences and its political slant, tacitly belonged to one political ideology or another.

This political influence on information provoked constant protest. Many people regarded the Anglo-Saxon model—of having the media belong to large private groups "like in England or the United States"—as exemplary and as a better guarantee for freedom of information.

Today, Italian newspapers are increasingly in the hands of economic groups. The Rizzoli publishing group is indirectly controlled by the Fiat group, and Mondadori by De Benedetti's chemical industrial empire. The Italian chemical company Montedison controls two dailies, *Il Messagero* and *Italia Oggi*, while the Fininvest group of the versatile Silvio Berlusconi, who owns a construction empire, television networks and sports teams, also has an interest in the Milan daily *Il Giornale Nuovo*, and the large-circulation *Sorrisi e Canzoni*.

Members of the newspaper world now grumble that "we were better off when we were worse off." An elderly editor-in-chief sighs and sums up the problem: "At least before, once we had written the so-called political mumbo-jumbo . . . we were able to write the paper in freedom. This new conditioning touches all sectors that deal with economic power—the economy and finance, of course, but also show business, culture and even sports."—NICCOLO D'AQUINO

MADRID

Gamblers Take Hope

Manuel Melgarejo was one of an estimated 50,000 heavy gamblers in the Madrid

area. For 18 years, he traveled around Spain to bet, first in clandestine Franco-era betting parlors, then in the casinos founded after private gambling was legalized in 1977. It was an awful situation, but one that would have positive repercussions for his countrymen.

"When you're playing, it doesn't matter whether you win or lose," says Melgarejo, an independent insurance agent. "You could have come to me in a bingo hall and offered me 100,000 pesetas (\$853) to walk out—more than the winnings on even a great night—and I wouldn't have." Melgarejo lost so badly, however—his first wife, a dozen jobs and 25 million pesetas (\$213,000)—that, after trying to quit on his own for more than a decade, he finally kicked the habit last fall, after spending three months in Córdoba at Spain's only existing group for recovering gamblers.

Now he has founded the Madrid Association of Recovering Gamblers, whose membership has grown from zero to 200 in the four months since Melgarejo gave out his home telephone number on a nationally broadcast radio show. The group relies on private donations, and Melgarejo receives no salary for his work. Neither does a doctor nor two psychologists who volunteer their counseling services to the group.

The overwhelming response to the Madrid Group is one sign that Spaniards may be beginning to deal with their gambling addiction. Another indication is that 8,000 people have come forward to ask authorities to ban them from entering Spain's casinos and bingo halls. This is a figure worth noting, for, raised in a Roman Catholic tradition that regards gambling addiction as a vice rather than a disease, many Spaniards are too ashamed of their dependence to admit it publicly.

"If you know anything about the Spanish character, it is amazing how so many people have admitted that they have a problem they can't control or financially afford, and have even told the police about,"

Making Soccer Safer

Identity cards for fans, out-of-town all-seater stadiums, fewer teams in the soccer leagues: These are just some of the proposals that have been aired as the debates rage about who or what was responsible for the soccer tragedy at the Hillsborough Stadium in Sheffield in April, where 95 Liverpool fans were crushed to death at the start of a semi-final game for Britain's coveted Football Association cup.

British soccer's violent ritual of beer, tribal thuggery and local and national patriotism led to the exclusion of its teams from the European Continent after rampaging Liverpool fans in Brussels' Heysel stadium caused the deaths of 39 supporters from Italy's Juventus Turin team in 1985. The latest calamity in Sheffield led European commentators to refer again to the "self-destructive anger and mass hysteria that is becoming a British speciality."

But they may have got it wrong this time. At Hillsborough, the traditionally brutish behavior of English soccer fans gave way to caring and brave attempts by the crowd to help and comfort the dead and dying. The fans reacted spontaneously even as the authorities still thought they were dealing with just another manifestation of the hooliganism that has so blighted British soccer.

English soccer's long record of crowd violence led to the construction of barriers within the standing areas in the grounds to stop rival supporters from attacking each other or charging on to the playing field. This sectioning off of the supporters contributed directly to the deaths when too many fans were directed into one of these cages.

The author of a letter to *The Guardian* newspaper complained about the failure of the police and the authorities to



A number of proposals, such as eliminating standing room in stadiums, introducing identity cards for fans and removing the barriers dividing supporters, are being studied to make soccer matches safer for fans.

respond to the evidence of dangerous crowd pressure outside the stadium long before the game began. The writer added: "Despite all that has been said about the vile and drunken fans, the truth is that those who died [did so] with the dignity of humans after having been treated like animals."

Alcohol and violence at soccer games is not exclusive to that sport, the blue-collar worker, or even to Britain. On more than one occasion, I have stood among middle-class supporters of England's Rugby Union Football Team who were swigging from hipflasks and whisky bottles throughout the game. Last fall, I saw quite a few fists flying among drunken fans at the all-seating Coliseum in Los Angeles where the Raiders were playing the Rams. The difference is that these actions rarely develop into mob violence of the kind common in British soccer.

The British Government has long felt that something has to be done. The display of exemplary behavior by the fans at Hillsborough will not alter the Government's earlier decision to introduce identity cards for football fans, despite misgivings among many politicians about the effectiveness of this measure. Prime Minister Mar-

garet Thatcher expects the cards to be instituted by fall because, she said, two decades of hooliganism have claimed nearly 300 lives and "we have the worst record in the developed world."

Many ask if this single action is sufficient, however. One of the sadder aspects of the aftermath of events like Hillsborough is the scramble for excuses and the tendency for everyone involved—police, soccer administrators, government officials—to blame the other. Few are willing to acknowledge the contributing factors of poor organization, badly designed stadiums and builders' negligence.

Ideas to improve the situation at Britain's stadiums have been put forward. Primary among them is the elimination of the standing-room terraces where violently swaying crowds sometimes turn into mobs. Liverpool, England's most successful—and therefore richest—club, is planning to make its Anfield Road stadium all-seating, at the cost of reducing seating capacity from 44,000 to 32,000 places. However, since the average attendance today is 44,000, this may prove an unpopular move, both for the fans who will not be able to purchase tickets for

a seat and for those who cannot afford one.

For most teams the cost of creating an all-seating stadium is prohibitive. Martin Edwards of the Manchester United soccer team, another highly successful club, estimates that converting its Old Trafford ground into an all-seat stadium would cost over \$12 million. This is well beyond the means of most clubs, given that a recent survey found 80 out of the 92 league clubs to be either insolvent or constantly flirting with bankruptcy.

Since attendance at average clubs is so far below the ground capacity, one solution may be to close the standing area and to sell tickets only to the seating parts of the ground. Another proposal calls for clubs to share stadiums, thus halving costs and at the same time blurring the tribal loyalties that seem to accompany soccer teams and their grounds.

Creating new stadiums on out-of-town sites would mean better facilities inside and outside the grounds. The objection that this would put the clubs out of reach of the fans who traditionally support their local team has been dismissed as romantic but unrealistic, since the automobile and public transportation have made travel easier. Indeed, thousands of fans travel large distances every weekend to support their teams at games away from home.

Perhaps, in the end, economic realities will prevail. An old notion holds that a smaller professional national league of about 20 top teams should be able to provide proper facilities for spectators.

Changes have already taken place. The fences have been taken down at most soccer grounds and the next development undoubtedly will be the demand: "Let's see your ID." But it may be some time before every spectator with a ticket gets a seat.—DAVID LENNON

says Santiago Melioroz, head of the National Gambling Commission, which regulates casinos, bingo halls, slot machines and the state-run lotteries.

The shame felt by most problem gamblers is accentuated by their behavior. Most borrow money—never to be repaid—from all available sources, including family and friends. Others resort to stealing. Melgarejo, for example, said he lost more than one job for improperly “borrowing” company money. Others are overcome by guilt, like one Madrid Group member who missed the birth of her daughter’s first child because she was gambling. “These people are all walking around with huge weights on their shoulders,” Melgarejo says. “For years, I thought I was a shameless lout. It wasn’t until much later that I realized I was sick and needed help.”

The Government, which last year took in more than 250 billion pesetas (\$2.13 billion) from gambling fees, has taken some action to counter the image that it is too concerned about its own stake to take on the gambling industry. The National Gambling Commission has already banned bingo machines that allow people to play up to 20 bingo cards at once, and has halved the maximum slot machine price to 12,500 pesetas (\$107). It is furthermore studying the idea of putting cigarette-style warnings on its lottery advertisements and limiting the music and lights on slot machines. “It’s clear that the Government is more worried about the health of its citizens than about the money it takes in from gambling,” Mendioroz says. “If people didn’t spend their money on gambling, they’d spend it on some other taxable item.”

Spain’s long, torrid love affair with gambling dates at least as far back as 1763, when King Carlos III established the state lottery. Nowadays, the annual Christmas drawing, which offers the world’s single biggest cash prize, has become a national pastime. Last year

Spaniards placed 3.4 trillion pesetas in legal bets, with more than half of that money being fed into the 25-peseta (about 25 cents) slot machines, whose music and lights beckon to players in the more than 160,000 bars and cafes across Spain.

Some 420,000 Spaniards—3 percent of the country’s adult population—are habitual gamblers, according to the National Gambling Commission. But observers today see strong signs of hope for Spanish gambling habits. Perhaps this is most evident in the Madrid Group’s borrowed office in a working-class parish church, where the phone rings frequently with requests for information. On this spring day, Melgarejo interrupts an hour-long interview twice to set up appointments with potential members, including a middle-aged woman who has come in off the street to confess her growing addiction to the slots.—RICHARD LORANT

LISBON

Preserving the Old

Lisbon was once pastel-shaded. Daintily, old houses, tree-lined avenues and shadowy lanes trailed over seven hills like multi-colored scarves draped on a lumpy sofa. Houses were painted every seven years, and structures of past centuries were preserved. Cars were few, and pedestrians strolled peacefully on ornate mosaic sidewalks.

Then, however, the 1974-75 revolution brought graffiti, murals of workers marching into a Marxist-Leninist future and layers of peeling posters. After the revolution ended, a financially strapped municipality could not help people to fix up their houses, and frozen rents made it hard for landlords to cover costs, let alone repairs. Pastel yielded to mottled gray, and neglected houses began to fall down at a rate of one or two a month.

With the mid-1980s, and the approach of E.C. membership, economic fortunes improved. Some home or business owners painted their property, graffiti and posters thinned out, and shopping centers proliferated. The biggest—and in the eyes of many beholders most hideous—*Amoreiras*, with squat black towers and garish shopping malls, leapt up on the edge of the city to the fury of citizens.

After E.C. membership, which came at the beginning of 1986, international developers began to scout Lisbon for potentially lucrative office or luxury apartment sites. Many

buildings, some of them scarred but stately 18th- or 19th-century piles, came down. The city is now a vast building site and some residents want to put an end to the system that gives planning permission to projects that may make Lisbon a builders’ paradise but a residents’ nightmare.

In two old boroughs—the Bairro Alto, a maze of steep lanes and raggedy but colorful tenements and houses, taverns, antique and book shops near the city center, and the Lapa with its fine town houses and gardens cross-cut by tiny artisans’ houses and modest

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apartments—residents are determined to shield the 18th- and 19th-century architecture and congenial neighborhoods protected already, in theory but not necessarily in practice, by preservation orders. In Bairro Alto, for example, residents have teamed up in an association to preserve the area's unique, semi-bohemian nature.

Across town, in the Lapa district of quasi-rural lanes, geranium-draped walls and manicured pink or white houses, an idyllic life ensued in near-silence, amid the fragrance of grass and flowers. Life in the borough was a cheerful coexistence of diplomats, bank presidents, carpenters, retired clerks, electricians and amateur chicken-raisers.

The Lapa awoke in shock in August 1988, however, when workers felled 45 trees and shrubs in a 12,000-square-meter garden—the deafening prelude to the erection of a modern wing covering half the garden of an 18th-century townhouse now being converted into a luxury hotel. The residents had paid scant attention to press announcements of a large hotel on a (rundown) property that borders two narrow lanes. But when earth movers, buzz saws and long trucks deafeningly roared down once-quiet old lanes, residents realized the implications, and old-world courtly bankers and company chairmen, foundation officials and high-powered financiers turned overnight to fight to preserve their neighborhood.

They raised a petition with more than 300 signatures and set up the Lapa Association to denounce the new hotel, the din of its construction and other Lapa development plans that, the Association believes, will defoliate the area, drive out residents and turn it into a trendy, impersonal hotel and leisure zone.

The 90-room Hotel da Lapa was the first of a string of planning permissions issued for mega-projects that sought waivers to a 1970 preservation order protecting most of the



COURTESY HEYWARD ASSOCIATES, INC.

In order to preserve the quaint and colorful charm of Lisbon's Bairro Alto borough, above, its residents want to halt further new development.

Lapa's old houses, gardens and trees. These projects plan to cover gardens with built-up areas or to add floors to buildings with (theoretically) limited height. Up the road from the new Hotel, a "Lapa Leisure Center" is planned for an 18th-century house with fine painted ceilings. An English developer has permission to gut the house and install a health club, 26 apartments that cover the garden, a swimming pool and—to the horror of residents—reportedly, a casino.

The Association is demanding that preservation orders be respected and projects scaled down to such a size that they do not wreck historical gardens and bring 500 or 600 more

cars a day into the tiny streets that even now are barely able to accommodate the traffic.

No embargoes have been granted yet. But the Bairro Alto and Lapa Associations have rattled city officials and promoters of the big projects through intensive media and letter campaigns to recognize that Lisbon's neglected but still viable property and architectural, social or historical heritage is being jeopardized.

The two new associations are trying to reverse the damage done so far, and their existence and work, albeit a little late, shows that municipalities today must balance modernization with thoughtful conservation.—DIANA SMITH

ATHENS

A Monumental Restoration

The Parthenon, completed under the guidance of Phidias in 432 B.C., has not had an easy life. Ravaged by fire in the late Roman period, blown up by a Venetian mortar in 1687 (the Turks were using it as a gunpowder magazine), looted by Lord Elgin during the Napoleonic wars in the early 1800s, and afflicted by earthquakes and air pollution, it still dominates Athens as gloriously as it must have done two-and-a-half millennia ago. To ensure that this continues, the Greeks have turned the Parthenon into a giant building site, with a collapsible crane inside and the east colonnade clad in scaffolding.

The urgent need to rehabilitate all the Acropolis monuments was recognized in 1975, and a decade of restoration has already been completed. Yet, right after Greece gained independence 160 years ago, clearing the site of extraneous building and rubble and returning the temples to their original grandeur was already a Greek priority. Indeed, so seriously was it taken that, at a ceremony for the start of renovations in 1834, the young Greek King Otto sat in the Parthenon on a throne decorated with olive, myrtle and laurel branches.

Unfortunately, early efforts were more energetic than well judged, and it was largely to repair the damage they caused that the present project became necessary. The work of Nikos Balanos, who between 1898 and 1933 gave the monuments their familiar present-day appearance, has been especially vilified. His chief sin was to have used only a thick layer of cement instead of following the ancient practice of applying a thick lead coating to the iron clamps used to join the marble blocks and column drums. The iron was attacked by moisture and soon rusted and swelled,

causing both internal and external fractures.

Following the formation in 1975 of the Committee for the Preservation of the Acropolis Monuments, the first temple to receive attention was the Erechtheion. An eight-year program, concluded in 1987, saw the building partially dismantled and re-erected, using titanium rods instead of Balanos' iron clamps. To save them from erosion by acids in the atmosphere, the five surviving Caryatids (draped female figures supporting an entablature)—one had been carted off to the British Museum by Lord Elgin—were removed from the Erechtheion porch to be conserved behind glass in the Acropolis Museum, and replaced by casts. Last year the architect in charge, Alexandros Papanikolaou, received a special *Europa Nostra* award for his work.

Meanwhile, another young architect, Manolis Korres, had been carrying out a detailed investigation into all aspects of the Parthenon. This research included—in addition to model reconstructions of the whole Acropolis complex at different stages of history—countless drawings and photographs, and a comprehensive photogrammetric diagnosis of the internal condition of each component of the Parthenon.

Korres also painstakingly assembled and identified some 1,500 pieces of the Parthenon's architectural members, which had been scattered about the Acropolis rock since the 1687 explosion. These marble fragments of all sizes now lie in rows before the prefabricated workshops along the south side of the temple, and most will be returned to their original positions during the restoration. What was seen in 1985 as a 10-year rescue operation got under way, although it is likely to take much longer in reality.

This is partly because of the new possibilities that have emerged during research. Earlier this year, an international conference of architects and archaeologists, civil and chemi-



Thanks to years of intensive research, a maximum restoration of the Acropolis complex—which would return it to its original beauty and rescue it from the negative effects of earlier restorations—is now seen as a possibility.

