EUROPE

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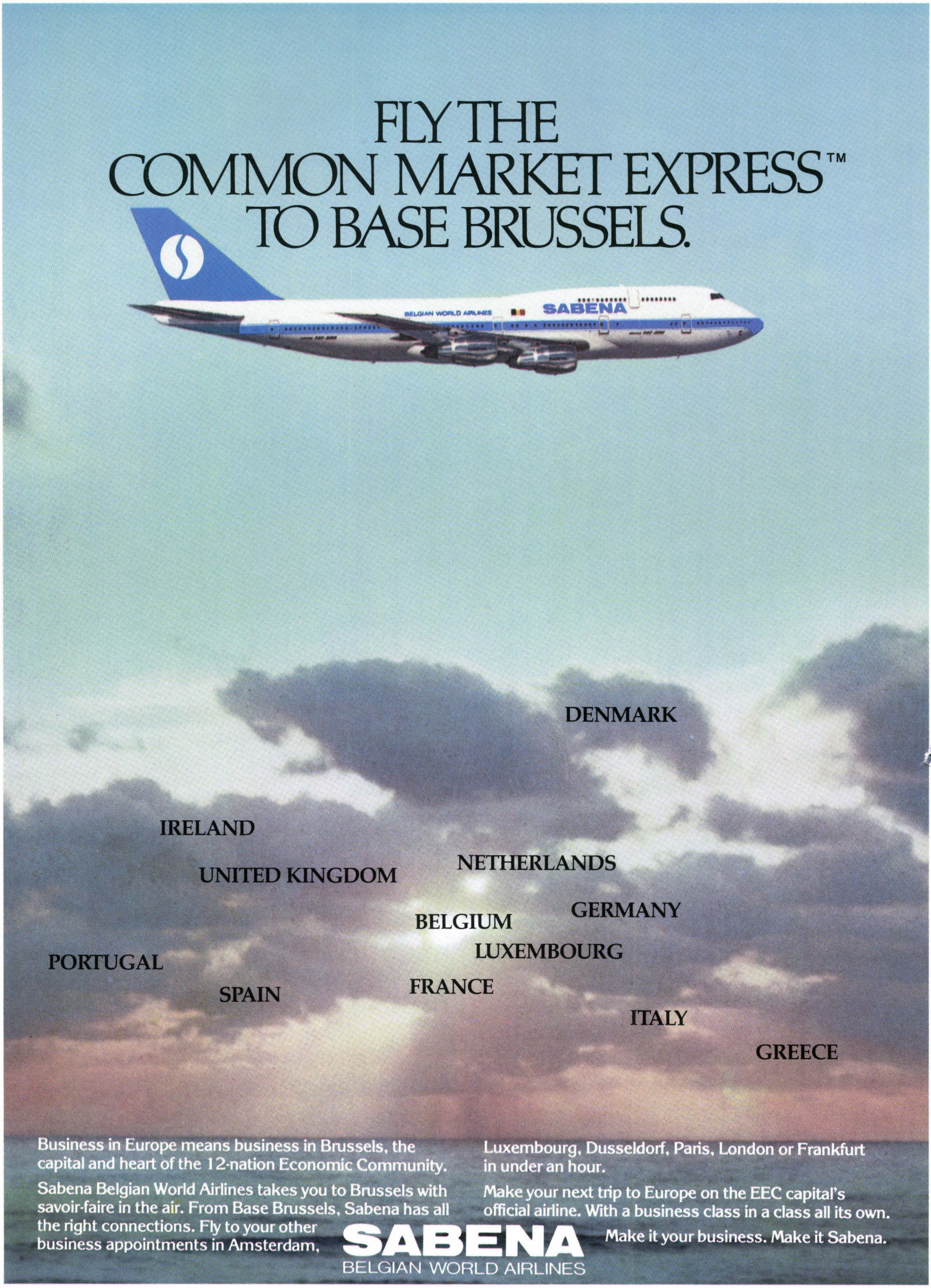
BELGIUM

Entering the 1990s With New Strength and Optimism

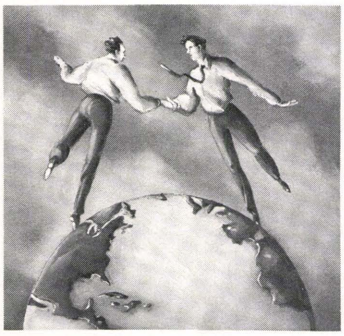


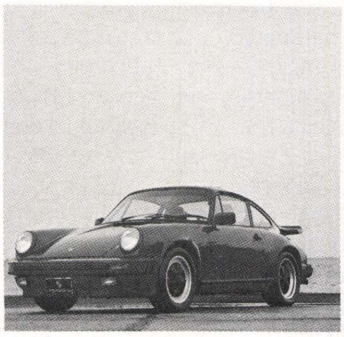
THE OFFICIAL AIRLINE OF THE COMMON MARKET CAPITAL.

OCTOBER 1989 NUMBER 290

EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY





COVER: Belgium is flying the European flag—like Brussels' medieval *Stadhuis,* or town hall. Photo: © Lee Snider/Photo Images

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EUROPE, *Magazine of the European Community,* (ISSN 0191-4545), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 700, Washington, DC 20037. **EUROPE,** published 10 times per year, is available by subscription for $14.95 per year; $25.90 per 2 years; $35.90 per three years. **Editorial, permissions, advertising and circulation offices:** 2100 M Street, NW, Suite 700, Washington, DC 20037; telephone (202) 862-9555; telex 64215 EURCOM UW. Available in microform from: UMI, 300 N. Zeeb Rd., Ann Arbor, MI 48106; (313) 761 4700. For changes of address or subscription problems please call: 1-800-227-7585.

Second class postage paid at Washington, DC.

Postmaster: Please send change of address forms to EUROPE, PO Box 995, Farmingdale, NY 11737-0001

PUBLISHER'S LETTER

The summer of 1989 has been an unusually busy one. The economic summit of industrialized nations in Paris last July, and the changes taking place in Poland and Hungary, have kept foreign policy makers on their toes throughout the summer months, and their attention focused primarily on Europe. Peter Rashish explains the E.C.'s leading role in the new relations between Eastern and Western Europe, and how this fits in with the U.S. Administration's positive view of European unity.

The E.C. is also increasing its diplomatic outreach in other parts of the world. Ludi Joseph, formerly with the E.C. Commission in New Delhi, writes that Community aid and technical support have improved the standards of living for many people in South Asia, and Julian Weiss looks at the E.C.'s trade relations with Asia's economic "Tigers." One of the primary areas of competition between the two economic groups is the car industry. In this sector, writes Keir B. Bonine, E.C. automakers are gearing up for more competition from countries such as Japan and Korea as protectionist barriers are gradually abolished.

At the same time, the prospect of a single market is encouraging E.C. businesses to increasingly look outside their national markets, as Richard R. Rivers and George S. Vest indicate in an article on Europe's increasing merger and acquisition activity. Corporate Europe is not alone in preparing for 1992, however: Bruce Millan, Commissioner for regional policy, writes that the Commission is helping the E.C.'s peripheral regions more than ever to prepare for the free flow of workers and capital.

Our member state report highlights Belgium, which, as Alan Osborn notes, seems to have overcome many of its political and linguistic differences, and is doing well economically. Considering the economic implications that are just three years away, this is certainly an encouraging development.