COURTESY GREEK NATIONAL TOURIST ORGANIZATION

cal engineers and other experts, gave cautious blessing to the next stage of a preservation program that could involve more rebuilding than was ever thought possible. The conference focused chiefly on four alternative proposals presented by Korres for the restoration of the eastern entrance to the main temple. These range from restoring the incomplete inner colonnade with limited rebuilding, to almost completely reconstructing of the colonnade and entablature and partially rebuilding the cella wall. This could be done using 70 percent to 80 percent of the original material. Korres himself favors a maximum restoration, and points out that the cella wall "would reveal the true proportions of the interior of the temple."

Although the Greek restorers are scrupulously adhering to the 1964 Charter of Venice, in particular on the reversibility of each intervention and on the need for new material to be easily distinguishable from the original, some reservations were expressed at the conference about the maximalist approach and about the ratio of new material to old. All views will be conveyed in writing and studied by the Acropolis Preservation Committee and the Culture Ministry before a final

decision is reached.

Korres insists that his ideas will hardly alter the external appearance of the Parthenon, and his infectious enthusiasm has won him broad support. One delegate to this year's conference described Korres' plan as the "most correct and scientific study of a classical monument ever undertaken." A British delegate to the conference said: "I came here in rather a puritanical mood, but I'm leaving pretty well converted."—PETER THOMPSON

BONN Righting Animal Wrongs

The West German Parliament will pass a law this summer that would ban seizure of pets by debt collectors and enforce payment of veterinary bills by people who injure animals. Existing legislation regards pets as inanimate objects, but the proposed new law defines a pet as an "animal held in a household without a commercial purpose."

Such meager measures are not likely to placate the more radical elements of the animal protection movement, how-

ever. Ilja Weiss, president of the Federation of Animal Experimentation Opponents, an umbrella organization for 55 regional groups, estimates that there are more than one million organized animal-rights activists in the country. The German Animal Protection Federation, for example, claims 600,000 members alone.

Concern in Germany for animal welfare dates back to the 19th century. Cruelty to animals was punishable under Saxony's 1838 Penal Code and that of Bavaria of 1861. At the national level, the German Reich's Penal Code of 1871 also provided penalties for animal abuse. The principle of "ethical animal protection" was included, ironically, in the first Reich Animal Protection Law, implemented by the National Socialists as early as December 1, 1933 (Hitler seized power in January 1933). The Federal Republic incorporated its animal protection law in 1972; and in 1986, it passed an amendment restricting animal experimentation. This amendment reflects a changed attitude toward animals. The first paragraph reads: "The purpose of this law is to protect the life and well-being of the animal as a fellow creature of man."

But animal rights activists, the Social Democrat and the environment-oriented Green opposition parties all contend that the laws are too weak and that the 1986 amendment has done little to significantly reduce needless animal experimentation. More obstreperous and radical activists exhibit their anger by breaking into laboratories to free dogs, cats, sheep, rabbits and apes. If caught, the activists often find lenient judges and publicity. The daily tabloid *Bild* and illustrated magazines, for example, frequently publish tearful accounts of their "unselfish acts."

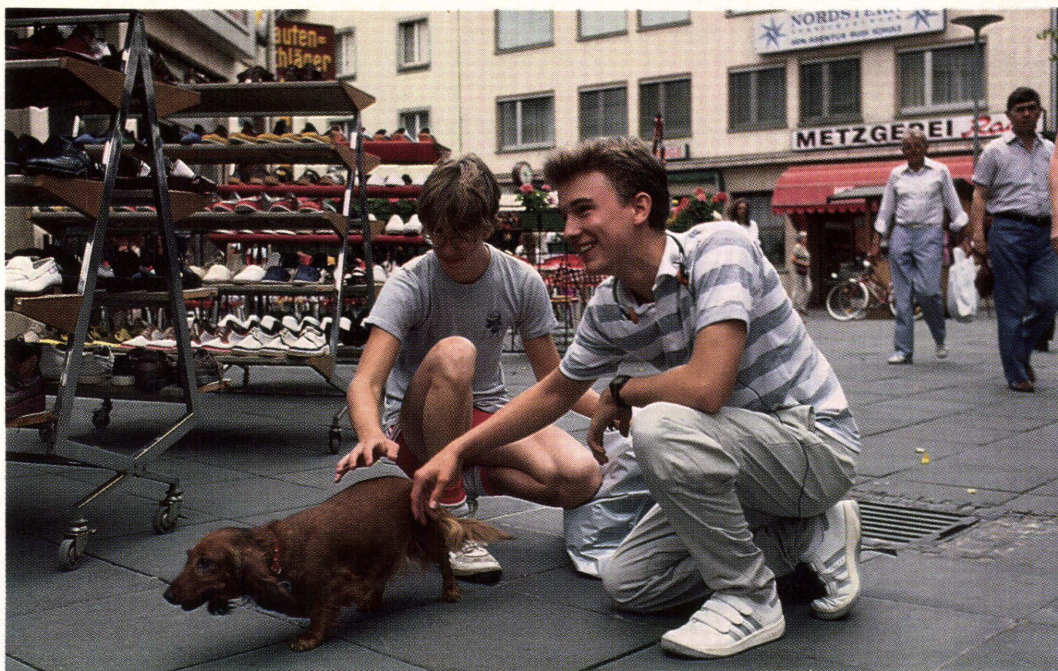
Radical animal rights campaigners deliberately choose conspicuous actions. In November 1988, for instance, they invaded a mink-breeding

farm near Stuttgart, drugged two guard dogs and set free some 600 minks worth \$70,000, leaving a painted message on a truck: "Murderers—Greetings from the Autonomous Animal Protectors." In Hamburg, where animal defenders declared 1988 the International Anti-Fur Year, authorities reported that fur shops were targets of at least 25 break-ins, resulting in more than \$578,000 in damage.

Some animal rights groups are beginning to find success by using more official channels. In a widely publicized suit brought by animal protection groups in April 1988, court judges in Hamm found two organizers of an angling competition guilty of cruelty to fish. The judges listened to expert testimony and viewed a television film of the Lippe River competition, which showed hundreds of pounds of fish writhing in landing nets for hours before being weighed and returned to the river. They concluded that "fish can feel pain," that "suffering of fish has been clearly proven," and fined the organizers \$725 each.

Although there are no official figures, activists estimate that some 10 million animals die each year in West German laboratories. The renowned Max-Planck Society accuses animal defenders of a "general mistrust of science." Professor Klaus Gärtner of the animal laboratories at the University of Hanover has gone further, saying that activists are mounting a "modern witch hunt against science." His house has been spray-painted with insults and Molotov cocktails have been lobbed into his garden.

Some supporters of animal experimentation contend that only scientists have the expertise to weigh the merits against the drawbacks. But there is disagreement even among researchers. In one study, the Federal Health Office queried scientists' attitudes toward LD-50 (Lethal Doses) tests in which unanesthetized animals



German pet lovers have won a small victory. In response to the growing controversy over animal experimentation, the Government is introducing a law this summer to better protect pets.

are injected with a substance until half of them die in agony lasting several weeks. Responses ranged from "very important" to "not very relevant," and there was disagreement on how long such experiments should last. Such uncertainties provide fresh ammunition for opponents of animal experimentation, some of whom insist that results obtained from experiments should not be applied to humans. As an example, they cite the Thalidomide disaster of the early 1960s, in which some 8,000 deformed babies were born because mothers took the drug in early pregnancy.

A West German group called Doctors Against Animal Experimentation contends that far too many animals die in useless research. Dietrich Bässler, a Hamburg gynecologist and member of the group's board, claims that 90 percent of all animals used in the laboratories of the pharmaceutical industry end up dying. And Bässler adds: "Out of 8,500 new drugs introduced in 1988 alone, some 90 percent are superfluous."

The desperate search for an effective treatment for Acquired Immune Deficiency Syndrome (AIDS) has dramatically heightened the debate,

and the stakes involved in its outcome. Doctors Against Animal Experimentation contend that animal experiments have no useful place in AIDS research, pointing out that successes to date have been achieved mainly through studies of cell cultures and clinical observation of patients. The drug AZT, for example, has been developed in vitro. Other researchers, such as Professor Gerhard Hunsmann of Göttingen's Primates Center, disagree: "Animal experimentation is indispensable in AIDS research. Apes who have been infected with AIDS viruses have developed symptoms strikingly similar to those in human beings. If we find a vaccine in animal experimentation, then it can also be produced for human beings."

Faced with bewildering scientific arguments, lay animal lovers insist that their campaign for animal rights must play to emotions. Pastor Michael Blanke and his wife Christa share this view. Last July they invited both people and animals to a Sunday mass broadcast live on German television. The congregation even sang a welcome song for a bull named Bernhard, who was shown making his way somewhat tardily to the service.—WANDA MENKE-GLÜCKERT

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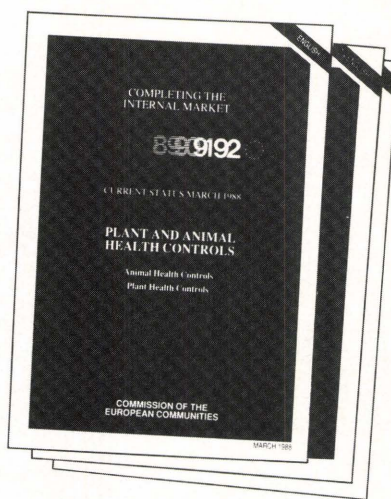
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ANDRIESSEN, HILLS AIR THEIR VIEWS ON G.A.T.T., 1992

EUROPEAN-AMERICAN JOURNALISTS CONFERENCE REVEALS THAT U.S. FEARS OF A FORTRESS EUROPE ARE EASING.

JOHN LICHFIELD

The most dismal threat to world trade relations in the next 18 months is not the U.S. Omnibus Trade Act, nor the E.C. 1992 campaign, nor even feuding in the General Agreement on Tariffs and Trade (GATT) Uruguay Round. It is the prospect of a political gridlock between all three.

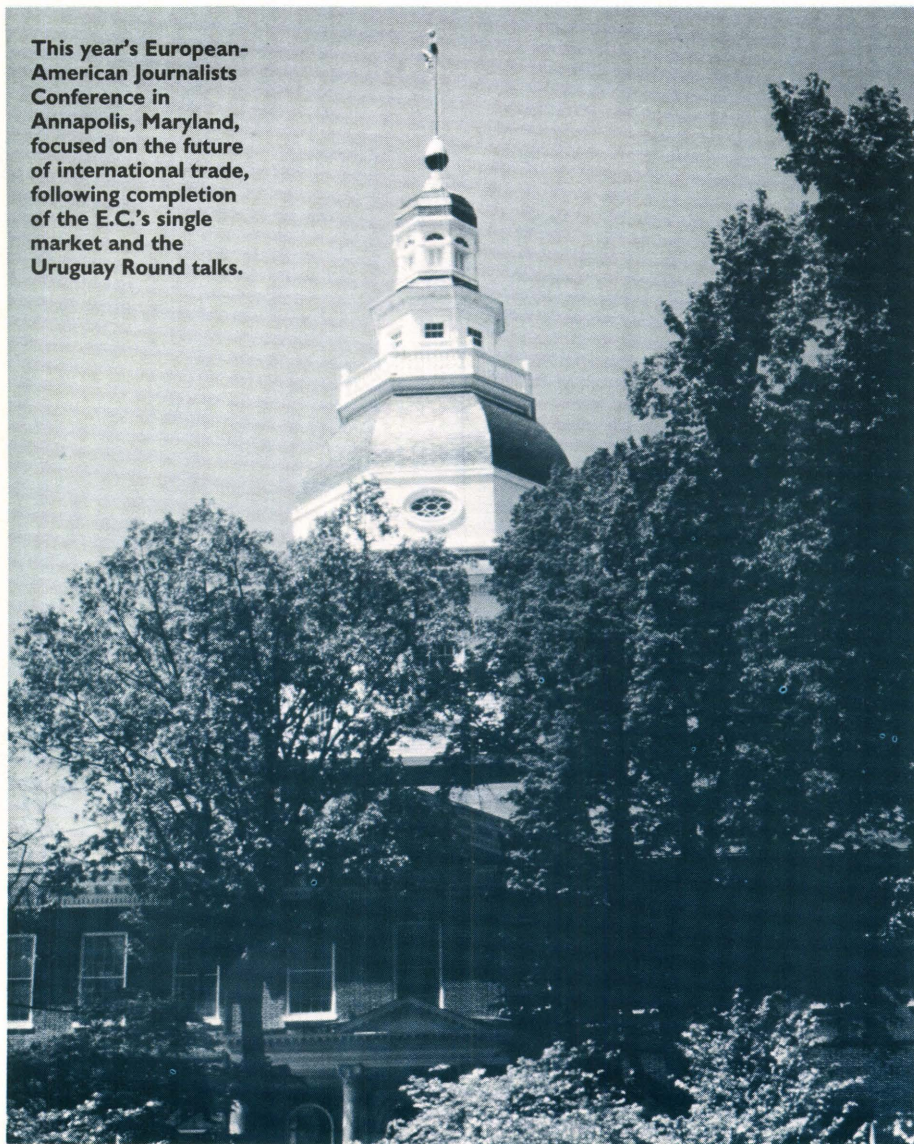
This unpleasant possibility emerged during an otherwise optimistic 12th Annual European-American Journalists Conference in Annapolis, Maryland, on May 17-19. The conference, organized by the E.C. Delegation to Washington, was subtitled "1992—A Cross-Roads in E.C.-U.S. Relations." It turned into a broader attempt to direct traffic on the crowded highways of world trade politics in the next 18 months.

All three programs—U.S., E.C. and multilateral—are nominally motoring in the direction of more open trading markets. But a number of speakers warned that the Uruguay Round could be seriously impeded by unilateral U.S. action against countries declared unfair traders under the 1988 Trade Act and that the same Act could collide with the improving E.C.-U.S. pre-1992 relationship. There were also fears, albeit less acute, that E.C. preoccupation with its single market campaign might slow the world's largest trading bloc's interest in the GATT negotiations.

More hopefully, a generally positive U.S. view emerged of the road to 1992 and beyond: It seems that the most acute phase of America's Fortress Europe anxiety is abating.

Carla Hills, the U.S. Trade Representative, fresh from an unexpectedly glowing testimony to E.C. aims and methods on Capitol Hill, reaffirmed the Bush Administration's support for the E.C. market integration program (with five broad caveats, see below). Richard E. Heckert, former Chief Executive Officer of DuPont

This year's European-American Journalists Conference in Annapolis, Maryland, focused on the future of international trade, following completion of the E.C.'s single market and the Uruguay Round talks.



de Nemours and Co. and President of the U.S. National Association of Manufacturers, declared: "[1992] is an idea whose time has come and I really do want to see it succeed . . . I have little time for those who are in semi-hysterics over a Fortress Europe."

The most keenly awaited session was the first public debate between Ambassador Hills and her E.C. counterpart Frans

Andriessen, the E.C. Vice President responsible for trade policy. The title of the session was "1992 and the Uruguay Round—Help or Hindrance." In the event, it was the United States, not the European Community, that was most on the defensive. Hills answered a series of questions from both U.S. and E.C. members of the journalists' panel on the 1986 U.S. Omnibus Trade and Competitive-

ness Act and its compatibility with the Uruguay Round.

The U.S. Administration's decision on which countries, and blocs, to formally accuse of unfair trading practices under the section of the Act known as "Super 301" was imminent when this issue of *Europe* went to press. Andriessen flatly asserted in Annapolis that the E.C., if named under the Act, would challenge the U.S. law before the GATT. He said the E.C. would "discuss problems" with the United States but would refuse to submit to the Act's timetable of 18 months of bilateral market-opening negotiations (under the threat of sanctions).

In the opening session of the conference, Arthur Dunkel, the GATT Secretary-General, expressed fears that Super 301 might unhinge the delicate bargaining of the GATT negotiations begun in Punta del Este in 1986. "My main preoccupation is that Super 301 does not spoil the Uruguay Round process," he said. Dunkel also expressed milder concern that the E.C. might be distracted from this GATT Round (due to be completed before the end of next year) by the harrowing final stages of the 1992 campaign. On the other hand, he hoped that 1992 would in some areas, such as free trade in services, prepare the way for the Uruguay Round.

Dunkel said he would like to see the bilateral market-opening "negotiations" demanded by the U.S. Trade Act folded into the multilateral negotiations of the Uruguay Round. If they could not actually be absorbed by the GATT process (something the U.S. Congress would be unlikely to accept), they could be "used in support" of the Uruguay Round, rather than be allowed to cut across it.

The following day, Hills, while refusing to be specific, expressed the same broad hopes. "My intention is that 301 should be consistent with our goals in the Uruguay Round... extending markets and opening trade... [Super 301] can help the GATT Uruguay Round to accomplish more," she said.

In a celebrated phrase during her Senate confirmation hearings in February, Hills said she would use the Trade Act like a "crowbar" to pry open foreign markets. Her comments in Annapolis suggested that, on reflection, she realized that she had been given a stone club to defuse a time bomb due to explode in 18 months' time. "I have never been a supporter of the abrupt language and rather short deadlines of Super 301," she said. "We are trying to faithfully discharge our responsibilities under the law and hopefully we will have a package that not only meets the credibility test of Congress and

our business community but our trading partners."

Andriessen agreed that much would depend on how Super 301 was implemented. "We've had some reassuring declarations by Carla Hills," he said.

The E.C. did not get off scot-free. In her opening statement before the Annapolis debate, Hills listed five principles that Washington wished to see respected in 1992-related legislation:

- The United States, and other countries, must be given the same open-market opportunities as E.C. nations;
- 1992 must reduce existing E.C. protectionism, not convert national barriers into community ones;
- Harmonization of technical standards should be at the most liberal, not the most restrictive, existing national level;
- E.C. decision-making should be transparent;
- 1992 decisions should conform with the multilateral approaches developed in the GATT Round (the fear of international trade gridlock surfacing here once again).

In response, Andriessen said all five principles were already being respected by the Community. He complained that U.S. fears of 1992 were often based on "emotion and sentiment rather than fact." He admitted that some of the existing national trade barriers would inevitably be transferred to the Community's

external frontier, but predicted that such barriers would be transitional, degressive and short-lived.

In an earlier session on the monetary implications of 1992, Niels Thygesen, Professor of Economics at Copenhagen University, forecast that 11 out of the 12 E.C. countries would continue to explore the possibilities of a single currency and European central bank. (Britain—or at least the British Prime Minister—is violently opposed to such a development.) Fred Bergsten, Director of the Institute for International Economics in Washington, D.C., welcomed the recent Delors Committee report on European Monetary Union (EMU) but complained that the committee had been too inward-looking, ignoring the future relationship between an EMU and the dollar and other world currencies.

It was left to Sir Roy Denman, retiring as Head of the E.C. Washington Delegation this summer, to close the conference with a valedictory speech. He advised Americans not to take reports of internal divisions within the E.C. too seriously. "For us, 1992 is like the opening of the American West was for you," he said. "And as you know, that was not a friction-free operation." €

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1992'S IMPACT ON AMERICAN BUSINESS ACCELERATES

AN AMERICAN JOURNALIST OBSERVES THE ISSUES—AND POSSIBLE IMPLICATIONS—RAISED AT RECENT CONFERENCES ON THIS SUBJECT.

AXEL KRAUSE

It was one of those passing moments that, for some observers of E.C. affairs, touched a sensitive nerve: The very day in mid-February, when President George Bush was winging his way to Tokyo on his first foreign trip as U.S. President, and while briefing reporters on how he regarded Asia as America's first international priority, U.S. Trade Representative Carla Hills, back in Washington, was lashing out at E.C. trade practices in telecommunications and threatening retaliation.

By April, President Bush was urging both the United States and Europe to "rise above fighting about beef hormones" and other "pettiness," and Hills was suggesting that Washington approach the Community with "optimism tempered with vigilance." Despite the calmer tone, the outlook was for continuing tension and conflict over trade issues, amid signs that the skirmishing was spreading beyond agriculture, Airbus and telecommunications into new sectors: electronics and defense-related projects on both sides of the Atlantic, and controls over new, direct foreign investment in the United States.

According to diplomats, bankers and academics, these new signs of conflict and tension on both sides of the Atlantic have thrown cold water on the idea that the Bush Administration has recognized the need for an all-encompassing approach to Western Europe's accelerating effort not only to integrate economically, but also to become a more forceful, united voice.

When that point was made by an American journalist at a recent panel discussion on U.S.-French relations, organized in Paris by American Democrats Abroad, senior U.S. diplomats were quick to agree—with some embarrassment. "It is true that this Administration has not yet addressed Europe in a comprehensive manner, and it is perceived primarily as a



Sir Roy Denman, Head of the E.C. Commission's Delegation in Washington, said at the Fletcher conference that the E.C.'s internal market program would not create a Fortress Europe situation.

strategic issue," one diplomat said.

Meanwhile, the sprouting of conferences and seminars throughout the United States that focus on the implications of 1992 for American policy, not only has helped generate new interest in E.C. developments, but has also brought out the underlying tensions and identified spreading areas of conflict. The several hundred business leaders, consultants, professors and students who attended a two-day conference in April at the Fletcher School of Law and Diplomacy in Medford, Mass., heard Peter Linton, a Brussels-based American consultant, warn that "you [had] better be ready—the integration process is moving ahead faster and farther than anyone has realized." He added that many Americans have yet to grasp the political significance of the process, and to take it very seriously.

The new tone emerging from E.C. officials was succinctly summed up by Sir

Roy Denman, Head of the E.C. Commission's Delegation in Washington, D.C., who asked the same conference—and indirectly Washington—the following questions: "Will there be a Fortress Europe, you ask. Will there be a Fortress America? Are we going to consult the United States [on a bilateral basis about draft Commission directives]? The answer is no." He added that "there is nothing wicked about reciprocity," referring to the simmering controversy between the E.C. and the United States over what status should be granted to

U.S. and E.C. companies and banks seeking to establish operations in each others' markets.

Several weeks later in London, Frans Andriessen, the E.C. Commission Vice President responsible for external relations, added that any disputes raised by the U.S. Trade Act should be negotiated within the framework of the General Agreement on Tariffs and Trade, and not bilaterally as some Bush Administration officials had suggested. In an effort to blunt U.S. plans to single out E.C. telecommunications for retaliation under the Trade Act, Andriessen emphasized that E.C. telecommunications deregulation was going forward and that the United States had no reason to worry.

Strong support for the European standpoint came from the largest American telecommunications company, AT&T, whose European chief executive, Robert D. Dalziel, also addressed the Fletcher Conference. The E.C. today represents

“unparalleled opportunity for those ready to play with Europe’s rules in Europe,” said Dalziel, who is based in Brussels and whose company recently announced a major joint venture undertaking with Italtel, Italy’s telecommunications company, to help modernize that country’s telephone system. In that venture, amid steady calls for a “European solution,” AT&T faced stiff competition, primarily from Siemens of West Germany, Alcatel of France and Ericsson of Sweden.

Meanwhile, powerful business lobbies with close ties to the E.C. Commission and the European Parliament have raised new issues, which promise to continue

search program, known as Sematach. “We are good corporate citizens in the United States—with over \$5 billion in sales—so why should we allow U.S. companies to participate in new E.C.-funded projects, such as JESSI [a joint project to acquire silicon process technology for large-scale integrated circuits in the 1990s], if we cannot join American projects?” he said. E.C. officials noted that IBM was seeking to join this program. Philips is using its considerable influence to keep IBM—and other non-European companies—out, pending negotiations over its own participation in U.S.-funded projects.

Congress, and they are not in a very understanding mood when it comes to Europe, or Japan for that matter, and trade issues.”

Thus, say many observers, it is more urgent than ever that the Bush Administration—starting with President Bush and Secretary of State James Baker—begin to focus more intently on European efforts to integrate economically and, according to some U.S. business leaders, to sound more positive. Not even the most ardent supporters of Europe’s efforts would argue that America should not be vigilant. But that is not a strategy. And we are a long way from the early 1970s



At Fletcher, Gerrit Jeelof, chairman of North American Philips Corp., noted that European companies are increasingly excluded from U.S. joint research programs, although American firms collaborate on similar European projects.

PHOTOS BY GREG CRANNA

putting pressure on the negotiators, and hold precious little prospect for early solutions. The opening round in one such emerging battle was fired at Fletcher by Gerrit Jeelof, chairman of North American Philips Corporation, and vice chairman of the parent company, N.V. Philips, the large Dutch electronics company. Noting the large number of U.S. multinational companies operating in defense-related sectors throughout Europe, and citing Honeywell, Raytheon and General Electric, Jeelof said that he and many of his European colleagues in the United States were “offended” by the way they were being treated. “Foreigners keep out—that is what we now hear,” he said.

Although foreign companies are routinely excluded from bidding on most U.S. government defense procurement contracts, Jeelof singled out a recent U.S. decision to exclude European companies, including Philips, from participating in a new joint U.S. electronics industry re-

Some E.C. business leaders are also beginning to express annoyance with the Exon-Florio provision of the Omnibus Trade and Competitiveness Act of 1988. This allows the U.S. Administration to block acquisitions in the United States by foreigners on the grounds that they present a threat to national security. In what European executives with extensive U.S. operations describe as “second-class treatment,” foreign companies seeking acquisitions in the United States now must notify an interagency group, headed by the Treasury Department, to obtain clearance.

“There could be retaliation in Europe,” a European executive said. Considering that General Electric’s F404 military engine is used to power France’s most sophisticated new tactical fighter, the Rafale, and that the United States is helping Japan build its FSX fighter, such arguments simply sound “silly,” a U.S. diplomat conceded. “But Congress is

and “The Year of Europe,” which many Americans have forgotten.

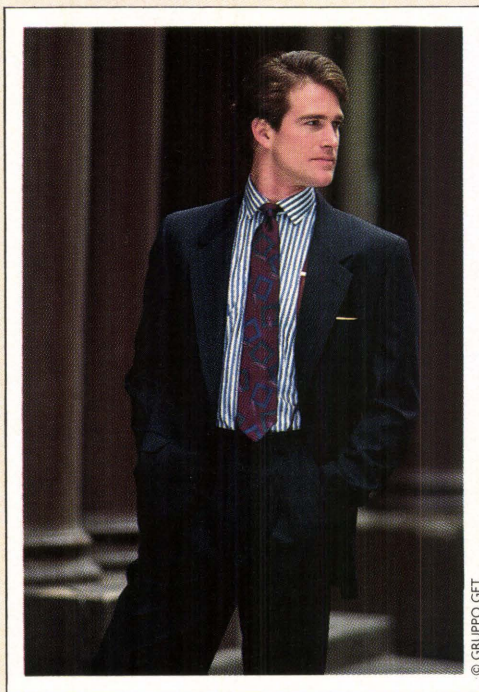
“While one hears concerns expressed about the impact on American business of certain aspects of 1992, the bottom line is that it represents far more of an opportunity than a threat,” said Robert D. Hormats, vice chairman of Goldman Sachs International, in recent testimony to a House subcommittee in Washington. As a young member of Henry Kissinger’s staff at the National Security Council, Hormats helped draft economic guidelines for what was known as the Year of Europe, Kissinger’s diplomatic initiative to focus American attention on strengthening policy ties with that continent. The plan failed to materialize, however, because of the 1973 Israeli War and the 1974 oil shock, which further strained trans-Atlantic relations. €

Axel Krause, who is writing a book about Europe, is corporate editor of the *International Herald Tribune* in Paris.

INNOVATION SWEEPS THE FASHION INDUSTRY



More than ever before, fashion is developing a universal appeal, with original designs being adapted to suit the needs of the various international markets. This page: Lanvin's Fall/Winter 1989 collection.



The Italian company Gruppo GFT saw the change in fashion trends from specialized to globalized markets early on. Serving as an umbrella for many designers, it has penetrated apparel markets worldwide. To the left: PFerris' menswear.

GENE DE NICOLAIS

Financed in London. Designed in Milan. Produced in Frankfurt using materials made in Hong Kong. Sold in the choicest stores from New York to Tokyo: It is evident that globalization has affected every aspect of our world today. The unification of the European market in 1992 has only served to strengthen the resolve of business leaders to have their products represented internationally.

As companies around the world jump on the global bandwagon, however, agendas become filled with questions that are difficult to answer. Where do we build that new plant? How do we coordinate new production schedules? When should we "customize" and when should we "standardize" the product? In a world where cultures, tastes and trends are becoming at once more homogeneous and particular all the time, the latter problem presents a fundamental challenge. From production to distribution, from marketing to client services and beyond—the debate of whether to customize or standardize the product and its marketing has become the hottest boardroom topic worldwide.

Fashion products have been no exception to this trend. In fact, at the beginning of the 1970s, leaders of the multi-billion-dollar apparel industry began to realize the opportunities inherent in a world of consumers intent on owning products "styled" by their favorite designers. What is the role of fashion in this new

global reality? Can fashion, which has always been principally a phenomenon of diverse and distinct local cultures, trends and tastes exist in a global marketplace?

Certainly in fashion, as anywhere else, some products are global. A man's suit, designed by a renowned Italian designer—Valentino, for example—is by definition a global product, fitting neatly in the category of standardized products. Products that carry certain European designer labels, such as Christian Dior and Yves Saint Laurent, or the American labels of such designers as Calvin Klein, Joan and David Helpern or Joseph Abboud, have all proven their "universal" appeal. Though the consumers of these products are limited in numbers, they are nonetheless unified on an international basis under a homogenized sociological and economic point of view.

At closer range, however, a more complex scenario unfolds. Products must be customized to meet the demands of the most significant markets of destination. For example, the same men's suit that is produced of heavy wool for northern climates—though styled by the same designer—is not easily marketed in Miami or Southern California.

Obviously, although international by signature and association, a product must be adapted. It has now entered a new, more complex, domain; standardized and customized, globalized and regionalized all at once. Ironically, as the reality of this customizing opens the door to new markets, it simultaneously satisfies the prin-

THE FASHION AND
APPAREL SECTORS
ARE BECOMING
LEADING FORCES
IN THE RUSH
TO GLOBALIZE.

Today's notion of quality "ready-to-wear" clothing was made possible chiefly by the industrialization of the apparel industry, which commercialized the tailor's skills and appealed to mass markets. To the right: Krizia Moda's Fall/Winter collection in Milan.



© MATTENI/SIPA-PRESS

cial corporate objective of today's savvy marketer—to increase market share in a profitable manner.

When it comes to fashion and apparel, perhaps no other company has experienced the successes and pitfalls of internationalization and global marketing better than apparel industry giant, Gruppo GFT, the powerhouse group behind some of the most prestigious designers of the day (including the likes of Giorgio Armani, Valentino, Emanuel Ungaro and Claude Montana, among others). In less than 20 years, GFT, based in Turin, has almost single-handedly created the market for European designer menswear and womenswear in America, as well as in other markets around the world. In addition, the privately held group has been a principal contributor to the know-how that has made "Made in Italy" synonymous with quality from Paris to Sydney. The development of that impression, and consumer demand for quality apparel products tailored to their needs, has seen GFT grow into a billion-dollar enterprise consisting of 40 companies that manufacture, merchandise, distribute and market as many as 60 designer and branded menswear and womenswear labels on every continent.

Internationalization has paid off handsomely for GFT. Yet the group's evolution has not been so much due to its enormous industrial and export capacity as to its transition from pure exporter to "insider" in the last three decades. In turn,

this has led to the group's industrial and marketing flexibility in an industry primarily set on satisfying the changing tastes and lifestyles of world populations. GFT's talent for customizing a standardized product has not only allowed it an insider role in most of the world's principal markets from an industrial perspective, but has also provided the merchandising and marketing expertise necessary to make the group's product "communicate" in the language of the market of destination.

Globalization: The Case of Gruppo GFT

Gruppo GFT's development from exporter to insider is in itself a case history that traces the evolution of the European fashion industry as a whole over the past 40 years. For most of the industrial world—and for GFT—the 1950s meant industrial innovation. In fashion, radical improvements in clothing production helped create the modern notion of the quality of ready-to-wear apparel that was manufactured on an industrial scale. The tailor's skills were commercialized, but the basic values remained intact.

More demand meant more production and, naturally, that required new ways of looking at distribution. As a result, the company looked for new markets, and that meant going beyond home borders.

Continued on page 47.

Gene de Nicolais is director of corporate communications at Gruppo GFT North America.

A FAMILY BUSINESS TAKES THE WORLD BY STORM

1992
EUROPE
WITHOUT
FRONTIERS

LUCIANO BENETTON
DISCUSSES THE
IMPLICATIONS
OF 1992
FOR EUROPEAN
INDUSTRY.

Benetton has about 5,000 independently owned stores in 79 countries, and sold 58 million pieces of clothing in 1988. Below: The company's "Colonies" collection; Luciano Benetton.

Benetton is a renowned world leader in the design, manufacture and marketing of unique sportswear. In 1988, through a network of nearly 5,000 independently owned stores, the company sold approximately 58 million colorful pieces of clothing in 79 countries. The group has 14 factories, including 7 in Italy, 2 in France and 1 in North Carolina in the United States.

Benetton, soon to be listed on the New York Stock Exchange, was established in 1965 in Ponzano Veneto, Italy, by the four Benetton siblings Luciano, Giuliana, Gilberto and Carlo. Luciano Benetton, 54, is the oldest and is the driving force behind the family business, which, in a very short time, has come to influence and dominate the fashion industry worldwide.