Giancarlo Chevallard

GETTING READY FOR 1992

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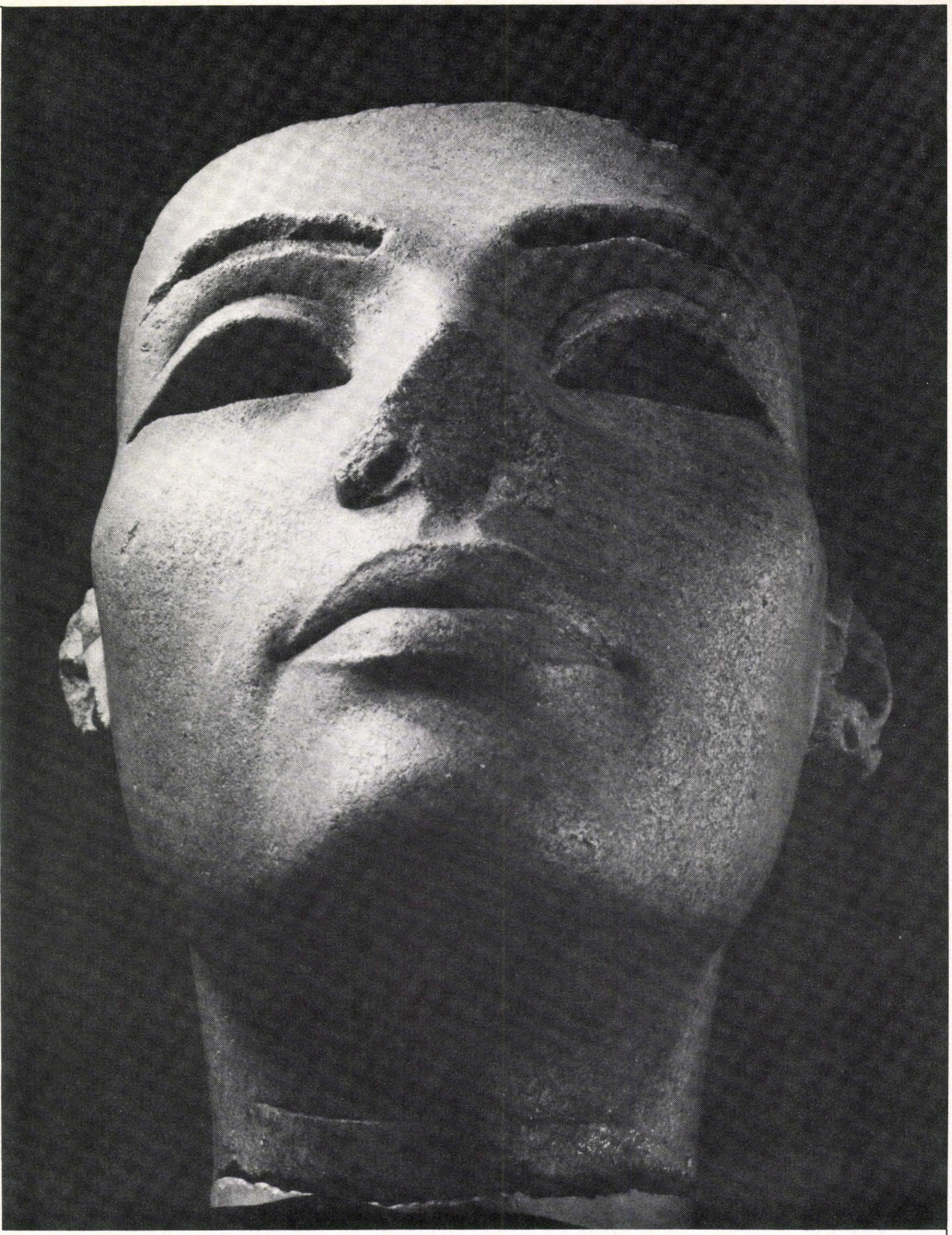


© FRANCO MARIA RICCI/INSTITUT DU MONDE ARABE

The Institute of the Arab World in Paris is hosting many special exhibits to highlight Arab history and culture. The sculpture of Queen Nefertiti was recently on display.

PARIS

Arabia on the Seine

Located within the ultra-modern glassy walls of the Institute of the Arab World, the cultural center of the Arab world seems to have moved to the banks of the Seine. Founded in 1986 by 20 Arab countries and France, the institute was intended as a link that would bring the Western and Arab worlds together through culture.

Unfortunately, however, bickering began almost immediately after the institute opened: Its mission was unclear and not all of the founding nations appreciated the activities that *were* clear. Several countries stopped paying their contributions and, almost from the outset, the Institute of the Arab World was mired in impoverishment and inter-Arab differences reminiscent of the part of the world the organization represented. Interest faded in all but the magnificent building, prestigiously located beside the University of Paris on the Left Bank of the Seine.

Now, however, an exhibit on Egypt has served to establish a new appreciation for the institute. It is a small but poignant collection that includes tomes of meticulous studies ordered by Napoleon on every aspect of Egyptian life while his army was on the banks of the Nile. Pieces of jewelry, sculpture, and other decorations are also on display, including the delicately beautiful sculpture of the head of Queen Nefertiti, which dates back to 1360 B.C. The daily *Le Monde* declared that the exhibit had helped to establish the institute as one of the important cultural spots of Paris.

The popularity of the Egypt exhibit has now focused attention on the broader role of the institute, which, under its new president, Frenchman Edgar Pisani, has shifted from the lofty to the practical. Rather than compete as a museum with the Louvre, which is just across the river, the institute is drawing more attention as a gallery for special prestigious exhibits. It is also launching a publishing venture to print paperback editions of Arab classics, and has extensive research facilities, including libraries and the beginnings of a 300,000-slide collection of important Arab art and architecture. Social scientists are thus able to do research on Arab history, language, and culture.

Pisani, a former French Socialist minister who forged the agreement that curtailed violence between ethnic groups in New Caledonia, has even greater plans for the institute. One of the most difficult but crucial parts of the institute's mission is to cultivate understanding and "familiarity" between the Western and Arab peoples who, for centuries, have exchanged elements of their cultures across the Mediterranean. Familiarity is therefore viewed as the key to defeating racism. But, Pisani argues, "you cannot increase understanding between different peoples just by showing things." So, to deepen that understanding, he is planning a program of conferences and seminars to encourage debate.

The institute is already recognized by the Arab world as a center for cultural and scientific study. Pisani sees the regular requests from Arab countries for information on Arab civilization as a success for the institute and its aims, because "we have the global view from the Gulf to the Atlantic that they do not have themselves."

Both within the Arab world and in Western countries, however, much more can be done through the vehicle of culture to bring people together and make "the political debate among Arabs less tragic."

That mission for improving Arab relations can perhaps be best conducted from the Left Bank in Paris.—BRIGID JANSSEN

LONDON

Carnival Time

Europe's biggest and wildest street party, the Notting Hill Carnival, brings Caribbean culture to London during two days at the end of August with a dazzling parade of flamboyant costumes, traditional steel bands, and ear-splitting sound systems.

The black, mainly West Indian, residents of Notting Hill and other quasi-ghettos in London spend months preparing elaborate costumes and headdresses that tower high above the crowds, and polishing their instruments for a festival that began more than 20 years ago. The Carnival, said one of its founders, is "two wonderful days of enjoyment that give the disadvantaged black immigrants something to celebrate."

"It certainly isn't England," commented one first-time visitor, stunned not only by the color, vibrancy, and sheer joy of the carnival parade, but also by the mega-decibel level of the 35 sound systems scattered throughout the neighborhood, blasting out a mixture of reggae, African, socca, and soul music. It is not only the set pieces that make the carnival an event, however, it is all the trappings that go with them. Street stalls selling curried goat, salted fish, grilled corn on the cob in special sauces, drinks of palm wine, and rum have become the carnival's trademarks.

This year, more than a million people attended the festival during the Sunday and Monday of the last August weekend that marks the end of summer here. For most of the weekend, it seemed that this year's event, which had been organized by a new, more commercial and professional group than in previous years, was going to be quite a success.

The Carnival appeared to have overcome the tensions produced in past years by the mix of different ethnic communities and the socio-economic polarity caused by disparate income levels in the neighborhood. Black and white, poor and middle class, rocked in unison to the infectious rhythms of the Caribbean.

Nevertheless, a cheerful, light-blue pin handed out by the police to passers-by was much in evidence. It read: "Go Carnival—Leave your valuables at home," implying a seriousness that belied the bright yellow drums and drumsticks, and the red musical notes that decorated the message. For those unaware of the darker undertones of the festival, the 5,000-strong police presence emphasized that there could be trouble in Paradise.

As dark fell on Monday night, families took their children home and the booming sound systems were turned off. The carnival organizers and the police began to congratulate themselves on staging Europe's largest street festival with a minimum of crime. Suddenly, however, with a fistfight here and a bottle thrown there, the latent violence flared up. The massive police force moved in with well-rehearsed precision. Whether the violence had been caused by too much drink or, as some said, provoked by the police presence, within a few hours one policeman was in the hospital with stab wounds, and another 29 had been injured. Some 200 revelers were arrested, and the newspaper headlines the next day carried the familiar messages: "Carnival Ends in Violence," and "Now is the Time to Stop the Carnival."