In this interview with Arturo Zampaglione of *La Repubblica*, Luciano Benetton explains his views on the issues raised by the approaching European single market.

What is your answer to the American argument that "Europe 1992" will be like a fortress?

"I do not think that there will be fortresses of any kind. The arguments on some specific issues in the trade between the United States and Europe need not be confused with the erection of protectionist barriers."

Mr. Romiti, the Chief Executive Officer of Fiat, has recently stated that there was more enthusiasm for 1992 in the business community than in the political arena. Do you share this view and do you think that European politicians could try to do something to delay 1992's target?

"No, I do not share Mr. Romiti's view. By reading the history of Europe, one realizes that political leaders have always been a little more advanced than the experts and industrialists. Take, for example, the European Monetary System: Scholars and businessmen were skeptical

about its success, and only strong political will allowed its introduction 10 years ago."

Do you think that Benetton as a group will have some direct advantages from 1992 and, eventually, what will these advantages be?

"No. For the last 10 years, Benetton has considered Europe its true domestic market and looked upon exports as those of its sales to countries outside the Community. For us, nothing will change."

It is commonly believed that 1992 will have some losers and winners among countries, regions and industries. Who do you think will gain and lose in Italy?

"It is still too early to say. Everything will depend on what happens in the different industries in the next two or three years."

Do you fear that there could be a new wave of U.S. protectionism as a response to 1992?

"As I mentioned earlier, I don't envision trade wars but only *querelles*—arguments—on specific exports."

Until now, the European textile industry has been rather protected by external competition. Many discussions within the General Agreement on Tariffs and Trade refer to this competition. Do you fear that Europe could be flooded by low-cost textile imports from Third World countries?

"For Europe, it will be a new challenge. I am optimistic about the ability of a new boost for the European textile industry."

Do you believe that, in the perspective of 1992, the European business community has a specific duty? If so, what is it?

"The general trend shows an increased internationalization of companies. This is the only way, not only for Italian corporations, but for all European corporations, to respond to the growing competition."

Arturo Zampaglione writes for the Italian daily *La Repubblica* from New York.



PHOTOS COURTESY OF BENETTON SERVICES CORP.



THE AMERICANS ARE COMING!

DIFFERENCES IN EUROPEAN AND AMERICAN FASHION DESIGNS ARE DETERMINED BY DIFFERENT LIFESTYLES.

Last month, in his first collection since becoming head designer for the Perry Ellis fashion empire, Marc Jacobs got the audience up and on their feet, applauding madly. He had sent a troop of models down the runway draped in Old Glory—gray cashmere stoles patterned with the Stars and Stripes.

Jacobs' patriotic flag-waving was duly justified. American fashion is coming into its own, no longer playing second fiddle to Paris or poor cousin to Milan. The press, stores and trend-setters the world over are today turning to the United States to see what women will be wearing tomorrow. "For the first time ever, American buyers who have been to both the European and the American collections said the American clothes were the best," affirmed The Fashion Group, a gathering of fashion experts around the country.

That was not always so. Wealthy Americans used to visit Worth in Paris and Fortuny in Venice to buy their clothes. Home-grown fashions did not begin to have a cachet until the 1940s, when the war cut America off from Europe. Native son Norman Norell's clean-lined yet luxurious creations (one of his most famous designs was a long, sequined dress, simple as a T-shirt) rivaled those by European colleagues Coco Chanel and Christian Dior for the U.S. customer's attention—and dollars.

At the same time, another designer was hard at work establishing what would become the tenets of America's fashion philosophy. Claire McCardell put women in rompers and flat-heeled ballet slippers so they could run, dresses with pockets so they could slouch and clothes of workday fabrics like gingham so they could be comfortable. McCardell understood that her contemporaries—her customers—were entering a new age of activity, whether on the playing field or in the board room, and she dressed them accordingly.

Designing for the working woman has become an American obsession. This makes perfect sense in a nation where, unlike Europe, everyone works, even "royalty," from the old guard (such as

Jacqueline Kennedy Onassis) to the *nouvelle* (such as Ivana Trump). Not surprisingly, American designers have responded to the phenomenon with clothes that "work" too. The tailored suits and dresses flooding U.S. stores sometimes mimic the uniformity and rigidity of a man's business suit a bit too successfully. At other times, the genre combines authority with the right amount of allure, as when Donna Karan designs a classic blazer—in pink cashmere.

Americans, descendants of the pioneers, have always worked. If European designers spring from a tradition of creating confections for the court, the salon and the theater, America's earlier designers dressed the hunter, the farmer and the cowpoke. India may have given the world denim, but Levi Strauss in San Francisco gave it blue jeans. And leave it to American Gloria Vanderbilt to help kick off the designer jean fad.

Ralph Lauren has made a fortune capitalizing on such innately made-in-the-U.S.A. fashion statements as blanket coats that recall L.L. Bean hunting jackets, heavy-knit sweaters a Navaho Indian might have worn and chambray skirts straight off a prairie cowgirl.

In a similar spirit—and with equal success—Norma Kamali took sweatshirts out of the health club and translated them into dresses for city streets. And only in America could baseball caps, boat shoes, bicycle pants, dancer's leotards and cowboy boots begin to break down the barrier between active sports gear and high fashion.

American design is no-nonsense, no-fuss and no-frills, epitomized in the past by Halston, today by Calvin Klein and tomorrow by rising star Isaac Mizrahi. His hooded parkas and brilliantly colored rain ponchos combine the country's love of sportswear with its inbred insistence on ease, comfort and function.

"I'm aware of the usefulness of clothes," says Geoffrey Beene, the man universally considered the country's quintessential designer. "Americans need clothes that go from work straight to dinner. Fashion here must be more versatile than in Europe, where clothes tend to



© BRUCE WEBER

be specifically designed for appointed hours—for dinner dressing, evening dressing.” Beene’s creations “must fold easily to pack for travel,” he says, and are “minimal, with nothing added for no apparent reason.” Sportswear is a foundation; one of his most famous designs is a football jersey, extended to the ankles and encrusted with sequins. And, even when it comes to fabrics, there are no class distinctions. “I love gray flannel”—his trademark, used in everything from tailored pants to evening dresses with sable cuffs—“because if something is beautiful for day it’s beautiful for evening. In a country where everybody works, fabrics must work, too.”

The difference in European and American fashion is ingrained. The *Parisienne* and the *Milanese* must have clothes for her *promenade* or *passeggiata*, fashions to catch the eye, to stand out in the passing parade. The American wants clothes for the office, the health club and the home. “American women love simple clothes,” says designer Bill Blass. “It’s the way they live, in simpler houses and simpler surroundings than Europeans—not in a *palazzo* in Rome.”

In Europe, fashion is more likely to be considered an art, revered in museums and fueled by *haute couture*. In the United States, it is commerce. “I’m aware of how wearable my designs are; they’re not some fantasy I create,” Beene says. Bill Blass would concur. In fact, true to form, his fall collection stresses a “pre-dominance of sweaters, for day and evening,” he says. Simple, functional, versatile and uncomplicated, sweater dressing, even for the most glamorous of nights, just might be the essence of U.S. style.

“In America you have a special creativity,” French fashion star Christian Lacroix once told me. “The best designers are the heirs of McCardell, inheritors of a uniquely American elegance that is sophisticated yet casual, like a beautiful cashmere sweater.” Even the champion of frills and froufrou can appreciate American fashion at its best. €

Kathleen Beckett-Young, a contributing editor to *Elle*, was formerly on the staffs of *Harper’s Bazaar*, *Glamour* and *Vogue*.



While European fashions are more dressy and tailored for specific occasions, American clothes tend to be elegant, yet practical, and geared to the working woman. Opposite: Ralph Lauren’s Polo collection. Above: Geoffrey Beene with models at a fashion show.

© P. PELLETIER/GAMMA LIAISON

JAMES ELLES

As European voters go to the polls this month to elect their Members of the European Parliament (MEP) for the third time in history, now is the time to look at the Parliament's record over the past five years, its likely priorities for the next five, and the importance of this electoral process to the United States.

During the campaign in the summer of 1984, the political landscape in the E.C. was very different from today. The farming world was up in arms about the introduction of milk quotas in April 1984, which led nearly 50,000 milk producers to leave the dairy industry in France alone by mid-1985. Moreover, headlines were dominated by tussles on the never ending budget debates and the cost of the Common Agricultural Policy (CAP)—even though the groundwork for the great impetus toward the completion of the internal market had already been laid with the European Parliament calling for a new draft Treaty of European Union (the "Spinelli" treaty). These were not themes likely to promote broad public interest in the campaign.

At that time, we were perceived as a Parliament that had little effect on the life of the Community. Yes, we had the right to delay legislation for about a year and suggest amendments to E.C. legislation (which were rarely taken up by the Council of Ministers). Yes, we had the right to reject the E.C. budget (which we promptly did in 1985 as we had previously done in 1980), and yes, we also had the right to sack the European Commission (which we still have not done to this day).

We used these limited powers to ensure that the high prices awarded to agricultural produce have become a phenomenon of the past, and we supported the introduction of tough measures to control surplus production in major product areas. This included a legal framework for budgetary discipline.

As a result of reforms agreed upon in early 1988, the butter mountain—at 1.3 million tons the biggest the world has ever seen—has all but vanished, and beef stocks are falling fast. The role of the markets in the operation of the CAP has become much more prominent.

As the joint budgetary authority with the Council of Ministers, we recognized that the peripheral and "less favored" regions in the E.C. would need assistance. We thus fully supported the doubling of the structural funds, while agree-

ELECTION 1989

AN "M.E.P." REFLECTS ON THE PAST,
PRESENT AND FUTURE ROLE OF THE
EUROPEAN PARLIAMENT.

ing at the same time to soften the blow of the cutbacks decided upon.

While these discussions—at some times heated—were progressing, a wider dimension was being agreed to for E.C. action. Stemming from the Parliamentary drive in early 1984, an intergovernmental conference was called in mid-1985 to discuss amendments to update the Treaty of Rome that founded the E.C. in 1957.

Although the ambitions of the Parliament for co-legislation with the Council of Ministers were not achieved, some of its requests were taken up. In spite of the lack of enthusiasm from a few member states, Europe's first amendment to its constitution was born, known as the "Single European Act." Although one of the worst-drafted international treaties ever to become operational (entering into force on July 1, 1987), it has had the effect of accelerating E.C. activity in several areas and has begun to change the balance between the E.C. institutions.

First, it included into E.C. legislation the objective to complete the internal market by December 31, 1992, by providing the legal basis for the 1992 program. Second, it has extended E.C. activities into such areas as broader cooperation in research and development and environment. It has also strengthened the E.C.'s ability to act in common to shape a foreign policy. Third, it has altered the institutional nature of the

Community, accelerating the decision-making process in the Council of Ministers by reducing the number of areas subject to unanimous vote by all member states. Finally, it has broadened the competences of the European Parliament in the legislative process, and introduced the right of veto for the Parliament in certain areas of external policy.

The impact of this last change was not immediately perceived. After all, why should two readings on legislation under the 1992 program, instead of one, be of any consequence? How could a Parliament, which holds its Committee meetings in Brussels, conducts its full sessions 400 kilometers away in Strasbourg and houses its Secretariat of some 3,000 officials in Luxembourg, have any real effect?

The answer is that the Parliament has made the most of its extended responsibilities. For the first 20 months under the new procedures for the 1992 program, it has been able to ensure that nearly 30 percent of all its amendments have made their way into final legislation. Not a bad record for any Parliament.

It is no wonder that the pace of work within the institutions has significantly changed gear, with Parliamentarians being increasingly lobbied by European and American business as the influence in the legislative process grows. What are its priorities likely to be in the next five years?



© GUTEKUNST/GAMMA LIAISON

When the Treaty of Rome was amended by the Single European Act in 1987, the European Parliament obtained greater powers than it had previously possessed, and now has a much more direct effect on E.C. decision making and policy. This is especially important as the E.C. prepares for 1992.

The first priority must be to make its organizational framework more logical. With three different places of work for parliamentary activity, it is not surprising that the average MEP never spends more than two days in the one place. So, despite the concerns for Europeans everywhere, we must concentrate most of our activities in one place if we are to carry out the mandate for which we are elected: to participate actively in the E.C. legislative process and to control the activities of the European Commission. The most likely spot for this to happen is Brussels.

We must, as a Parliament, not only give a more thorough examination to E.C. legislation. (As one Eurocrat commented recently: "... My goodness, you are no longer formulating resolutions: you are proposing amendments to specific E.C. proposals!") We must also have more control over the application of E.C. legislation once implemented in the 12 member states. Otherwise, the trade barriers will not come down as intended, which would be a field day for lawyers.

Second, as the European Parliament's activities broaden, we must ensure that there is a more open dialogue with national parliaments, both working together to control national and European bureaucracies. As Jean Monnet wisely observed, the key to the construction of Europe lies in constant dialogue between the national

and the European institutions.

Third, we must further develop E.C. activities within the scope of the Single European Act. This should take place on the basis that only certain powers are pooled together because it is demonstrably more effective to do so at a European level than for the 12 member states to act individually. These will no doubt include more action on the environment, on monetary issues, on extension of education and training initiatives to help the mobility of teachers and students, and on the formulation of European security and foreign policy.

This last area should undergo a significant expansion of activity within the Parliament. Under the Single Act, the E.C.'s authority has been extended to cover the political and economic aspects of security. In addition, the European Parliament has the right of veto on future enlargement of the Community, as well as on the conclusion of association agreements with third countries.

How will this affect relations between the United States and the European Community? Although the Parliament will still be selecting its 518 MEPs from 12 countries on nationally based electoral systems, and will no doubt still have over 60 national parties represented after June 1989, it is now inescapable that it will have a greater effect than before on the direction of the European Community.

It has become more important to see how a different political mix could alter E.C. policies. At present, finely balanced in political terms, a loss of eight seats from the Conservatives and their allies will produce a Parliament dominated by the Socialists and the Communists. Such a swing would mean greater pressures for the social dimension (for example, worker participation in European companies) and more interventionism proposed in the 1992 program. It could lead to more powerful differences among the Parliament and other E.C. institutions than hitherto.

It could also lead to heavier pressures on the Commission for more protectionist action to countries outside the Community—a most unwelcome development at this stage of trans-Atlantic relations. We must do what we can to keep our markets open. Of course, the Atlanticist free-trader label is not confined solely to political parties of the center and the center right, even though they do wield the most influence.

Last, but not least, is the increasing importance of the German question. The growing influence of the Parliament in external policy will mean that its voice will be heard more frequently in the realm of broader strategic relations, particularly concerning Eastern Europe. As the Soviet threat to the West is perceived to diminish, the potential in the United States and the E.C. to take different approaches on specific issues will rise.

A continuing and open dialogue between American and European elected decision-makers, with an input from the trans-Atlantic business community, will be vital to keep the number of misunderstandings to a minimum, while simultaneously injecting ideas on how to solve problems before they reach boiling points. The aim must be to broaden the political dialogue, over the years ahead, perhaps by a "declaration of intent" between the two sides to deepen their cooperation.

It is essential to ensure that the United States is involved and constantly informed of our progress in order to maintain that Alliance, which, as British Prime Minister Margaret Thatcher pointed out in her 1988 Bruges speech, is "... our greatest asset and our greatest strength." €

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TOWARD PEACE IN THE MIDDLE EAST?

It is now over 20 years since the United Nations' (U.N.) Security Council Resolution 242 laid down the formula of "territory in return for peace" as the international community's approach to resolving the protracted Middle East conflict. A year-and-a-half ago, the Palestinians launched their uprising, or *intifada*, in the occupied territories; and last November, meeting in Algiers, the capital of Algeria, the Palestine National Council proclaimed an independent state.

Subsequently, Yasser Arafat, leader of the Palestine Liberation Organization (PLO), removed the last ambiguities by affirming that the PLO accepted Resolutions 242 and 338 without qualification, recognized Israel's right to exist and unequivocally renounced the use of terrorism. After 13 years, the way was thus opened for the United States to resume a dialogue with the PLO, and for the European Community to embark on an ambitious diplomatic quest for a peace settlement. At long last, major pieces of this intricate jigsaw seemed to be falling into place.

While the Community role is seen as vital by all parties to the dispute except Israel, it has hitherto been hampered by the fluctuations of superpower relations, by the recalcitrance of the Middle East parties themselves and, above all, by its own deficiency in collective muscle. E.C. diplomats say candidly that, unless they can bring the United States positively into the European consensus, there is little the Community can achieve on its own. Yet, paradoxically or not, the origins of the E.C.'s active involvement in the peace process lie in its success in distancing itself from U.S. attitudes to the Arab world.

After the 1973 oil crisis, and in opposition to U.S. wishes, the E.C. initiated a Euro-Arab dialogue that, while confined mainly to economic and trade relations, played an important part in rebuilding confidence and in bringing to maturity a European policy on the Middle East. Following the Egypt-Israel agreements at Camp David, this culminated in the E.C.'s 1980 Venice Declaration, which, for the first time, recognized the Palestinian question as more than a refugee problem and enshrined the right of the Palestinians to self-determination. It also prepared the way for a European initiative, and accepted that the PLO "will have to be associated with the negotiations."

If the initiative did not materialize, this was largely because of renewed East-West tension in the early 1980s, and American unwillingness to give it solid

Europe has welcomed the PLO's recognition of Israel and its renunciation of terrorism and is promoting the idea of an international conference to advance peace in the region. Below: Arafat addresses the U.N. General Assembly in Geneva.



THE EUROPEAN ROLE IN THE PROCESS IS TAKING ON GROWING IMPORTANCE.

backing. Additional setbacks included the deteriorating situation in Lebanon, Israel's invasion of that country and a spate of Palestinian terrorist attacks, so that the Community was restricted to low-key diplomatic activity, urging restraint on all sides, and the need for them sooner or later to talk to one another.

However, the Venice Declaration—described by Western diplomats as “a self-evidently fair document of continuing validity”—remains the cornerstone of E.C. policy, which undoubtedly contributed to the progress made at Arab summits toward a common readiness to negotiate with Israel. In 1987, against an improving climate in superpower relations, the E.C. (now including Spain, Portugal and Greece) took another step forward by declaring itself “in favor of an international peace conference to be held under the auspices of the United Nations with the participation of the parties concerned and of any party able to make a direct and positive contribution . . .” Once again, the European capitals were running ahead of Washington.

From then on, however, the real running was to be made by the Palestinians themselves. In December 1987, impatience with two decades of Israeli occupation and the spread of Jewish settlements reached a head, and the Palestinian *intifada* broke out on the West Bank and in Gaza. A campaign of defiance and harassment, rather than an armed insurrection, and restrained rather than inflamed by the PLO, it has left some 500 Palestinians—including over 100 children—dead, and a handful of casualties on the Israeli side. Televised scenes of Israeli repression and retribution have had an impact on American public opinion, and the *intifada*—though not under Arafat's control—has without doubt encouraged his peace moves. What it has not done is to induce any radical change in Israeli thinking.

Arafat's declaration of a Palestinian

state last November, and his about-turn on long-standing PLO policies, won him not only a fresh dialogue with the United States, but also a head of state welcome in European capitals early this year. While the E.C. sees formal recognition as premature, indeed counter-productive, the Israeli response has mixed skepticism with suspicion. “By talking to the PLO,” said a top adviser to Israeli Prime Minister Yitzhak Shamir, “the Americans are giving the first germ of legitimacy to the Palestinian state.” Steadfast in its rejection of the PLO as an interlocutor, Israel has offered only an—as yet imprecise—proposal for elections in the occupied territories.

In the Tunis talks with the PLO, the United States has been left in no doubt as to the Palestinians' own suspicions, as well as their known objectives. A PLO memorandum handed over in March states: “We must point out that the effectiveness of America's role and the enhancement of its influence hinge on whether it adopts a balanced and impartial stance or continues to adhere to the Israeli point of view. What is required for serious progress is recognizing the rights of our people to self-determination, establishing its own independent Palestinian state and acknowledging that the PLO is its sole representative.” This memorandum defined the goal as “security and peace for all countries in the region, including both the Palestinian and Israeli states.”

In fact, American positions so far lack clear definition. Although unready to recommend direct talks between Israel and the PLO—U.S. Secretary of State James Baker has said “the preferred approach” would be for moderate Palestinians to come forward to negotiate—Washington does not categorically rule them out. When Shamir visited the White House in April, U.S. President George Bush urged both sides “to arrive at a mutually acceptable formula for elections”—something Arafat does not exclude, provided there is international, rather than Israeli, supervision. While confessing to “some differences” with Israel, the United States says it supports neither an independent Palestinian state nor permanent Israeli occupation. At the same time, it appears less than eager to overcome Israel's opposition to an international conference.

It was against this background that, at the end of last year, the E.C. decided to upgrade its contribution by appointing a “troika” of Foreign Ministers—representing the current presidency of Spain, its predecessor Greece and its successor France—to hold discussions with all parties, aimed at advancing the peace pro-

cess and promoting an international conference. The three Ministers visited Jordan, Egypt and Syria in February, while the Spanish Foreign Minister alone (Greece has not yet recognized Israel) had talks in Jerusalem.

Briefing a European Political Cooperation (EPC) meeting in Madrid on the mission (the EPC is a grouping of the E.C. Foreign Ministers, set up by the E.C. to collectively monitor and act in the international arena, but not an institution in itself), Spanish Foreign Minister Francisco Fernandez Ordonez reported that, while Israel accepted a role for the two superpowers, the Arab states strongly favored the participation of the five permanent members of the Security Council in an international conference, to ensure a European presence alongside the United States and the Soviet Union. The troika also noted that, although Syria had reservations about the Arafat initiatives, all the Arabs were adamant that the PLO must be a party to the negotiations.

Arab fears were also voiced about the Israeli plan for elections in the occupied territories. Elections, they insisted, should be to designate additional delegates to the conference and not simply local officials in some variation on the Camp David “autonomy” theme. All Arab states agreed that Israel should accept the principle of withdrawal and of “territory in return for peace” before the negotiations started.

While the troika is unlikely to do much more before the June E.C. summit in Madrid, France can be expected to take up the challenge with renewed vigor in the second half of the year. Arafat's high-profile visit to Paris last month sent another clear signal to Israel, and French President François Mitterrand will seek to draw the United States closer to European thinking to reinforce that message and to urge the Soviet Union to help remove Syrian misgivings. French diplomats say their Soviet counterparts are much more open to discussion than hitherto, and that Mitterrand has a large personal stake in the success of the initiative.

He will be rewarded if an international conference, including Britain and France, and with the PLO represented among Arab delegates, can begin to take shape by the end of 1989. The price of failure will be high. Arafat's sharpest critics are already saying he has nothing to show for his dramatic moves last year, and he runs a serious risk of being discredited, with all that implies for a revival of rejectionism and terrorism. €

Peter Thompson is the Athens correspondent for *The Independent*.

NATO

EUROPEAN AFFAIRS/DEFENSE

WHAT
WILL THE
FUTURE
BRING?

Americans and Europeans must recognize that neither one is defending a particular country, but that the ensemble is defending a common civilization.—*Jean Monnet*

Alliances will either evolve towards communities or else dissolve altogether.—*Raymond Aron*

PAOLO LIEBL

The above two quotes encapsulate two thoughts: the rationale for the creation of the Alliance—defense against a common enemy—and the not quite fulfilled hope of creating a real, cohesive Atlantic community. Without a shared perception of a threat, and without the creation of a real trans-Atlantic community, European-American relations can only undergo fundamental restructuring in the years ahead.

When we look at the North Atlantic Treaty Organization (NATO), we should not forget that it was—and is—an “unnatural act”: a challenge to past history, established world views and geography. It is common knowledge that America was born with an acute feeling of being different from Europe. The Founding Fathers sincerely believed that, for their own safety and the preservation of their democratic purity, the newly born United States should shun close connections with the Old World. Philosophical beliefs were aided by the natural barrier of an Atlantic Ocean that, for a long time, helped them in their conscious effort to preserve their isolation. Western Europe, on the other hand, was, and is, an appendage of the Eurasian land mass, with a history inextricably intertwined with that of Eastern Europe and Russia.

What therefore brought about the creation of this trans-Atlantic link? The answer is a shared fear of Communism. The United States, after its experience of World War II in Europe—which it perceived as a crusade against Hitler and for a just world order—had developed a new internationalist bent. This explained President Franklin D. Roosevelt’s idea of the United Nations Organization (U.N.),

essentially a re-edition of President Woodrow Wilson’s plan for the League of Nations following World War I. This internationalism, however, was not based on a rediscovered need to accept participation in the affairs of the world, but on the firm belief that the world needed to be taught American values and political philosophy so that it would cease to be periodically overtaken by the insanity of war.

A few years later, after having taken notice that the U.N., owing to the uncooperative behavior of the Soviet Union, could not work as planned, the United States became rapidly convinced that the battle for democracy needed to be waged on different ground. During 1947, consensus was reached that, after Fascism and National Socialism, Communism was the new plague to be resisted. Hence the creation of NATO.

This undertaking of a Western alliance was possible because, among the Western powers, only the United States had both the financial and military means to shore up the much weaker West Europeans. The objective was clear: save democracy. The battle would be fought alongside the democracies of Europe, with whom deep and sincere bonds had been forged during the recent joint fight against right-wing totalitarianism.

The democratic leaders of postwar Europe, after contemplating with dismay the virtual disappearance of Eastern Europe behind the Iron Curtain, eagerly solicited American help in what appeared a struggle for their very survival. The emerging Cold War had frozen the division of Europe into a permanent line of demarcation, including the partition of Germany and its former capital, Berlin. West Europeans found this hard to accept, but there seemed to be no alternative.

Thus, the new major factor in world politics—the Communist threat, embodied by the Soviet Union—forced the Western democracies to unite in a defensive military alliance. There was supposed to be more to NATO than just a device, provided by the United States, to

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preserve the balance of power in Europe, however. The creation of the alliance also signaled the emergence of a new community of like-minded nations: an Atlantic community based on the shared determination of all of its members “to safeguard the freedom, common heritage and civilization of their peoples, founded on the principles of democracy, individual liberty and the rule of law”—as the 1949 Preamble to the North Atlantic Treaty Organization states.

With the Cold War continuing, the emergence of stronger ties among some West European nations, namely the development of the European Community in 1957, was saluted in Europe and in Washington as a positive sign that would ultimately strengthen the Atlantic community. A stronger Europe could play a larger role in the worldwide struggle for freedom.

But subsequent developments are proving otherwise. While the “Common Market” over time turned into the European Community—a much broader and more ambitious concept—the United States realized that the formerly impoverished and battered European nations

NATO 40

THE FIRST FOUR
DECADES OF THE
ALLIANCE MIRROR
THE POLITICAL AND
ECONOMIC CHANGES
OF POSTWAR
EUROPE.



A diminishing Soviet military threat may reduce NATO's presence in Europe, but not the strong ties of the "Atlantic community," forged between America and Western Europe on democratic principles. Above: U.S. soldiers on NATO maneuvers in Europe; U.S. Air Force plane.

© WALLY MCNAMARE/WOODFIN CAMP

retary of Defense Robert McNamara had urged? If so, who would pay for them? Whatever the different schools of thought, the belief progressively emerged that NATO was not the watertight, risk-free and cheap arrangement that many had envisioned. Many Americans did not wish to be tied to a strategy that committed them to nuclear war to defend Europe. Many Europeans feared that they could become the battleground for senseless superpower confrontations.

Over time, a number of factors caused considerable erosion of the foundations of NATO and of the Atlantic community. Among these were: the re-emergence of a Europe with its own identity; the vision of eventual political unification, as prophesied by many; doubts about America's leadership and ability to secure Europe's safety under the new circumstances created by strategic parity with the Soviet Union; Europe's desire to go beyond the divisions created by the Cold War; and, finally, the new competitive economic trans-Atlantic relationship.

Last, but certainly not least, the momentous transformations in the Soviet Union, spearheaded by Mikhail Gorbachev since 1985, and accompanied by a new conciliatory language on issues of European security and disarmament, may be so powerful as to ultimately deprive NATO of its original legitimacy as the necessary deterrent against Communist expansionism. Without a visible threat, it is hard to justify the continued existence of this costly military machine.

Although assessments about the significance for the West of developments in the Soviet Union vary a great deal, there are very few analysts, let alone politicians, who would currently recommend increased or even steady defense spending within NATO. On the contrary, those who claim that the millennium has come, are getting the larger audiences.

But if one can theoretically conceive of doing away with NATO—once it has been ascertained that it is obsolete—what about the Atlantic community? Its condition is also uncertain. Notwithstanding its promises, NATO has remained essentially

a political military instrument. Although it is true that there is supposed to be (and is) economic, scientific and cultural cooperation within the NATO framework, that dimension somehow never took a very strong hold.

Beyond NATO itself, the width and depth of European-American relations has grown enormously in the last 40 years. Nevertheless, the results are mixed. Despite the myriad of trans-Atlantic ties—mass travel, instant communications and the influence of television programs and pop music—we do not observe a growing sense of common identity between Americans and Europeans.

The Europeans, rightly or wrongly, are now less preoccupied with their security than at any other time since 1945, and are more inclined to devote attention to developments within Europe. This includes the exciting 1992 process, but also an exploration into the new possibilities of relations with the East. For, regardless of the damages caused by 40 years of Communist domination in Eastern Europe, the residual sense of cultural affinity among the nations of *Mitteleuropa* is still stronger than between Germans and Americans.

So, whither NATO, and whither the Atlantic community? If the Soviet military threat is really over—and the next few years will tell—then the progressive downsizing of NATO should not be feared as an unwise policy. As for the Atlantic community, Americans and Europeans alike should never forget the identical spiritual origins of their societies. Regardless of Gorbachev and of his creative metaphor of a "common European house," even in the best of circumstances decades will pass before the Soviet Union has assimilated and fully understood the principles of popular sovereignty and individual rights that have been the fundamental philosophical principles of the West. Until then, there will still be a distinguishable community of Western nations. €

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were becoming serious economic competitors. America's relative weight, at least in economic terms, was declining vis-à-vis Europe. At the same time, in the 1970s, it seemed that the East-West confrontation was softening. The Nixon-Kissinger détente, coupled with Willy Brandt's *Ostpolitik*, made it possible to start thinking about recreating some kind of normalcy in relations between the two segregated Europes.

Meanwhile, old and unsolved strategic questions that affected the credibility of NATO kept on being raised. The Europeans began to be uncomfortable with a defense arrangement essentially devised in Washington and founded on American nuclear weapons. This was a definite shift in attitude, for, during NATO's early days, the Allies insisted on continuous reiterations of America's willingness to use nuclear weapons in case of war.

Later, when the Soviets developed their own equally powerful nuclear arsenals, conceptual confusion emerged. Was NATO relying too much on nuclear armaments to face preponderant Warsaw Pact forces, or not enough? Should NATO build credible conventional forces, as U.S. Sec-



EUROPEAN BANKING: A HIVE OF CROSS- BORDER ACTIVITY

AS 1992 APPROACHES, THE INDUSTRY SCRAMBLES FOR FOREIGN ACQUISITIONS AND DIVERSIFIES INTO OTHER AREAS.

To remain competitive after 1992, some banks are diversifying by buying into stock brokerage houses or insurance companies. Small photo: The Bank of England.



The mergers and alliances now taking place in the European banking industry indicate that there will be far-reaching changes after 1992. Large photo: London's financial district.

PETER WILSON-SMITH

The European banking industry is in a state of ferment: The dawning of the single market in financial services is forcing the banking industry to rethink both defensive and offensive strategies to cope with what is likely to be a much more competitive environment.

The talk within the industry is of mergers, alliances and takeovers. In one of the biggest cross-border deals so far, Crédit Lyonnais, France's second-largest bank, recently agreed to pay 340 billion lire for a 30-percent stake in Credito Bergamasco, giving it effective control of this large private-sector bank in northern Italy.

Elsewhere, a number of important links have been forged between banks in different countries with an eye on the coming single market. Royal Bank of Scotland in the United Kingdom has agreed a deal with Spain's Banco Santander that gives customers access to both branch networks. It also involved Banco Santander raising its shareholding in Royal Bank of Scotland to 10 percent, while Royal Bank has a small stake in Banco Santander. Another interesting cross-border alliance was the one between Amsterdam-Rotterdam Bank of the Netherlands and Générale de Banque of Belgium, in which each took a 25-percent shareholding in the other, which is supposed to culminate in a merger of the foreign activities of the two institutions.