Although the violence gets a lot of press coverage, it is only a small part of an event that enables people of all ethnic and socio-economic backgrounds to celebrate the festival of one of Britain's most colorful minorities. The Notting Hill Carnival also highlights the diversity of life in one of Europe's greatest cities.—DAVID LENNON


London's Notting Hill Carnival celebrates Caribbean culture with music and parades.

LUXEMBOURG

Justice Made Easier

September marked a historic turning point for the European Court of Justice in Luxembourg. In the first major change in the Court's constitution since it was set up under the Treaty of Rome, 12 new judges will be appointed to man a new junior branch of the tribunal, the Court of First Instance.

Establishing a Court of First Instance was first mooted by the current European Court judges two years ago to ease their growing workload. The number of cases referred to the Court has been steadily increasing, from around 100 per year in the early 1970s to about 400 last year. Until now, however, the 13 judges and 6 advocates-general—officials who draw up opinions to assist the judges in reaching their decisions—have soldiered on unassisted. This has created a considerable backlog of cases, with delays now running from about 18 months to two years.

It is expected that the demands on the Court will become even greater as 1992 approaches. Under a three-tier warning system, the Commission first serves a violation notice, which is then followed up with a threat of legal action. If the member state does not comply, the Commission can take it before the European Court of Justice. Last year, the E.C. Commission served the 12 member states with a record 572 notices of violation of E.C. law, and threatened legal action in 197 other cases. As more and more legislation is being harmonized at the E.C. level, the number of controversies is bound to increase.

Cases brought by the Commission represent only a part of the Court's case load, however. As the final arbiter on Community law, the Court also settles questions referred to it by national courts, and decides on cases brought directly by companies and individuals. It also acts as the only adjudicator in cases involving E.C. personnel engaged in disputes with one of the E.C. institutions.

The Court of First Instance will consider about 150 lawsuits a year, which will cut the workload of the ordinary court by about one-third. Its primary purpose will be to establish the facts in cases between companies or individuals and E.C. institutions. Its powers will be somewhat limited, as it will only be competent to deal with competition law, staff disputes, and steel cases where private companies have complaints about the functioning of the E.C.'s steel policy. There will also be a right of appeal to the more senior Court.

Court officials point out that the new arrangement will provide greater legal protection for individuals and companies. First of all, the competence of the new tribunal has been specifically set in those areas where private interests most often come into conflict with E.C. policy, thus allowing much quicker access to justice. More important, however, is the right to appeal the judgment by taking the case to the European Court of Justice, which will provide even greater safeguards for individuals.

The new Court will be extremely streamlined, which, officials point out, should help its efficiency. Of the 12 judges appointed by the member states, three will act as advocates-general, drawing up preliminary opinions on cases for the full court to consider. A new registrar will be set up, and two new court rooms have been added to the European Court's headquarters on the Kirchberg Plateau in Luxembourg City. Apart from this modest allotment of staff, however, it will rely entirely upon the existing court machinery.—DENISE CLAVELOUX

The European Court of First Instance will relieve the judges on the European Court of Justice (above) of some of its workload.

ATHENS

Refugees and Migrants

One evening in August, a 65-year-old shopkeeper selling souvenirs to tourists in Athens was stabbed to death. His killer, caught a few hundred yards away, was Wieslaw Michalski, a 27-year-old Polish citizen.

Michalski, it appears, had been in Greece for two years, doing seasonal work picking potatoes and oranges, but barely living above the subsistence level. "I had no intention of killing," he said after his arrest. "I needed money to pay the rent, and I went out to steal."

Refugee problems may be common in West Germany or the United States. In Greece, however, this incident was an eye-opener, bringing home to many the realization that their country is attracting foreign refugees and migrant workers more than ever before.

An exporter of labor until the mid-1970s, Greece today receives a regular inflow of mostly illegal migrant workers. The most conspicuous groups come from the Philippines (often with work permits) and from Africa: Some 20,000 Egyptians alone live in Athens. By far the most numerous are the Poles, who are reckoned to number between 30,000 and 40,000, and who represent a quarter or more of all resident aliens.

Against a population of little more than 10 million people, these numbers are not huge. But they are rising and will continue to increase with the unprecedented hemorrhage from Eastern Europe as political conditions improve and economic conditions deteriorate.

Fewer than 500 of the Poles in Greece enjoy recognized refugee status, which, under the 1951 United Nations Convention, is granted only to those who have a "well-founded fear of being persecuted for reasons of race, religion, nationality, or membership of a particular social group or political opinion . . . ." Philippe Labreveux, the Athens representative of the United Nations High Commission for Refugees (UNHCR), says of the current influx of Poles: "They may come with memories of persecution, but immediate persecution is not the cause of their departure."

Until last year, he adds, about 15 percent of Polish asylum-seekers in Greece were recognized by the UNHCR, something that is no longer the case. Those who ask for it now are referred directly to the Greek Ministry of Public Order, an option few pursue since they have to surrender their passports. They wish to retain the right—and anticipate acquiring the means—to travel elsewhere.

Hitherto, most of the asylum-seekers who arrived in Greece, from Eastern Europe especially, regarded this country as a stepping-stone to one of the traditional migrant destinations: the United States, Canada, or Australia. Nowadays, however, only about one quarter of the Poles, for example, are registered with resettlement agencies, and although 1,000 or so have been accepted this year, the receiving countries are becoming less receptive to the continuing inflow. The United States, for instance, is not expected to renew its quotas for Poles. Consequently, Greece itself has become a destination.

The life of the illegal immigrant in Greece is little different from elsewhere. Unemployment is at nearly 8 percent, but there is no shortage of casual labor in the fields, in construction, and in the tourist industry. Immigrants obviously cannot take advantage of social benefits and their wages are lower than the per capita average income. Nevertheless, these are still much higher than even professional earnings in Eastern Europe. The prospect of sending remittances home, or of returning with some savings, is therefore not inconceivable.

For the handful of genuine refugees—who number about 6,000 in Greece—the influx of migrant workers is bad news. Greeks do not easily distinguish between migrant workers and refugees, and the actions of migrant workers like Michalski tend to give refugees a bad name as well. Nor are refugees protected from the increased competition in the labor markets: The UNHCR's chief complaint is that, although Greece signed the United Nations Convention on refugees in 1951, it still does not provide them with work permits. Many refugees are thus also reduced to working illegally.

This situation should change after 1992, when the same rights must apply throughout the single European market. However, the E.C. has by no means agreed on a common policy on migrants, such as their entry into the E.C. or their conditions of stay. All that has been agreed so far concerning a policy on refugees is that they should seek asylum in the country of first arrival.—PETER THOMPSON

DUBLIN

Whereto the Senate?

The Irish Senate, described misleadingly as the "upper house" of the legislature, rarely impinges on the public except at election time. Then it usually draws critical comment about its perceived role as a genteel debating chamber where burned-out politicians spend their later years, or where defeated ones establish a perch to climb back into the Dail, the lower house, where the real power lies.

The recent Senate election drew more acerbic criticism than usual from political commentators. One described it as "a steamhouse—though not a powerhouse—of politics where both fledgling and failed politicians sweat out their frustrations." Another wrote that it was often seen as "a lying-in hospital for defeated Dail candidates or an educational forcing frame where young hopefuls cut their political teeth."

LISBON

A "Fado" Legend

Lisbon's Theatre Museum is currently celebrating Amalia Rodrigues, the woman who for the last 50 years has embodied the *fado*, or song of fate—a wailing, melodious outpouring of the Portuguese soul.

Now almost 70, Rodrigues is more of an institution than a *fado* singer, an elegant, if portly, older woman whose once high notes are now low and whose vibrant sound, which used to echo in her listeners' ears for hours, is somewhat dulled. Memories of the early Rodrigues have become part of the Portuguese soul, however, and the Theatre Museum's affectionate exhibit is an apposite reminder of this national phenomenon.


Amalia Rodrigues (above) and Fernanda Maria are two popular Portuguese "fadistas."

COURTESY HEYWARD ASSOCIATES

More than any other living Portuguese, Rodrigues lifted the *fado* and its paradoxical happy-sad harmonies to the plateau of great performing art. She transmitted it with a unique voice—light and penetrating in her youth, darker and painted with a singular melancholy as she matured. Her *fados* teemed with the ache of unrequited love, the rage of women hurt in body and spirit by men, and the celebration of oceans and the men who sailed them—sources that inspired poets and musicians to write *fados*. She always had rivals but, like all special stars, no equal.

The origins of the *fado* are uncertain. Some say it was born at sea by Portuguese men sailing far from home. It developed regionally and stylistically during the 19th century and reached its purist peak in the university city of Coumbra, where it is wailed by black-caped men. The *fado* picked up rhythm as it celebrated the men who faced the bulls in the Ribatejo beyond Lisbon, and roamed the Lisbon streets, picking up echoes of the chant of Moorish descendants, singing of ruffians and urchins, of poets and thieves, and of the wrath of God against sinners.

To achieve the lilting wail, the *fado* singer must develop a unique voice by throwing back the head and expanding the chest to project the loud, ululating tones that are the *fado*'s epitome, and in which the singer is accompanied by two guitars.

It was Rodrigues' raw talent for wedding her voice and soul to the words of the poets and notes of the guitar that first brought her acclaim in the Cafe Lusa 50 years ago.

Having tested her talent, and having found it explosively received, Rodrigues moved onward and outward. She became a cult, a diminutive black-shawled figure whose gifts made her seem larger than life itself, whom everyone wanted to see and, above all, hear and weep to.

Over time, the black shawls were draped over more sophisticated black evening gowns: The grown-up Rodrigues learned how to make both a visual and audible impact—to the extent that she mesmerized even international sophisticates. In the late 1950s, at the renowned Olympia in Paris, Rodrigues captured the Gallic heart. She adapted well to being abroad, turning the *fado* entitled "Coimbra" into "April in Portugal," which haunts every Musak tape in the world.

At the same time, however, Rodrigues' lucrative international career took her away from her raw, fierce-eyed Lusa days, where musical witchcraft was practiced on an adoring audience that wanted a piece of her soul to take home with them and add poetry to their lives. Her lyrics became more sophisticated and professional, and she gained polish.

She was reviled during Portugal's 1975 Marxist revolution as a "friend of Fascists," but was reinstated when the revolution faded and her talents were seen to be beyond politics. She has been decorated by the French government and is still asked to sing on special occasions. Now celebrated by a museum exhibit, Amalia Rodrigues can be described by the words of a poet writing about the *fado:* shattered souls and lost nights, dark shadows, the cry of the guitar, love, jealousy, ashes and fire, pain and sin: It exists, it is sad—it is all the *fado.*—DIANA SMITH

The Senate was set up in the 1920s to ensure that the Protestant and usually pro-British minority would have a guaranteed voice in the public affairs of the new state. It provided, for example, a notable forum for the poet E.B. Yeats to defend the interests of his fellow Protestants by denouncing the absence of divorce in the legal system.

Eamon De Valera, the founder of Fianna Fail, the country's largest political party, abolished the Senate after he came to power in 1932, but restored it under his 1937 Constitution. He tried to model it on the vocational lines proposed by Pope Pius XI in the encyclical *Quadragesime Anno.* This resulted in a complicated electoral system, under which the count for 43 of the 60 available seats can take days.

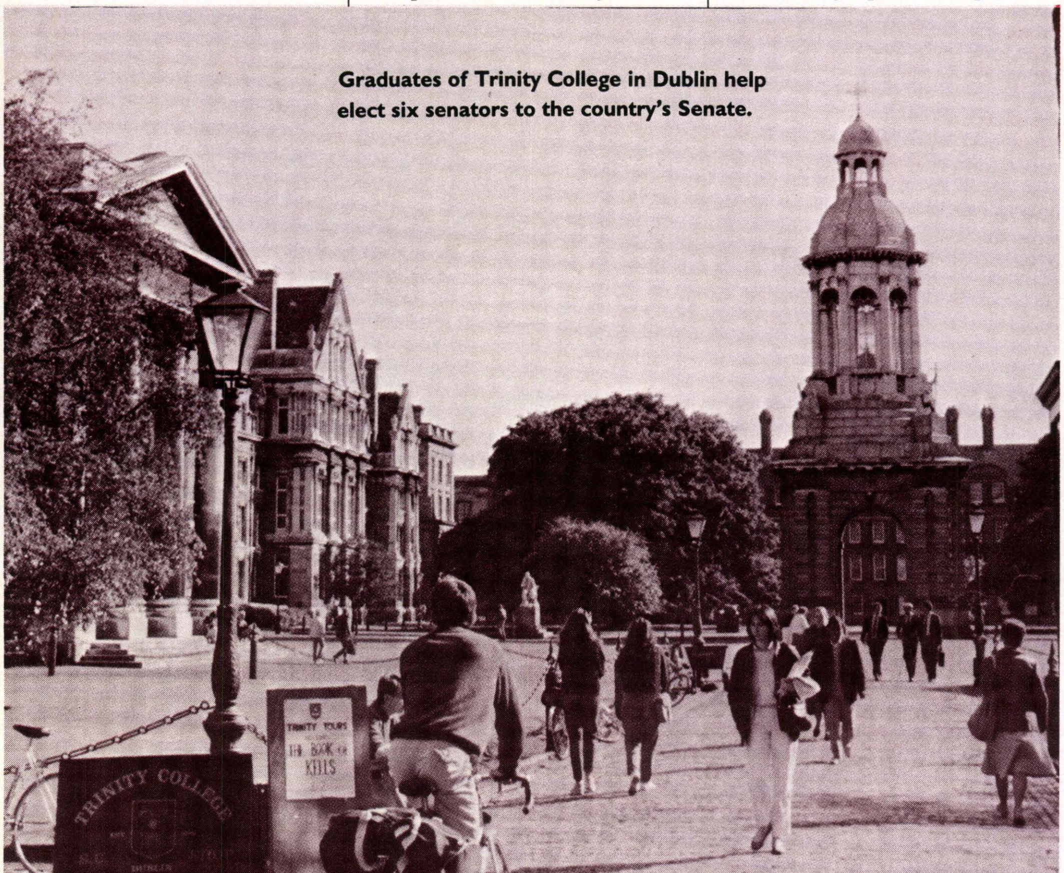
Most candidates are chosen from five panels representing the interest groups of education and culture, agriculture, industry, labor, and public administration. From this group, senators are chosen by an electoral college of about 900 parliamentarians, outgoing senators, and local counselors from all over the country. As a result, candidates must travel up and down the country to seek out obscure local counselors on their farms and in bars to ask for their vote.

Six senators are elected by the graduates of the National University of Ireland and by Trinity College, Dublin, and another 11 are chosen by the Prime Minister. This ensures that the Government will have a majority, but it also allows for imaginative appointments such as members from Northern Ireland. In practice, however, the political parties dominate the nomination and selection process for all of the senators except those chosen by the universities, who have often provided the most valuable input into the work of the chamber.

The Senate can amend legislation coming from the Dail, but the lower house can refuse to accept these changes. The Senate can only make recommendations concerning financial bills, and there is no guarantee that private members' bills introduced by the Senate will be accepted by the Dail. This shows that there is no comparison with the powers of the U.S. Senate.

When the new right-of-center Progressive Democrats (PD) had no members in the Senate, they proposed that the upper house be abolished. As a result of the new coalition between the PD and Fianna Fail, however, (see also *Europe,* September 1989), the PD is expected to receive some of the 11 senate seats offered by the Prime Minister.

Even sympathetic political scientists see the Senate as being caught in a vicious circle. Professor Basil Chubb of Trinity College notes: "Lacking prestige and being government-controlled, the Senate cannot insist on a more active role . . . Because it does not do so, it is condemned to hold an undignified position and to waste what potential it does have."—JOE CARROLL



Graduates of Trinity College in Dublin help elect six senators to the country's Senate.

COURTESY IRISH TOURIST BOARD

BONN

East Goes West

Mass escapes of East Germans vacationing in Hungary through Austria and into West Germany are becoming an embarrassment for the governments of East Germany, Hungary, and West Germany.