One of the more fashionable theories put forward about how European banking will develop in the single market, is that the European market will in time come to be dominated by a new breed of "superbank." Perhaps half a dozen banks, so the theory goes, will develop into a top

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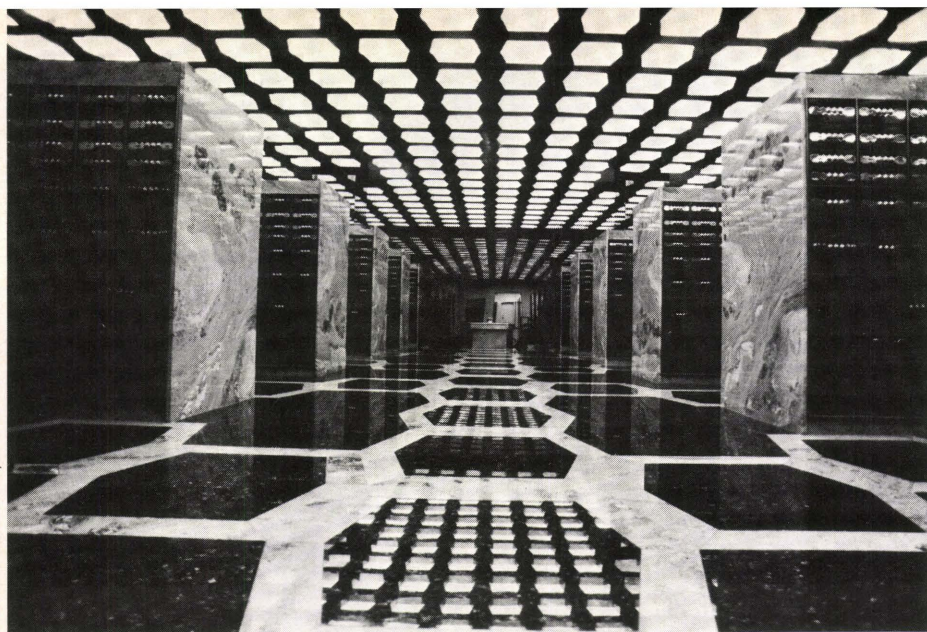
tier of leading, pan-European financial institutions offering a full range of services in all the main European markets.

However, like many attractive theories, this one may well prove to be near impossible to put into practice. It is perfectly true that the E.C. legislation being pushed through ahead of 1992 is sweeping away many regulatory and economic barriers to entering other European markets. But the nature of banking is such that significant obstacles will still remain to moving into new markets.

Banking is not a business like cars or chemicals, where virtually identical products can usually be sold relatively easily in different markets. Many banking products need to be specifically tailored for different markets to cater to local taste and consumer preference. In addition, it is difficult and expensive to build up a distribution network in foreign markets. Those banks that have tried the "green field" approach to overseas expansion have tended to find it an extremely slow business. In other cases, where banks have rushed ahead too quickly, they have often ended up losing a great deal of money.

The other possible route to becoming a European superbank—growing through merger or acquisition—would also be costly and difficult. Because of the economic importance of domestic banking industries, governments are very reluctant to allow control to shift overseas. Very few good banks in Europe are up for sale to foreign buyers and their prices are very high. The tough new capital rules agreed by the Basle Committee of banking supervisors—and likely to be echoed by European legislation—are another disincentive, as they will discourage those bank takeovers that would involve significant write-offs of goodwill.

The obstacles are such that European superbanks are unlikely to emerge for many years yet, if at all. However, the



The core of the E.C.'s second banking directive is the principle of "home authorization," whereby a bank can do business anywhere in the E.C. once it has been licensed in its home country. This page: Safes at the Kredietbank in Luxembourg.

kind of alliances and mergers that have been taking place indicate that the single market will lead to far-reaching changes in banking, if not quite along the lines that some have been predicting.

Wholesale banking, already a very international business, is unlikely to change much as a result of 1992. It is already a very competitive part of the business and pays scant heed to national borders. Retail banking, however, is likely to be greatly affected. According to Warburg Securities, the London brokerage house, "retail financial services are one of the least open segments within the European markets and one which theoretically should be most influenced by the dynamic effect of the 1992 process—i.e., innovation forced by competition."

This analysis is supported by the fact that there are huge price variations in the cost of retail financing services through the European Community. According to a study carried out by Price Waterhouse for the E.C. Commission, the benefit to consumers of financial services with the E.C. from the single market could be about 22 billion European Currency Units (\$24 billion). Price Waterhouse identified Spain and Italy—two markets with underdeveloped and fragmented banking industries—as the areas with most potential for price cuts. Potential price falls in Spain are estimated at more than one-third, and in Italy at 29 percent.

The Price Waterhouse figures suggest considerable inefficiencies in the supply of consumer financial services in some markets. In time, the consumer is likely to benefit as at least part of the price discrepancy is ironed out. The removal of exchange controls and other measures, such as the E.C.'s second banking directive, will all tend to generate greater homogeneity in European financial services as it becomes easier to do business

in foreign parts.

The core of the banking directive is the principle of "home authorization." Once licensed to do business by supervisors in its home country, a bank will automatically be allowed to do business in any other part of the European Community. Banks will still have to overcome the obstacles of building brands and gaining access to distribution networks, but, in time, the disappearance of regulatory barriers is bound to have an important impact on price discrepancies.

Although the concept of the all-service, pan-European superbank looks improbably ambitious, there is little doubt that 1992 is helping to accelerate a trend toward universal banking where banks provide a range of services including securities and asset management. One of the reasons for this is that the second banking directive, which gives authorization to operate as a bank throughout the Community, covers not simply the business of taking deposits and lending, but also gives authorization for an extensive range of other activities, including leasing, fund management, mortgage lending and securities trading both for customers and for a bank's own account.

One indirect consequence of this is that the kind of changes that took place in London at the time of the Big Bang in October 1986 are now occurring in other financial centers throughout the Community. Belgium and West Germany, for instance, have been taking steps to bolster their stock markets, and extensive reforms have been introduced in the Brussels bourse, such as allowing banks to buy into stockbrokerage houses. Other examples of this trend toward bank holding companies that own a wider range of businesses are the way some banks have been moving into the insurance business.

Deutsche Bank announced last Decem-

ber it was setting up its own life insurance business. Since then, an exclusive marketing deal has been announced between the Dresdner Bank and Allianz insurance company. In the Netherlands, Verenigde Spaarbank, the biggest savings bank in the country, has carried out a share swap with Amev, one of the big insurance companies, with the intention of eventually merging when the law permits.

The strategies that banks are adopting in preparation for 1992 vary greatly. Take, for instance, the four biggest U.K. banks. Midland Bank has been trying to strengthen its European merchant and investment banking activities, and it recently bought control of Euromobiliere in Italy. Barclays is expected to use its strength in plastic cards as an important part of its thrust onto the European Continent, while analysts expect Lloyds Bank to take advantage of its tie-up with Abbey Life, the life insurance group. By contrast, analysts say National Westminster Bank's strategy is likely to be more defensive and aimed at protecting its presence in the home market.

Indeed, much of the activity happening in European banking now has a defensive flavor as banks prepare for greater competition from abroad. This is particularly the case in both Spain and Italy, two European markets likely to see profound changes.

In Spain, authorities have been actively encouraging deals, such as the merger of Banco de Bilbao and Banco de Vizcaya, although the latest attempt to rationalize the banking industry—a merger of Banco Central and Banco Español de Crédito—ended in embarrassing failure. In Italy, a country with about 1,200 banks, there has been a rash of domestic mergers and acquisitions recently, with the Bank of Italy eager to promote a realignment of Italian banking. €

New Issue
March 29, 1989

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Aktiengesellschaft

L U X E M

THE ECONOMIC PICTURE IS ONE OF STABILITY AND PROSPERITY.

ALAN OSBORN

Whatever parties—or, more likely, combinations of them—take office following this summer's elections in Luxembourg, it would be idle to expect any drastic change in the country's major foreign policies, or to a large extent its domestic ones. This does not belittle the variety of political thought in Luxembourg, but rather recognizes the remarkable degree to which all the serious parties share the same views about the main challenges facing the Grand Duchy and the responses to them.

There are no public opinion polls to give reliable guesses as to the feelings of the people and the chances of the separate parties, but in a major debate on foreign policy in the Parliament this spring, every member, except those of the Communist Party, voted for loyalty to the Western Alliance and the Community.

The debate showed even more agreement among the deputies on specific aspects of policy. Virtually all expressed opposition to a recent resolution approved by the European Parliament that effectively opened the way for Brussels to become the sole headquarters for the Parliament—to the detriment of Luxembourg, which is home to the European Parliament's sizable Secretariat. They were equally vociferous in opposing E.C. plans to impose a single minimum withholding tax on savings throughout the 12 member countries, as well as the broader question of indirect tax harmonization throughout the Community. Such measures strike at the very heart of Luxembourg's enterprise.

As in the past, the issues that divide the parties are those concerning domestic, and especially economic, policy. But here again it is difficult to pinpoint any real issue that causes sparks to fly. The country is currently engaged in a rare bout of self-congratulation, with the celebration of its 150th year of independence

(see also p. 38), the 25th anniversary of Grand Duke Jean's accession and the centenary of the titular dynasty. The economy is running soundly, with growth of 2.5 percent expected in 1989 and inflation seemingly stable at around 1.5 percent.

For the first time in many years the all-important steel industry has been able to report a strong recovery in production and a wholesome order book for the months ahead. Unemployment in Luxembourg has never reached the level where it threatened to become a social problem, and such an occurrence is even less likely in the coming year. On balance, one would expect the present Christian Democrat-Socialist coalition led by Jacques Santer to stay in power. Its only weakness, if weakness it be, is that of familiarity.

Having said that, one has to acknowledge that the causes that unite the parties are those that may have profound consequences for Luxembourg in the next few years, and the Grand Duchy is on the defensive over them. The fight by Luxembourg to retain its rights as a host city to the European Parliament, for instance, is regarded as a lost cause by most. As Lord Plumb, President of the Parliament, told Luxembourg, the vote to hold "some" plenary sessions in Brussels and to rent space in Belgium for "some" of the Parliament's Secretariat staff to work there, is not a binding commitment on the part of the Parliament to give up either Luxembourg or Strasbourg. But he did note the practical difficulties encountered by Members of the European Parliament in having three separate workplaces, implicitly saying that sooner or later two of the three would have to drop out.

Luxembourg has not held a normal sitting of the European Parliament for 10 years, and its chances of ever doing so again are remote. What it does retain, with admirable tenacity, is the Secretariat of the institution, numbering probably more than 2,500 well-heeled Eurocrats. Most of them like Luxembourg and want

to stay there. But political realities are slowly driving them northward to Brussels and, while other E.C. institutions in Luxembourg—the European Court of Justice, the Court of Auditors, the European Investment Bank and others—are increasing their influence and staffing, they are doing little more than make good the trickle away of Parliament staff.

On balance, there seems no immediate threat to Luxembourg's nominal role and practical gains from its hold on the E.C. institutions. But it may be questioned whether the Grand Duchy can anticipate much growth in this area without seizing a new Community body. In this context, the location of any new E.C. monetary institution that could become an eventual European central bank comes to mind. Luxembourg has a good deal going for it in the contest to secure such a body, although competition from Frankfurt, Paris and possibly London could be very heavyweight.

The unvarnished Brussels threat of a minimum E.C. withholding tax of 15 percent on savings is, on paper, a jolting reminder to Luxembourg that the disciplines of the single European market will not allow the country to go on offering banking concessions that others do not wish to match. It is certain that Luxembourg's practice of paying out to savers every penny of interest earned has openly attracted deposits from Belgium and Britain and, more circumspectly, from France and West Germany. Such deposits have in turn facilitated the growth of a retail banking center in Luxembourg that has to a large extent compensated for the drop in Euro-dollar lending, the activity on which the Grand Duchy's bankers initially thrived.

If Luxembourg were forced by the E.C. to apply a withholding tax—which is not certain, given the opposition to it not only by the Grand Duchy but also by Britain and West Germany—the impact on Luxembourg might not be all that great. It looks increasingly as though the rate of the tax will be dropped to 10 percent, or

Alan Osborn writes from Brussels for *The Daily Telegraph*.

B O U R G !



Luxembourg has carved itself an important niche as a banking center. Concentrating on Euro-dollar lending in the 1970s, it has now switched to the growing sector of personal portfolio management, and is also attracting a rush of investments into the European Unit Trusts. This page: Luxembourg city.

even lower. This would preserve a clear differential vis-à-vis neighboring countries and would allow the Grand Duchy to still offer attractive terms to small- and medium-sized savers. A more direct threat is probably represented by the E.C. move to harmonize all indirect taxes, including excise duties. Luxembourg has very low excise duty rates on tobacco, beer and spirits, and thus enjoys considerable custom from neighboring countries where the rates are much higher. If all E.C. excise duties were to be harmo-

nized, there would be a considerable loss of trade to the Grand Duchy. At present, a carton of wine bought in Luxembourg can be 30 percent cheaper than the identical wine bought in Belgium, France or West Germany. Much the same goes for cigarettes. The E.C. move to put all excise duty rates on the same basis may or may not be achieved by 1992, but the purpose is clear and, if the 1992 single market is to be achieved, the harmonization of indirect tax rates will surely have to follow very shortly after that date.

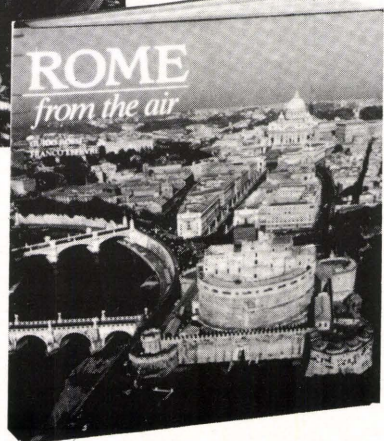
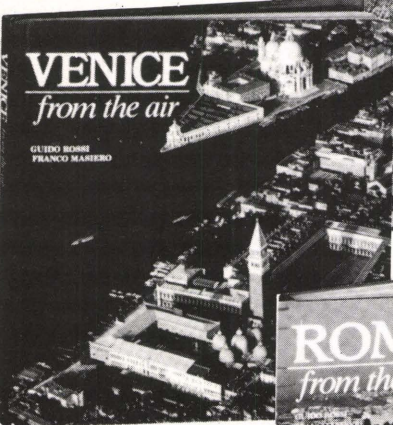
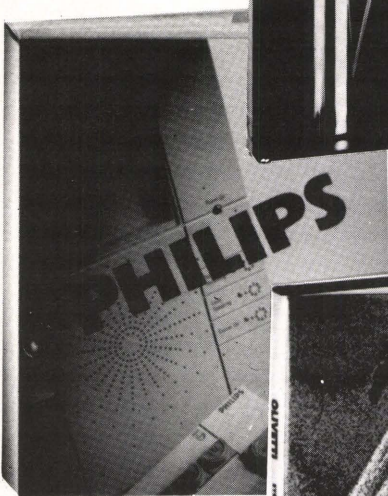
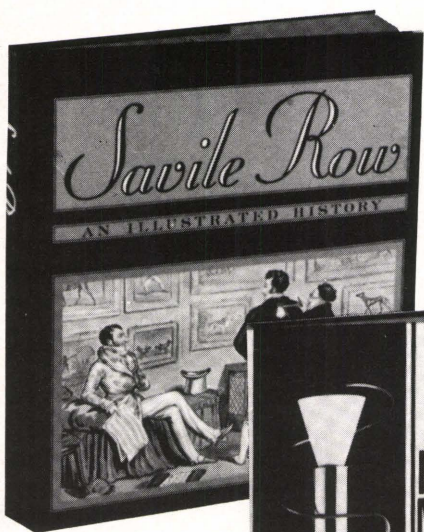
Notwithstanding all this, the signs for Luxembourg are good. It has going for it at the moment a huge rush of investment money into European Unit Trusts representing cash that external, and indeed internal, investors want to put into equities engaged in the 1992 enterprise. It also has its cherished banking activity. It is switching from the *passé* role of Euro-dollar lending toward personal portfolio management and, by all accounts, is doing very well at it.

Luxembourg's economy is running smoothly. Growth this year is expected to reach 2.5 percent, inflation is at 1.5 percent, and the steel industry is recovering after years of stagnation. Photo: the feudal castle in Clervaux.



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LUXEM

HAPPY BIRTHDAY

THE GRAND DUCHY CELEBRATES
THE 150TH ANNIVERSARY OF ITS
NATIONHOOD.

ALAN OSBORN



At the celebrations on April 18, U.N. Secretary-General Perez de Cuellar described the Grand Duchy as one of the world's most stable, prosperous, tolerant and happy nations. This page: The city of Luxembourg with Notre Dame Cathedral.

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B O U R G !

Some nations can trace the birth of their identity back to a precise moment—a military victory, the signing of a great treaty, or simply a declaration of independence from a former colonial power. With others, the process has been one of evolution over decades, perhaps centuries.

On April 18, Luxembourg celebrated the 150th anniversary of its independence. That date was to some extent an arbitrary one, however, as Professor Gilbert Trausch, president of the Anniversary Celebrations Committee, candidly admitted in his lengthy explanation of the event. The Treaty of London, signed on April 18, 1839, is not a date that resonates in the mind of many Luxembourgers, and most of the Grand Duchy's schoolchildren would probably have been mildly surprised to have been given a holiday on its anniversary this year.