West German Chancellor Helmut Kohl has stated that "the Federal Government is not interested in destabilizing East Germany," adding that "this might have disastrous results for the whole of Europe." In his view, increasing numbers of East Germans who see no hope for change will turn their backs on their country, and he appealed to the East German leadership "not to shut its eyes to the far-reaching reforms taking place in the Soviet Union, Poland, and Hungary." The opposition Social Democrats echoed the same thought.

The exodus of so many young East Germans to the West—the highest since the Berlin Wall was built in 1961—reflects a growing disillusionment with both the Communist system and the country's leadership. While the East German Government insists that capitalism is a decaying system and that East Germany is building on moral high ground, young East Germans are impatient that economic and political changes are taking place everywhere in Eastern Europe except for their own country.

The reason for East Germany's reluctance for change has been neatly summed up by

Otto Reinhold, East Germany's top ideologist. He says that the East bloc countries can experiment with market reforms because they existed as states with capitalist or semi-feudal structures before the Socialist reorganization. East Germany, on the other hand, emerged from World War II as part of a divided Germany and is thus bound to its Socialist path. What right to exist would a capitalist East Germany have next to a capitalist Federal Republic," asks Reinhold, and provides the answer himself: "None at all."

It is estimated that some 100,000 East Germans, whom the West German Government has a legal and moral obligation to help, will arrive in the West by end-1989. Article 116 of the West German Constitution stipulates that East Germans are German citizens and that since West Germany does not recognize East German citizenship, West German embassies abroad must issue a passport to any East German who asks for one. After registration in West Germany, an East German is entitled to the same benefits as a West German.

"It is not our policy," said Kohl, "to encourage East Germans to come here, but once they have chosen to do so, we must welcome them with open arms." But that welcome may not be without hesitation. According to a recent poll, while 49 percent of West Germans welcomed their East German neighbors, 46 percent expressed reservations, mainly fears that East Germans would compete with the country's two million unemployed. Since the West German economy is booming, however, and there is a great shortage of skilled labor, this influx may not threaten employment levels, especially since the newcomers are well-trained and highly motivated to begin a new life in freedom. Some 60 percent of the new arrivals get a job within six months. In addition, the flow of young people, often families with small children, is an asset for the country, considering West Germany's own negative demographic development.

West German Government spokesman Hans Klein points out that, having successfully integrated some 13 million refugees after World War II, the present influx should not pose great problems for West Germany.

Werner Rost, who came to West Germany two years ago, reminds his compatriots that they have entered a completely different world, with different lifestyles and a totally different economic system. "The intensity of work and productivity are some 30 percent to 50 percent higher than in the East," he says. Physicist Gabriel Berger, who was expelled by East Germany some 12 years ago, expects that the newcomers will need time to develop their own initiative after having grown up in an environment where everything was done and thought for them by party and state.—WANDA MENKE-GLÜCKERT

MADRID

Soccer Loyalties

The Spanish soccer season began in September, but it will not heat up until October 8, when the Real Madrid and F.C. Barcelona soccer teams meet to continue a perennial rivalry that goes beyond mere sport.

Real Madrid and F.C. Barcelona, the two richest teams in the first division (their payrolls are more than double those of their closest contenders), have won the last five league championships between them, and their victories at the European level have given them a national network of fan clubs and followers.

Despite these sports achievements, their rivalry has less to do with soccer than with political tensions that began with the incorporation of the kingdom of Catalonia, with its capital Barcelona, into medieval Spain. These tensions were transferred to the playing field after the victory of General Francisco Franco's nationalist troops in the 1936-39 Spanish Civil War.

An ardent enemy of the regional loyalties that threatened his vision of a centralized state, Franco outlawed the teaching of *Catalá* and *Euskera,* the Catalonian and Basque languages, and forbade the use of regional symbols. His attempt to impose a uniform love of a single *Patria* even extended to the sporting world. In this realm, he hoped to emulate Hitler's Olympic successes by giving authority to the *Falange,* Spain's fascist movement, to train champions that would prove the country's superiority.

Consequently, in the years just after the Civil War, all sport was highly politicized. Soccer players gave the fascist salute and sang the fascist anthem before each game, and the authorities even changed the national team's traditional red jerseys to Falangist blue. At the same time, however, with the country devastated by war, Franco never allocated the funds necessary to create a network of tracks, pools, tennis courts, and gymnasiums. Spanish athletes, in general, performed poorly in international competitions, a pattern that is only beginning to change today.

The one notable exception was soccer, where Real Madrid racked up a record of five straight European Champions' Cups in the 1950s, giving the country the positive image that eluded the regime in the international political arena. "You have done much more than many ambassadors...," Falangist leader José Solís told the team players after a Cup victory in 1959. "People who hated us now understand us, thanks to you... Your victories are a true source of pride for all Spaniards."

According to British historian Duncan Shaw, whose 1987 book, *Football and Franco,* analyzed the sport's political ramifications, the soccer mania that swept Spain during those years acted as an escape valve for passions that otherwise might have proved troubling for the regime. Vicente Calderón, then owner of Atlético do Madrid, said at the time: "Let's hope that soccer stupefies the country and that everybody thinks about soccer three days before and three days after the game. That way they won't think about other, more dangerous, things."

The Barcelona club, too, acted as a political safety valve, giving Catalonian nationalists one of their few legal means of expression. Prior to the establishment of a constitutional democracy in 1978, one of the few places where the Catalonian flag flew legally was on the Club's jerseys. And the fans who packed the stands in Barcelona, shouting *Visca Barca!,* rooted for more than just their team. For, according to Catalonian novelist Manuel Vázquez Montalbán, *Barca* is "the only legal institution that links the man on the street with the Catalonia that might have been and never was."

In 1975, the year Franco died, Alex Botines wrote: "What is very clear about Spanish soccer is that the sport is, in reality, a weekly political confrontation. Real Madrid signifies one thing, and the Barcelona fan knows it; 'Barca' signifies another, and the Madrid fan knows that, too."

In that context, it mattered little that both teams depended then—and still do—on a legion of foreign players for their successes. Barcelona coach Johan Cruyff may be Dutch, but he speaks *Catalá,* and his Spanish is heavy with the regional accent. Similarly, superstar Alfredo di Stefano is remembered as a "Madridista," not an Argentine.

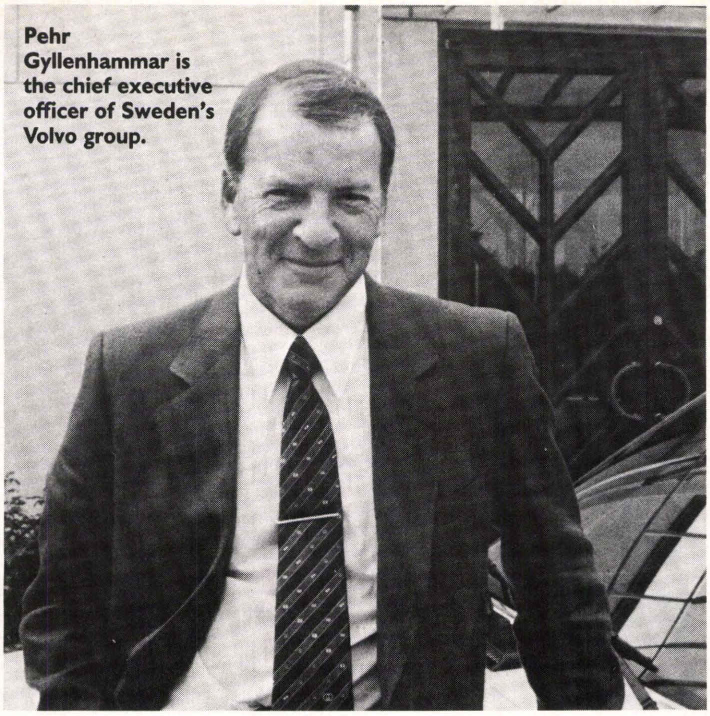
This year, both teams have something to prove. Madrid is shooting for a record fifth straight national league title and the elusive European Champions' Cup, from which it was eliminated in the semifinals two years in a row. Barcelona, on the other hand, won the European Champions' Cup last year, but failed to beat Madrid in the national league race. And, while a decade of democracy has eased political tensions, it has done little to diminish the fervor that fuels the rivalry.—RICHARD LORANT

COPENHAGEN

Environmental Priorities

Compared to some E.C. capitals, Copenhagen is a clean city. But it is Denmark's E.C. membership, and not so much Copenhagen's clean streets, that has made the Danish capital the front runner for a new environmental research center proposed by Sweden's top industrialist, Pehr Gyllenhammar, chief executive officer of Sweden's giant Volvo conglomerate.

Gyllenhammar wants the countries that make up the European Free Trade Association, or EFTA, (these include Sweden, Norway, Iceland, Aus-



Pehr Gyllenhammar is the chief executive officer of Sweden's Volvo group.

COURTESY VOLVO NORTH AMERICA CORPORATION

tria, Switzerland, and Finland) to pool their research grants, and to help industry anticipate and adjust to future trends in environmental policy. More than $400 million could be available from EFTA budgets, an amount that could fund a university-sized institution with a core of 60 top international scientists.

The Danish Government has already responded positively, not least because it is also lobbying to become the site for an E.C. environmental center that will cover the north of Europe. If these projects were combined, as Danish Science Minister Bertel Haarder has proposed, the two centers would make Copenhagen the environmental capital of northern Europe and the Baltic Sea area. This extended geographical area is a powerful argument in the project's favor, because no real E.C.-wide anti-pollution policy can succeed without closely monitoring and cooperating with the East European countries bordering the Baltic.

The bipartisan support for the Danish candidacy is partly due to Denmark's firm stand on environmental issues in the Community. Recently, it has pushed for strict car emissions standards, a stand so tough that it has led to complaints from E.C. automobile manufacturers. They argue that Denmark is being idealistic and that its lack of an indigenous automobile industry with vested interests enables the country to push for such strict limits.

While these arguments may be valid, it is also true that Denmark has spent more public money on the environment than most other E.C. countries, and that a new, specialized environmental industry has been created as a result.

This new environmental strategy in industry has meant that manufacturers have to adapt their product quality to standards higher than those required in the Community. While this obviously puts industries at a short-term cost disadvantage, these new environmentally oriented (and conscious) industries are expected to have an edge later. In addition, although not part of the plan, the new strategy is also proving to be a fruitful sphere of cooperation between the public and the private sectors.

Some compare this industrial development to Denmark's hearing-aid industry in the 1930s, a time when this sector started to exploit a market created by one of the very first elements of the welfare state. Today, three Danish companies hold the lion's share of the international market for hearing aids, and the pampered and difficult Danish market still forces the corporations to remain competitive.

Denmark's concern with environmental protection is affecting not only many of its industries but also its exports. As one of the world's major food exporters, Denmark has always insisted on the purity of its foodstuffs. Although foreign buyers often have their own inspectors on the spot, Danish authorities are also becoming more vigilant, and food producers recognize that this is in their own interest. In this context, the producers work efficiently with manufacturers, who are busy developing the tools to make production even more efficient. Their ultimate success may then eliminate such problems as the very small amounts of pork in beef products recently exported to the Middle East, which were due to pork residuals in machines used for mincing both types of meat.—LEIF BECK FALLESEN

ROME

Sports Woes

Everyone knows that Italians love soccer. This national fascination for the sport is emphasized by the fact that Italy is the only country in the world to have three dailies dedicated entirely to sports, of which 80 percent of the articles deal with soccer. To top it all, Italy will host the "Mundial '90" World Cup international tournament in 1990, which awards a golden trophy to the best national team in the world every four years.

Despite the Italian passion for that round ball that everyone loves to kick around, and the fact that it will host the World Cup, the sport is running the risk of damaging its popular image, both in its preparations to host next year's Mundial and in its fans' attitudes and violence at matches.

Preparations for the Mundial have stirred up a storm of special interests and commercial appetites that have cast a gloomy cloud over Italian soccer. International regulations require that the stadiums be covered; therefore, all Italian stadiums that will see World Cup play are currently undergoing intensive rejuvenation and beauty treatments. This tall work order has unleashed a battle between the various contracting companies that has made it to the front pages of the newspapers.

Italy's Mundial organizers have known for years that the stadiums needed to be covered, so why did they wait until the last minute to initiate construction and then be obliged to build the required roofs in a rush?

In just a few weeks, more than 10 workers have been killed in accidents at the construction site. It is believed that the accidents occurred partly because of the lack of security measures and the laxity with which the contracting companies are conducting the work. Whatever is at fault, these accidents have not helped soccer's image in Italy—which has also been tarnished by other events.

Soccer also suffers from systematic stadium violence between the fans of opposing teams, which has caused deaths and injuries, and has driven away the "purists" and true fans of this sport. Moreover, soccer has ceased to be simply a sport and has become a show business event, too. The well-off Italian championship teams, which offer the highest salaries and are able to recruit foreign players for phenomenal salaries, are primarily responsible for this. This has removed the last vestige of competition between rival cities, once one of the most genuine elements of soccer.

The big economic and publicity conglomerates that now sponsor all the teams are also responsible for the new direction in Italian football. In the interest of ticket sales, it is imperative not to lose. This means that teams take fewer risks, that more games end in a tie (and with very few goals), and that the quality of the individual matches has deteriorated—which, in turn, has led to an increase in stadium violence.

Thanks to television, soccer has become a multi-million-dollar affair. As a sport, however, it is in grave condition.—NICCOLÒ D'AQUINO

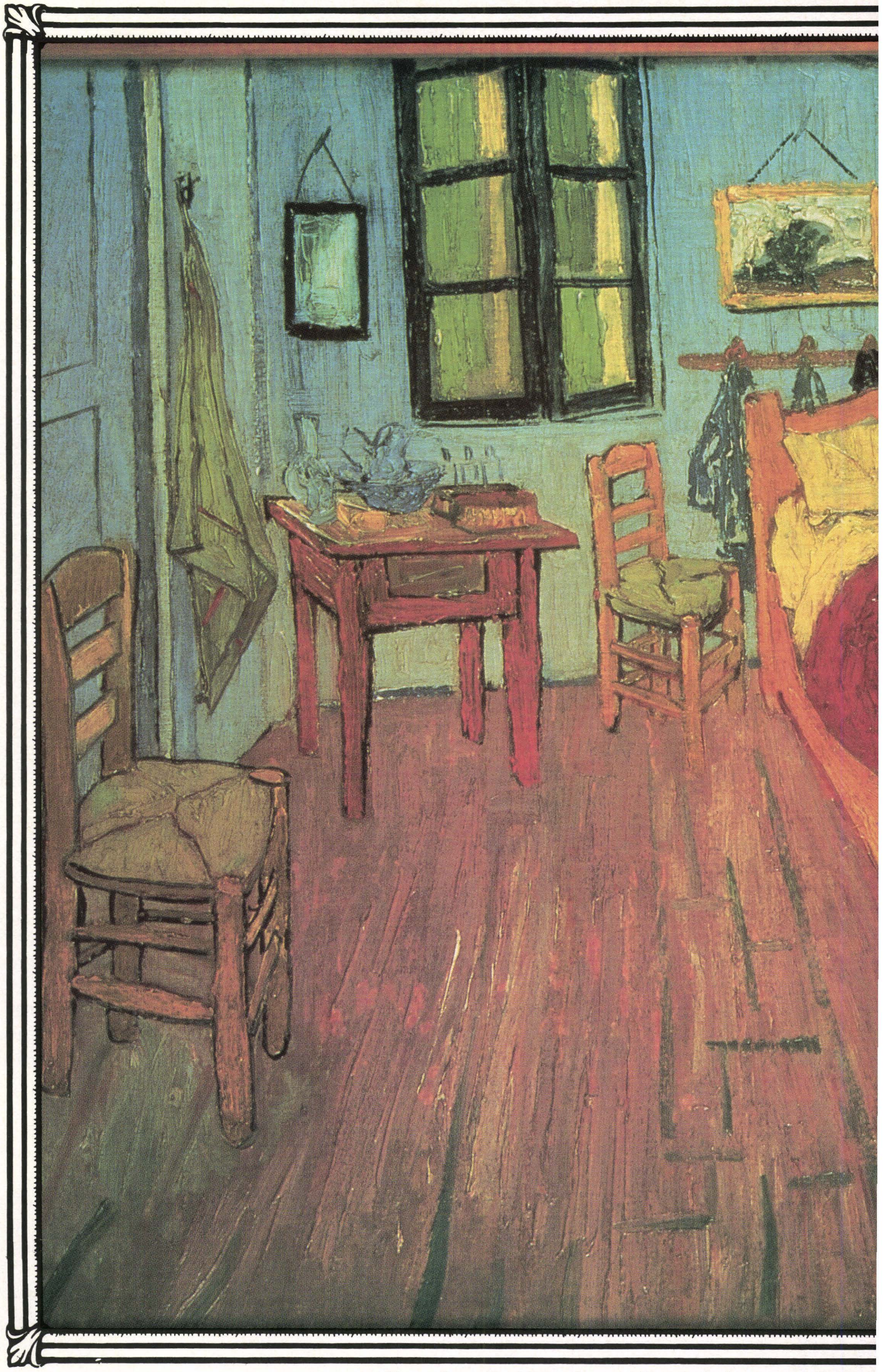
AMSTERDAM

Celebrating van Gogh

In 1990, the Netherlands will celebrate Vincent van Gogh's life and works in style. Between March 30 (the anniversary of his 137th birthday) and July 29 (the centenary of his death), some 1.5 million visitors are expected to come to the Netherlands to see exhibitions of his works at the Vincent van Gogh Museum in Amsterdam and at the Kroeller Muller Museum in the Hoge Voluwe, Holland's largest national park.