As Professor Trausch's official history notes, there are at least five dates that have imprinted themselves "in the common memory of our people," each of them based "less on historical accuracy than upon well forwarded clichés [passed down] generation after generation."

In 963 A.D., a title deed was exchanged between Sigefroid and the Saint Maximin Abbey of Trier that provided the first written evidence of the word "Lucilinburhuc," or "the small borough, the little castle," which eventually evolved into the name Luxembourg. In 1244, the city was granted a charter of freedom; in 1346, it was associated with John the Blind, founder of Luxembourg's trade fair; and the year 1798 celebrated the George Washington-like figure of Michael Pintz, who refused to lie to the martial court judges of post-revolutionary France.

Finally, however, Trausch argues for the fifth date, of 1839. That year marked the elevation of Luxembourg from "a community to a state, to a nation strong enough to maintain its identity during two world wars." But he notes that while 1839 marked the beginning of Luxembourg's statehood, it also symbolized "a painful event"—the partition of the Grand Duchy. It is necessary to retrace our steps back to 1815 for an explanation of these developments.

Following the defeat of Napoleon, the map of Europe was redrawn by the Congress of Vienna in 1815, which effectively ceded Luxembourg and Belgium to the Dutch crown, but provided for the "little

castle" itself to remain a German garrison in the Prussian defenses against France. In 1830, following a revolt in Brussels, Belgium threw off the Dutch yoke (subsequently forming its own nation), and all of the Grand Duchy (except the Prussian fortress) came under Belgian rule.

The Luxembourgers chafed at this decision, feeding on ever present animosities between the Dutch and the Belgians, until, under the 1839 Treaty of London, Luxembourg was split into two. Half of its territory became a province of Belgium (which it remains to this day), and the other half was turned over to Holland's King William of Orange. However, the logistical difficulties entailed in maintaining a fiefdom separated from Holland by hostile Belgium quickly persuaded William to grant his province a measure of autonomy, and it is from this event that modern Luxembourg dates its independence.

"The Luxembourgers in Belgium began quickly to look toward Brussels and those in the Grand Duchy just as quickly got on by themselves," comments Trausch. Separated against their will, "each of them followed on their own road." The past 150 years have seen little halt in the international buffeting of Luxembourg, which has twice been occupied by Germany. But since 1839 it has had its cherished statehood to sustain it.

This has not been easy, even in peaceful times. In order to maintain economic independence, the Grand Duchy was compelled to call in foreign workers from the time of the Industrial Revolution in the 1870s, and a high proportion of foreigners has remained a characteristic of the country to this day, constituting about 100,000 of its total population of 372,000.

Similarly, it has been impossible for such a small country to sustain a single national language, though this is not to say there is no "mother tongue." While French and German are widely spoken, the "mother tongue," as laid down by law and favored in numerous public opinion polls, is *Letzeburgisch*, which is based on German but differs from it to such an extent that German tourists can have difficulties in making themselves understood. But in language matters, as in the broad attitudes taken toward foreigners, Luxembourg is admirably tolerant. "Within the last 150 years of our history, at least 115 years bear a foreign foot-

print. Xenophobia is not only contrary to the country's interests, it is a betrayal of its history," says Trausch.

These qualities were much to the forefront of the tributes paid to the Grand Duchy by its illustrious celebrants on April 18. The guests represented those countries that had signed the Treaty of London. Thus Chancellor Franz Vranitzky came from Austria, Prime Minister Margaret Thatcher from Britain, Prime Minister Ruud Lubbers from the Netherlands, Chancellor Helmut Kohl from West Germany, Prime Minister Michel Rocard from France, Prime Minister Wilfried Martens from Belgium and, representing the Czarist régime of the 19th century, Soviet Prime Minister Nicolai Ryzhkov. These Heads of State and Government were joined by U.N. Secretary-General, Perez de Cuellar, E.C. Commission President, Jacques Delors, and NATO Secretary-General, Manfred Wörner.

The guests participated in a ceremonial raising of the Luxembourg flag, listened to tributes to the country in words by, among others, Johann Wolfgang von Goethe, Victor Hugo, Jean Racine and Robert Schuman. Jacques Santer, Luxembourg's Prime Minister, spoke of his country's "peaceful cooperation and deep respect for human rights." The visitors also toured an exhibition illustrating Luxembourg's achievements in the industrial, commercial and cultural spheres, and concluded the day with a formal dinner and fireworks.

Around them, the city paused only briefly, if at all, to acknowledge the importance of the occasion. "When almost one in three of all residents is a foreigner, we could not expect a total shut-down of business activity," explained a government official.

None of those present could but welcome the generous tribute paid by Perez de Cuellar. He described Luxembourg as "of all nations on earth, one of the most stable and prosperous, where nature is preserved and [where] foreigners, whether residents or tourists, are welcomed. In all, one of the world's happiest." He singled out for praise the country's policy of maintaining a multi-lingual society, and said Luxembourg's mastery of several languages was "an important asset for a people whose vocation is to unify rather than to assimilate." ❧

Alan Osborn is the Brussels correspondent for *The Daily Telegraph*.

In its efforts to impose a certain common legal basis on the European Community's sovereign member states, the role of the European Court of Justice is similar to that of the U.S. Supreme Court of the late 18th and early 19th centuries.



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DOSSIER/LAW

THE COURT OF JUSTICE: THE E.C.'S LAWMAKER

THE COURT'S DECISIONS ARE BINDING ON THE MEMBER STATES, THUS FORMING THE LEGAL BASIS FOR THE COMMUNITY.

A few years ago, two enterprising travel agencies in Frankfurt, West Germany—Ahmed Saeed Flugreisen and Silver Line Reisebüro—discovered a good deal for their customers: The travel agents could buy airline tickets for a flight from Lisbon to Tokyo via Frankfurt much more cheaply than from Frankfurt to Tokyo direct. By simply discarding the Lisbon to Frankfurt coupon on the ticket, they could undersell their competition. There was only one problem—what they were doing violated German law. Also, they were not exactly popular with some of the major airlines, which were quite happy with the artificially high fares for flights originating in the Federal Republic. So, the travel agents were hauled into court by the West Germany Association against Free Competition.

Although there was no specific E.C. Commission regulation relevant to this case, it was eventually referred to the European Court of Justice by the highest German commercial court. In a landmark decision handed down on April 12, 1989, the European Court of Justice held that the Commission can use E.C. rules to regulate fares for flights between E.C. member states and other countries, as well as for internal routes inside individual E.C. countries. Until this decision, it was thought that E.C. rules applied only to flights between member states.

The Court's ruling was extremely complex, and it will take some time before we know what its consequences will be. Some observers believe that it could lead to challenges to the International Air Transport Association (IATA) system of agreement on fares for international flights.

But the significance of the Ahmed Saeed Flugreisen case goes beyond the price of airline tickets. It is an important example of the direct application by the European Court of Justice of the Treaties of Paris and Rome (the "constitution" of

the European Community) to its citizens. It shows how the Court has come to play a vital and creative role in the evolution of the E.C., and is similar in many ways to the role the Supreme Court plays in the United States.

Of the four major E.C. institutions, (the others are the Council of Ministers, the Commission and the Parliament), the easiest for Americans to relate to (but the least reported on in the United States) is the European Court of Justice. Located in Luxembourg, this Court is the ultimate arbiter of Community law, and its rulings supersede the national laws and even the national constitutions of the 12 member states. Just as the Supreme Court interprets the U.S. Constitution, and adapts it to new and unprecedented situations, the European Court breathes life into the Treaties, thus allowing the Community to change with the times. Like the U.S. Supreme Court, the European Court has the final word; there is no appeal from its rulings.

Court of Justice decisions are binding both on citizens and the governments of the 12 member states. This makes it very different from other supra-national courts with which Americans might confuse it, such as the International Court of Justice in The Hague, Netherlands, or the European Court of Human Rights in Strasbourg, France. The European Court's decisions are based on the Treaties of Paris and Rome (which, respectively, established the European Coal and Steel Community, and the E.C. Commission) and the Single European Act (which, in 1987, amended the Treaty of Rome), which all of the member states have accepted.

There are still more similarities, but there are also profound differences. The

LARRY C. WHITE

E.C. is not a federal union—at least not yet—and does not have many of the attributes of a nation state. Whatever sovereignty the E.C. now enjoys has been



freely given to it by the member states. It does not possess the universal powers that all of its members have, or the right to create totally new powers for itself. Furthermore, criminal law is left entirely to the member states, and the European Court has no criminal law jurisdiction as such (although it can alter or abolish fines levied by the Commission).

But while these institutions seem to make the Court of Justice much less powerful than the U.S. Supreme Court of 1989, it does serve a function very much like that served by the highest American court in the late 18th and early 19th centuries. At that time, the Supreme Court, like the European Court of Justice, wrestled with 13 states who were jealous of their sovereignty, and tried to impose uniformity in the sphere of federal competence, which was then extremely limited. Indeed, in economic matters, the role of the American federal government in the early days of the republic was far more limited than the E.C.'s current jurisdiction.

In form and in much of its procedure, the European Court of Justice resembles a French court. Although litigants may conduct their cases in any of the 9 official E.C. languages, much of the Court's business is done in French. It consists of 13 judges and 6 advocates-general. These officials are appointed for a six-year term by common accord of the member governments. Most of them are re-appointed for another term, sometimes for two terms. While there is no formal nationality requirement, there is currently one judge from each member country, with the thirteenth judge usually coming from one of the larger member states.

Nothing in American jurisprudence corresponds to the position of advocate-general, which is derived from the French judicial system. These are very highly regarded jurists, recruited from the ranks of national judges and distinguished law professors, who carefully review the cases before the Court and render an advisory opinion about them. They can—and do—delve into the facts of a case much more thoroughly than the judges are able to do.

The role of the advocate-general is especially important because, although national courts do apply Community law, there are no European appeals courts as such. In the U.S. judicial system, for example, almost all cases are decided by a trial court that makes findings of fact and law. Appeals from these courts are taken to a Circuit Court of Appeal or through a state Supreme Court, which usually makes an exhaustive study of the case before reaching a decision that may be

extremely detailed and thorough. Only then do cases reach the Supreme Court.

In one important way, the role of the U.S. Supreme Court in the U.S. federal system is more limited than that of the European Court of Justice. The Supreme Court can only rule on a case that is actually in litigation. There are often bitter disputes about the meaning of the Constitution, but they may have to simmer for years or even decades because the Supreme Court may not interpret the Constitution except in the context of a case in controversy. And the case must percolate up through the appeals courts. Thus, the development of American constitutional law has proceeded at a stately, sometimes glacial, pace.

Befitting its late 20th-century origins,

**SINCE THE E.C.'S
ORIGINS LIE IN ITS
LAWS, THE ROLE OF
THE COURT OF
JUSTICE IS VITAL
FOR EUROPEAN
INTEGRATION.**

the Court of Justice can act much more quickly. It is specifically empowered to render advisory opinions on Community law—and often does so. Furthermore, it may take cases directly from member states' trial courts whenever a matter of Community law is involved. These courts have discretion to refer the case to Luxembourg. Under the Treaties, the highest appeals court of a member state (for example the British House of Lords, or the French *Conseil d'Etat*) are *required* to refer a case to the European Court when it involves a matter of E.C. law.

But unlike the Supreme Court, the Court of Justice does not have appellate review of member state courts. Thus, if a member state court does not refer a case to Luxembourg and instead makes a final decision itself, the European Court has no jurisdiction to review the case. According to Professor Roger Goebel of the Fordham University School of Law, the French *Conseil d'Etat* has, in several instances, refused to refer cases to Luxembourg—even when it was clear that they involved questions of Community law. There has been discussion in the European Parliament and among the Twelve of giving the Court appellate

power, but that is not likely to happen any time soon. Professor Goebel says that, without this power, there will not be real certainty about E.C. law within the member states.

The Court cannot compel a state to accept its rulings, but voluntary compliance has worked well so far. The closest any country came to outright disobedience was in 1979, when France delayed opening its market to imports of mutton and lamb from the United Kingdom. The French action created a major stir and was finally resolved on a political level by the heads of government.

Disputes involving other E.C. institutions are also decided by the Court of Justice. A member state, an individual or a company aggrieved by, for example, a Commission directive, can take the Commission to court in Luxembourg. Most commonly, these cases are brought against the Commission by companies charged with anti-trust violations.

The Court also has an important role in protecting individual citizens against member states' action that violates Community law. The Treaties guarantee women equal pay for equal work, which the Commission has extended to include working conditions. The Court has decided about 30 cases involving discrimination against women. It has also declared that it will protect fundamental rights because it is "bound to draw inspiration from constitutional traditions common to the member states so that measures . . . incompatible with fundamental rights recognized by the Constitution of those states are unacceptable in the Community."

Since it is currently the only court of the Community, the Court of Justice has also had to decide disputes between E.C. institutions and its employees. These have been more numerous than any other type of case. But, in this area, help is on its way. By next January another, lower Community court will be functioning that will deal with these cases, thus freeing up the higher court to concentrate on matters of greater significance to the whole Community.

The European Community is more than an international organization, but it is not yet a federal entity. Its origins lie not in force but in law, and its further growth will owe much to the development of its laws. It is therefore no wonder that the European Court of Justice has assumed such an important role among the Community's institutions. ☾

Larry C. White, J.D., is a writer and lawyer in New York City.

NEWS OF THE E.C.

AGRICULTURE

E.C. SETS 1989-90 AGRICULTURAL PRICES

Both the E.C. Commission and representatives of the Community's 10 million farmers approved of the E.C. agricultural prices for 1989-90. These entail a 2-percent sugar price cut (instead of the proposed 5 percent) and a slight tightening on cereals prices. E.C. Agriculture Commissioner Ray MacSharry added that consumers, too, could possibly expect lower sugar and citrus fruit prices.

For the past five years, the E.C. has been trying to curb agricultural subsidies, which result in overproduction, depression of world prices and market distortion. As a result, farmers have had to tighten their belts. During the negotiations just completed, France and West Germany argued against exacerbating the effect of stabilizers agreed last year, which would cut prices automatically if output exceeded production targets. Their farmers, they maintained, needed breathing space after years of austerity caused by the reforms.

The package's effect on farmers was mitigated by changes in the special "green" rates. E.C. farm prices are set in European Currency Units that are then calculated into national currencies at rates adjusted for the relative strength of the currencies. The E.C. is dismantling this system of special adjustment in the run-up to 1992. The concessions on the rates pleased West Germany and the Netherlands, whose farmers would thus not take big income cuts. The change in the



The E.C.'s farm prices for 1989-90 met with approval from both the E.C. Commission and representatives of the Community's 10 million farmers.

green rate also benefited Britain, which got a larger increase for its arable farmers' incomes than envisaged. MacSharry said that the cost of the compromise was an extra \$83 million in spending for 1989.—*Reuters*

SOCIAL ISSUES

COMMISSION URGES STRICTER RULES ON TOBACCO ADVERTISING

"Each year 440,000 E.C. citizens die from diseases related to smoking," Vasso Papanreou, the Commissioner for Social Affairs, said in March. With this figure in mind, the European Commission has adopted a proposal for a directive to harmonize member state legislation on tobacco advertising by the end of 1992.

This directive aims to inform smokers of the risks they run through the "European Year of Information on Cancer." It also seeks to harmonize legislation concerning printed tobacco advertising. In this way, the free circulation of tobacco advertising would be assured, but the distortions resulting from dif-

ferent member state regulations on the type of advertising would be avoided.

While the Commission realizes that tobacco advertising cannot be forbidden altogether, in view of the different laws in the Community, partial harmonization of legislation will allow a ban on states' tobacco advertising if desired, but will permit the advertising in other countries if certain rules are followed.

The directive stipulates that all advertising must contain a clear message of the health risk posed by tobacco. All tobacco products, except cigarettes, must carry the warning that "tobacco is detrimental to one's health." Individual member states, however, may choose the messages they will require on cigarette packages from a list that includes the warnings "Smoking causes Cancer," "Smoking Causes Cardiovascular Diseases," and the messages "Save Money: Stop Smoking," "Protect Children from Tobacco Smoke" and "Smoking Kills." Moreover, the text of these warnings must cover at least 10 percent of the advertisement's total surface. Other rules would forbid tobacco advertising in publications for youths under 18, an

age group considered to be most vulnerable to advertising that associates the consumption of tobacco products with professional success, adventure and liberty.

This is the third set of proposals on tobacco presented to the Council by the Commission. The Commission previously submitted a directive prohibiting smoking in public places, and two directives on the labeling of tobacco products and the permissible level of tar in cigarettes.