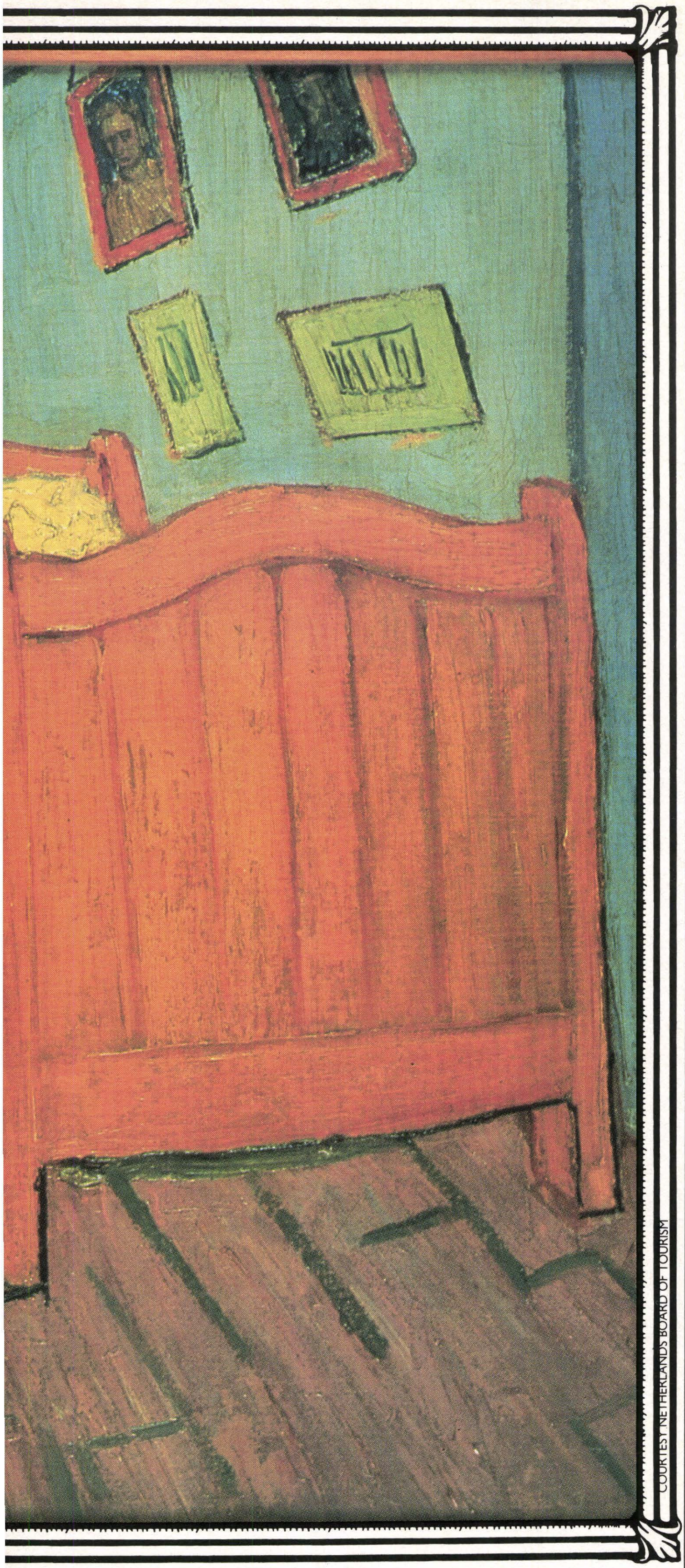
From his life's works, the approximately 120 paintings and 250 drawings that van Gogh regarded as his best have been selected for next year's exhibition. About one-third of the paintings and half of the drawings are from the two Dutch museums hosting the exhibitions. Others will be on loan from the Musée d'Orsay in Paris, the National and Tate Galleries in London, the Metropolitan Museum of Art in New York, the Museum of Fine Arts in Boston, Yale University in New Haven, the Pushkin Museum in Moscow, and the Kunsthaus in Zurich. These loans will unite for the first time such famous works as "Weavers," "The Potato Eaters," "The Sower," "Sunflowers," "The Night Café," "The Yellow House," "Bedroom at Arles," "L'Arlésienne," and "La Berceuse."

A full-color catalogue, containing reproductions of all the works shown, will be produced for the exhibit and will be available in several languages.



Many of van Gogh's works, sent from galleries around the world, will be exhibited in the Netherlands next year.

The celebration, organized by the Foundation Vincent van Gogh 1990, is being sponsored by Royal Dutch Airlines (KLM), the coffee firm Douwe Egberts, Heineken, and the United Savings Banks of the Netherlands. KLM has agreed to fly those pieces coming from abroad to Amsterdam free of charge. "We expect that the increase in passengers wanting to see the exhibitions will make up for it," says Bert Eijkemans, the head of corporate affairs at KLM. As an added incentive, the airline also plans to offer special packages including hotel


COURTESY NETHERLANDS BOARD OF TOURISM

Shown here: "Bedroom at Arles."

arrangements, to visitors coming to see the exhibitions.

Five hundred people will be admitted to the museums each hour, so that, with an average two-hour visit, no more than 1,000 people will be in the museums at one time. While this regulation is a safety precaution, it also reflects the organizers' concern for the works of art being exhibited: On rainy days, for example, visitors' clothes will not increase the level of humidity, which could damage the paintings.

This is by no means the only precaution being taken to guard van Gogh's work, the insurance value of which is estimated at almost $2.7 billion. With so much at stake, the organizers, especially those in the transport and insurance services, have been busy calculating the risks and finding ways to cover themselves. These even include the possibility of accidents involving the planes in which the artworks are transported.

Amro Insurance Company, which has never before been involved in such an extensive art insurance project, will insure the two exhibitions. Due to the amount of the sums involved, however, it is working with Sedgewick International of London, one of the world's largest brokers.

"The cost of insuring exhibitions like these is prohibitive," says Eelco Brindman, Dutch Minister of Welfare, Public Health, and Cultural Affairs. The Netherlands has therefore decided to introduce a system of indemnity schemes, whose objective is to reduce the cost of insuring exhibitions organized in state museums. The Dutch Government is allocating $223.4 million for the indemnity schemes, a sum that will not provide the total value of an exhibition, and must sometimes be supplemented by commercial insurance.

In addition to the museum exhibits, many other activities will also mark the centenary of the artist's death. His prominent place as a modern artist will be commemorated through drama, films, and television programs. A Japanese television company, for example, has bought the rights for a van Gogh documentary, and Paul Huf, one of the Netherlands' most famous photographers, has been commissioned to put together a photo exhibit on van Gogh's life that will be shown in Amsterdam, New York, and Tokyo next year.

Moreover, about 750 of van Gogh's letters, written to his brother and sister, and to Dutch and French painters, will be compiled into the first complete edition of his correspondence. Sketches from original letters will be reproduced for the volume, and many previously unpublished letters from friends and relatives to van Gogh will be included.