FOREIGN AFFAIRS

E.C. INCREASES RELATIONS WITH EASTERN EUROPE

Negotiations between Bulgarian and E.C. officials in early April are expected to lead to a trade and cooperation agreement between the two parties. The Bulgarian delegation emphasized the reforms currently in progress to liberalize market forces and trade flows, hoping that these developments would positively influence dynamic trade and more economic cooperation between Bulgaria and

the Community.

The Community has stated its readiness to begin a process of liberalizing its policy on imports from Bulgaria, but stressed the importance it attached to measures that would facilitate the activities of its own nationals doing business in Bulgaria.

The Commission also welcomed the successful Round Table talks in Poland, which legalized the previously banned trade union Solidarity, and decided to hold parliamentary elections this June. These changes constitute a major step forward in the process of liberalization and constitutional reform in Poland.

The Commission further declared its commitment to strengthen links between the E.C. and Poland by promoting trade and further developing commercial and economic cooperation. To this end, a first formal round of negotiations between the two parties took place in Brussels in March.

40,000 jobs.

Last year, 60 percent of EIB loans went to help develop the Community's most disadvantaged regions. They financed 14 percent of investment in Italy's Mezzogiorno, 11 percent in Portugal, 7 percent in Ireland and 5 percent in Greece. The transport and telecommunications sectors received nearly 4 billion ECU in loans, allotted to projects to improve communications between the Twelve, such as the Channel Tunnel, two communications satellites, roads, motorways, airports and aircraft. It loaned nearly 3 billion ECU to industrial firms, of which 1.8 billion ECU went to small- and medium-sized enterprises to help finance more than 5,000 investment projects. (Since 1983, the European Year of Small Business, the EIB has helped finance some 25,000 of their projects.)

The energy sector received loans worth 1.8 billion ECU, half of which were used to develop

borrowers were the United Kingdom (1.2 billion ECU) and Spain (1.2 billion ECU).

INTERNAL MARKET

POLL SHOWS GROWING EUROPEAN AWARENESS OF 1992

According to a "Eurobarometer" poll carried out in all E.C. countries, three out of four Europeans have heard or read about the 1992 project. For 62 percent, 1992 is a positive development, and only one in five fears the changes the single market will bring.

The most popular benefits expected from the internal market are the right to make payments and transfer money without complications throughout the E.C., to live in the E.C. country of their choice and to

pean government seductive, up 4 percent from a poll done a year ago. Support for this idea varied among the member states, however: three out of four Italians and two out of three Belgians were in favor of it, while three out of five Danes opposed the idea. E.C.-wide support for the 1992 project as a whole has grown since last year's survey, especially in Portugal, Ireland and the United Kingdom, although the project's popularity has fallen somewhat in the Netherlands and Luxembourg.

The European Parliament elections in June aroused greater interest than in the 1988 poll. In most E.C. countries, over half of those polled said they planned to vote, although this number was lower in Britain (34 percent), Luxembourg (45 percent) and Belgium (47 percent).

PASSPORT PRICES IN MEMBER STATES NEED HARMONIZATION, SAYS MEP

Passport prices vary so widely among E.C. countries, ranging from about 10 European Currency Units (ECU) for a 10-year passport in Luxembourg to 170 ECU in Italy, that Member of the European Parliament Jean-Marie Vanlerenberghe asked the Commission to look into the possibility of harmonizing the conditions required to obtain a European passport and the period of its validity.

The Commission has already noted on previous occasions that Europeans are reluctant to acquire a costly passport—even if it serves as a symbol of Community membership—and has confirmed that it would re-examine harmonizing prices or, at least, reducing the differences between them.

These national discrepancies do not, however, hinder the free movement of E.C. nationals too much, since most member states require only presentation of a valid identity card for travel



In 1988, the EIB loaned some 10.2 billion European Currency Units toward regional development in the E.C., the environment, and better communication and transport.

FINANCE

EIB LENDING UP IN 1988

In 1988, the European Investment Bank (EIB) lent 10.2 billion European Currency Units (ECU) (\$11.3 billion), 30 percent more than in 1987. It helped to finance projects worth 25 billion ECU (or just over 3 percent of total investments in the Community), and to create some

the E.C.'s own resources, and the rest to improve energy use and diversify energy imports. The 1.2 billion ECU loaned for the environment will be used to fund investments in sewage works, and to fight pollution generated by thermal power plants, oil refineries and water purification facilities.

The level of EIB lending to any member state is dictated by the demand for loans. In 1988, it lent 3.4 billion ECU to projects in Italy and 1.3 billion ECU to projects in France. Other major

buy in their home country products sold in other member states.

Europeans are also drawn to the social aspects of 1992. More than 90 percent favor E.C.-wide regulations in the field of safety and hygiene at the workplace, and the mutual recognition of professional qualifications. More than 80 percent thought that collective E.C. agreements would be "advantageous."

About 53 percent of those polled found the idea of a Euro-

between member states. Exceptions to this requirement are the United Kingdom, Denmark, Ireland and the Netherlands, where a passport is required. In these countries, the cost of obtaining one could have an effect on the ability of their nationals to travel to other member states.

ENVIRONMENT

E.C. WANTS TO INTRODUCE MORE STRINGENT EMISSION STANDARDS

Carlo Ripa di Meana, the E.C. Commissioner responsible for the environment, has told the European Parliament of a Commission proposal to make European standards on small car emissions at least as strict as those now in force in the United States, to help reduce pollution and thus achieve a higher level of environmental protection.

The Commission's proposal sets a temporary limit for carbon monoxide emissions at 30 grams and a limit of 8 for hydrocarbons and nitrogen oxide. These standards would go into effect at the beginning of 1991; even stricter ones would be applied after 1993.

Manufacturers should not, however, be satisfied with merely meeting these standards, which could be surpassed with the development of new technology. Until that time, these current high standards are based on technology similar to that used in automobiles made for the American market.

The proposal aims to ensure the free movement of all vehicles conforming to Community directives from the beginning of 1991 to January 1, 1993. In the meantime, however, member states would be free to promote the production of cars that correspond to the higher standards required in the future.

The Commission plans to submit proposals for emissions from larger cars before the end of the year.



At present, the member states charge differing passport fees. To facilitate freedom of movement for all E.C. citizens, the Commission has been urged to harmonize prices.

SPECIAL AWARDS COMMEND ENVIRONMENT-CONSCIOUS INDUSTRIES

The European Better Environment Awards for Industry began as part of the 1988 Year of the Environment. Their aim is to encourage and promote good environmental production practices in industry and to highlight the benefits of adopting environmentally safe technologies worldwide.

The four award categories include the "Good Environment Management Award," the "Appropriate Environmental Technology Award," the "Clean Technology Award" and the "Green Product Award." Entries were judged at a national level and were then submitted to an independent European jury appointed by the Commission. This year Belgium, Denmark, France, Ireland, Greece and the United Kingdom submitted projects.

The 1989 special awards went to England's Baxi Partnership for reducing the impact of a new iron foundry; to Denmark's Skanko for the use of coir fiber for floor carpeting; and to England's R.J. Armstrong Evans for low-cost, robust hydro-electric equipment.

"Industrialists are recognizing that they can no longer fall back on the well-honed arguments that profitability and efficiency are incompatible with environmental protection . . .

A preventative approach to environmental protection has been proved time and again to make sound economic sense," said Carlo Ripa di Meana, the Commissioner with responsibility for the environment, at the awards ceremony.

BUSINESS

E.C. ENCOURAGES EUROPEAN EXECUTIVES TO IMPROVE THEIR TRADE IN JAPAN

In May, under the ninth Executive Training Program (ETP), 52 young executives from the E.C. went to Japan. This program forms the central part of the E.C.'s Export Promotion Program for Japan, started in 1979 and largely financed by the Community. The ETP's primary objective is to train first-rate European executives to do business effectively with their Japanese counterparts.

The first 12 months of the 18-month program will concentrate on language tuition to provide the E.C. executives with a good level of written and spoken Japanese. The final six months will consist of on-the-job training in selected Japanese companies, exposing the "Euroexecutives" to Japanese business practices and the social and cultural environment. A parallel program of seminars and factory visits is designed to

give the trainees the necessary theoretical and analytical background.

Since 1979, more than 300 European executives have taken part in the ETP, and the program is still expanding. Approximately 80 percent of the participants now either work for European firms in Japan or export to that country.

STUDY URGES BETTER EDUCATION PROGRAM FOR EUROPE'S NEXT GENERATION

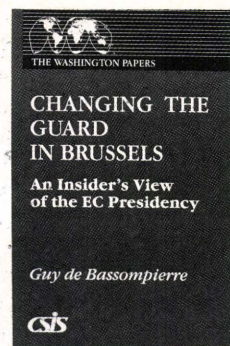
A study carried out by 24 leading West European companies on behalf of the European Round Table of Industrialists (ERT), a group of some 40 captains of industry, said that, if Europe is to remain competitive into the 21st century, its population will have to be involved in a lifelong learning process.

In a study titled "Education and European Competence," the ERT concludes that current education systems are unsuited to the future needs of companies, and points to the widening gulf between the qualifications required by that industry and those held by Europeans who are seeking jobs.

The ERT advocates a major program for developing education, which, similar to E.C. programs in research and technological development, would widen study opportunities in a frontier-free Europe and promote greater distribution of the results of the E.C.'s R&D programs.

The ERT proposes giving a helping hand to scientific and technical studies, improving collaboration between educational institutions and industry and increasing the number of apprenticeships. The industrialists also advocate that schoolchildren learn at least three European languages, that a European educational television network be created and that a European business degree similar to the American MBA be developed.

BOOKS IN REVIEW



Changing the Guard in Brussels: An Insider's View of the E.C. Presidency. By Guy de Bassompierre. Praeger and the Center for Strategic and International Studies. 162 pages.

MICHAEL D. MOSETTIG

The shelves of specialized libraries, especially as 1992 approaches, are beginning to blend with books on the past, present and future of European integration. Unfortunately, few present a good guide for foreigners to Brussels' institutional maze in a sufficiently compact and straightforward manner.

Guy de Bassompierre's monograph, written while he was a visiting fellow at the Center for Strategic and International Studies in Washington, D.C., may not vault to the top of the bestseller lists. Yet, at a time when the need for such a guide is more compelling than ever, this book comes as close as any to fulfilling it.

The author, now the Economics Minister at the Belgian Embassy in Washington, describes and analyzes the E.C. structure from the perspective of the presidency of the European Council of Ministers, a burden, honor and opportunity that rotates every six months among the 12 Community nations. It is advertised as an "insider's guide," and the writer did hold posts in the Belgian Foreign Ministry in which he had to deal with the Community. The book, therefore, does have the advantage of his experience, but there are no anecdotes—much less morsels of gossip—that Americans have come to expect from any book with the word "insider" in the title.

Nevertheless, the value of this work is its combination of elements of a good guide book with a sophisticated interpre-

tation of the politics within, and between, institutions and nations. Optimism is tempered by realism but not marred by cynicism. The reader comes away understanding not only where E.C. institutions are now, but where they are likely to go in a decade or so. One prediction is that the Council will become something like an upper house in a genuine European parliament and that the E.C. Commission will become a truly executive entity.

Because he thinks more like a national official than an international civil servant, de Bassompierre devotes considerable attention to the growing role of political cooperation with the E.C. and the fledgling institutions being built around it. He also details how that political cooperation is or is not translated into Community relations with other countries. He strongly concludes, for instance, that E.C. institutional arrangements with the United States need major repairs or else the relationship could sour. He also suggests a role for the Council in the annual ministerial talks now held between E.C. Commission and U.S. Cabinet officials. But he does note that one thing hampering the evolution of E.C.-U.S. relations is the understandable desire of European national governments not to tamper with their bilateral arrangements with Washington.

One of de Bassompierre's key assumptions, which helps frame the book, comes in one of the pithier passages at the end: "Had the E.C. also displayed a sense of humor, it might have done well to erect statues to several unobvious, but nonetheless real, co-founders of European integration, such as Joseph Stalin, Japanese microchip producers and Brazilian textile manufacturers, and Reagan and Gorbachev sitting together in Reykjavik."

The author assumes a growing role for European political cooperation, although

he is not sure if security and defense issues eventually will be discussed by Community nations inside or outside the E.C. framework. Similarly, he raises—but cannot resolve—the tantalizing question of whether the E.C. will become the often discussed European pillar of a more equal U.S.-E.C. political and security arrangement.

De Bassompierre alludes to, but does not confront, one issue that has defined European political cooperation up to now: the E.C.'s inability to tackle the toughest issues. In its occasional forays into Middle East diplomacy, for instance, there is far more willingness to lean on Israel, a small country to which the E.C. owes nothing except historically, than on the Arabs, a collection of mostly wealthy and potentially powerful nations to whom it owes a great deal.

This book is factually impeccable, although some of us who covered the events in the mid-1970s might quarrel with its interpretation of how the Commission president came to obtain a seat at the annual Economic Summit of industrialized nations. The author argues that the seat was won through European pressure over American objections. The recollection is that far more committed Atlantacists in the Carter White House had to push then Commission president Roy Jenkins past the protests not only of French President Valéry Giscard d'Estaing, but also of Jenkins' rather churlish former colleagues and rivals in the British Labor government.

The oddest allusion, perhaps a gesture to a former boss, is to quote Belgian Foreign Minister Leo Tindemans' comparison of the Commission-Council relationship to the heraldic double eagle emblem of the Habsburgs. Why choose for the new Europe an emblem of that unfortunate monarchy, which epitomized inept and unenlightened rule, and whose blunders directly led to the destruction of the old Europe?

What this book truly does reflect is that the E.C. nations and their institutions, despite so many pressures and forces against it, are inexorably inching toward greater cooperation and integration, and most likely will continue to do so even in the absence of many familiar trappings of national identity. For Americans, who have such a stake in this process, de Bassompierre has provided a most useful and sophisticated explanation of where the E.C. is now and where it is likely to go.

Michael D. Mosettig is senior foreign producer for foreign affairs and defense at the *MacNeil/Lehrer NewsHour*.

FASHION

Continued from page 20.

In the 1960s, following in the footsteps of other consumer oriented businesses, the fashion industry as a whole began its affair with the "mass" market. It was precisely this market that first alluded to the potential of global thinking. For most companies, however, that meant—and for some still does mean—pure export of product.

The goal was simple: Generate sales by creating products that fall in line with the needs of foreign, as well as domestic, markets. In GFT's experience, as with other European manufacturers, this process went one step further toward true internationalized status. GFT soon became expert at identifying universal needs (a "look" or "style" in terms of apparel) and creating around them a method of production, distribution and marketing *en masse* from Peking to New York, from Paris to New Delhi.

This was successful in part until well into the 1980s, although changes were already taking place in the late 1960s and early 1970s, when the concept of "the designer," as we know it today, first took shape. By identifying this designer phenomenon early on, Gruppo GFT joined the forerunners in the sector, signing such well known names as Ungaro, Armani and Valentino. In order to continue growth, GFT sold its "Italian" products to foreign markets, but with a new twist: The product was now adapted to local needs, such as climate, fabric preferences and silhouettes. Market share grew, and, as an added bonus, the group was able to offer a more diverse and complete product line to its customer, introducing new brands and launching new designers.

To simultaneously maintain the increase in production and satisfy demand, it was now necessary to acquire manufacturing and production facilities able to handle the diversity. The advantages were manifold. First, quality and know-how could be conserved and transferred, since production was basically oriented along product lines rather than mass production. This provided GFT with maximum flexibility. Second, in terms of operations, it increased GFT's ability to penetrate the market at a local level, giving it obvious political and economic advantages. World subsidiaries, which had previously acted merely as agents, now became partners with the parent company in the decision-making process, bringing, as a by-product, new levels of management, creativity and experience.

Today, the process continues, as products—or labels—popular in regional

markets manufactured by GFT's subsidiaries are distributed by—and to—the group internationally. This year, in what might be a first, the American designer Joseph Abboud, who entered into joint venture with GFT in 1983 and whose products are manufactured by GFT-USA in their Massachusetts plant, introduced his collection to rave reviews in Milan. While it might be true that many American designers have found their ways to Europe in the past, Abboud and other designers and brands under GFT's "wing" should certainly have an added advantage. In light of Europe's emerging single market, this is especially true for GFT

products overall in Europe, but also in other markets where the group has developed a presence.

In the world of fashion, as elsewhere, facts emerge daily to help guide us through the 1990s. Among these, the surest observation must be that the process of globalization is now cemented in the firmament of business in the United States, Europe and worldwide. The companies that will fare best in the markets to come will combine world vision with insider rationale and positioning, providing a standardized and customized product that meets emerging needs and consumer demand. €

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	Differences Across Countries				Country where impact is the strongest
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Wooden Products & Furniture	●	●	●	●	France
Office & EDP	●	●	●	●	France
Non-Ferrous Metals	●	●	●	●	France
Maritime & Transport Services	●	●	●	●	U.K.

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