Justifiably proud of van Gogh, the Dutch are celebrating an important part of their history. As one Dutch newspaper headlined, "France has its revolution. The Netherlands has Vincent van Gogh!"—NEL SLIS

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E.C. MOVES TO DIPLOMATIC CENTER STAGE

E.C. COORDINATION OF AID TO EASTERN EUROPE REFLECTS ITS GROWING POLITICAL STATURE.

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The participants of the Paris economic summit in July (above) entrusted the E.C. with coordinating Western aid to Poland.

Paris, Leiden, Budapest, Warsaw, and Brussels: These five cities are not a tour operator's agenda for some fall European holiday, but rather part of an intense flurry of diplomatic activity during the summer of 1989. The upshot of all this city-hopping is a refashioned relationship between the United States and the European Community.

The Bush Administration has not only confirmed its support for the E.C.'s 1992 program of economic unification. In a new departure, Washington is seeking to reward the E.C. for its growing stature by encouraging it to play a leading role in East-West affairs. The goal is a more balanced trans-Atlantic relationship—between equal partners—in which it will often be up to the Europeans to take the initiative in pursuing common Western objectives.

The most striking example of the new American approach was the decision taken at the seven-nation economic summit in Paris in mid-July to entrust the E.C. Commission with the job of coordinating a long-term economic aid program for Poland and Hungary. President George Bush had just visited these two reform-minded countries, and had realized that a truly effective assistance package would require more than the deficit-ridden United States could offer. So the summiteers asked Commission President Jacques Delors, who attended the Paris gathering, to convoke a meeting of potential donor countries in Brussels.

All 24 members of the Organization for Economic Cooperation and Development, the club of Western industrialized countries, attended the early August meeting. They agreed to provide emergency food aid to meet urgent Polish needs, and decided upon broader plans to improve both Poland's and Hungary's access to Western markets, to create joint East-West ventures, to facilitate Western investment into Eastern Europe, and to set up management training schemes. President Bush sent a "Dear Jacques" letter to Delors welcoming the "opportunity to work with the Commission... as true partners in pursuit of democratic change and economic reform in Poland and Hungary." Looking to future joint efforts, Bush asked Delors to "send me your thoughts as well about how we can make our partnership truly effective."

The U.S. Administration's desire to have the E.C. join it at center stage in dealing with Eastern Europe fits into a new American strategy for East-West relations in general. Bush's first opportunity to explain the thinking behind Washington's new approach was his speech at the 12th-century St. Peter's Church in the Dutch university town of Leiden immediately following the Paris summit. Here he put forth his vision of a "new world in Europe, whole and free," where "the unnatural division... will now come to an end—that the Europe behind the wall will join its neighbors to the West, prosperous and free."

This was the U.S. President's answer to Soviet leader Mikhail Gorbachev's much-debated notion of a "common European home" stretching from the Atlantic to the Urals. While the contours of Gorbachev's idea remain somewhat ill-defined, Bush wants to go beyond rhetoric with his own strategy. Thus, the economic aid program directed from Brussels will be the concrete way to encourage greater freedom in the East and also to assure that, as the two halves of Europe come closer together, they do so on terms acceptable to the West, with the Soviet Union "bringing itself into the community of nations," as Bush put it in Leiden.

> THE BUSH ADMINISTRATION IS ALLOWING THE E.C. TO TAKE THE LEAD IN EAST-WEST AFFAIRS.

Bush also made a point of lining the United States up solidly behind the 1992 process, saying that "a stronger, a more united Europe is good for my country." Indeed, the appeal of a unified Western Europe has grown in recent months because of the rapid changes in Eastern Europe and the Soviet Union. With a certain instability characterizing the Continent's eastern half, the White House seems to welcome the pole of unity and stability being created in Western Europe. Washington also knows that Moscow will feel less threatened if the E.C. countries, which are Eastern Europe's cousins and neighbors, rather than the United States, a rival superpower, take the lead in bridging the East-West divide. There is also a practical side to handing over responsibility to the Twelve: Having in the last year negotiated bilateral free-trade agreements with several Eastern European countries, including Poland and Hungary, the E.C. has fresh, hands-on knowledge of Eastern European economies.

West Europeans, for their part, associate more than just the prestige—and the burdens—with a leading role on the world stage. First, by channeling European aid efforts to Poland and Hungary through Brussels, fears will be reduced that West Germany may be tempted to renew its special historical and cultural relationship with Eastern Europe on a unilateral basis, and, in the process, loosen from its Western moorings. In this light, it was reassuring that West German Chancellor Helmut Kohl was the first to propose that the Commission act as coordinator for the Western aid program.

Second, the very exercise of running such an ambitious undertaking will most likely spur the integration process within the E.C. itself. The Eastern Europe initiative can be seen as the foreign policy complement to the domestically oriented 1992 plan: The 12 E.C. Governments will be forced to harmonize not only their internal economic policies, but also their external policies, with the Commission likely to acquire more authority in both areas. €

At a September 26 meeting of "the 24" in Brussels, the E.C. announced plans to spend $325 million on economic reform in Poland and Hungary in 1990, and urged the 12 non-E.C. countries in the group to match this commitment.

The E.C. funds will provide emergency food aid to Poland, and help restructure both countries' economies. The Commission sees modernization of Poland's agricultural sector as vital to improving the country's food situation, and recommends European Investment Bank loans, short-term credits, and bank guarantees to stimulate investment there. Funds will also go toward managerial training and environmental protection in both countries.

In a message to the group, E.C. Commission President Jacques Delors noted that the gains already made by Hungary and Poland were threatened by their ailing economies, and that "it would be unthinkable to allow such disorders, which should be alleviated through rapid action, to undermine the aspects for change in Eastern Europe."—*Reuters*

Peter S. Rashish, a consultant based in Washington, D.C., is a member of the Europe 1992 Experts Group at the Center for Strategic and International Studies.

LET'S VISIT THE E.C.!

ILLUSTRATION BY KAREN STOLPER

STEPHEN W. YOUNG

There are two ways for most non-Europeans to acquire a better understanding of the European Community. The first is to read all the relevant publications, follow the news closely, and try to keep up with frequently spotty coverage of events within the Community. The second is to fly to Europe, travel to the various E.C. offices and institutions, meet with a wide range of representatives, members, and officials, and explore issues of interest. I had the good fortune to pursue the latter course, and it is the preferred route. The structure that makes it all possible is the European Community's Visitors Program (ECVP), which provides a wealth of opportunities for learning about the Community.

THE E.C.'S VISITORS PROGRAM ENABLES YOUNG PROFESSIONALS TO GET A FIRST-HAND GLIMPSE OF ITS INSTITUTIONS AND MEMBER STATES.

The purpose of the ECVP is to enable a limited number of individuals from around the world (about 50 per year) to discuss matters of mutual interest with members and officials of both E.C. and other organizations and institutions in the member states. (For organizational details and procedures, see box.)

For each participant, an individualized three-week tour of meetings and events in E.C. member states is organized. Participants develop a theme for the visit, suggest individuals or organizations with whom or which they would like to meet, and select three member states to visit. All participants travel to Brussels, Strasbourg, and, when appropriate, Luxembourg. For my tour, I also chose to go to London, Paris, and Bonn. I met with E.C., national government, and political party officials in the E.C., and also visited private institutes and think tanks. For all the meetings, whether at the E.C. or member state level, travel, accommodation, and meeting arrangements are made in advance by the ECVP Secretariat.

Visits begin in Brussels. This allows participants to start with the basic Community institutions and the various committees relevant to the individualized theme of the visit, and also gives them time for a thorough consultation on organizational and travel arrangements during their stay.

The theme of the visit is entirely up to each participant. Some meetings are standard for all programs to give participants a better understanding of the workings of the E.C., but a majority are directly focused on each participant's theme. Because of my own background in security and defense-related issues, I was interested in discussing East-West and military matters with both E.C. and national government officials. Despite the fact that the E.C. does not deal with security issues directly, I was given a detailed but comprehensive tour that covered all the relevant issues. I met with members of those E.C. committees that deal with security issues, and with the Foreign Ministries in the United Kingdom, France, and the Federal Republic of Germany. In addition, a visit to NATO and briefings on defense issues were arranged, and I participated in a conference on nuclear issues.

The ECVP also arranges some surprises and allows time for more tourist-like exploration. A highlight of my visit to London was to attend Question Time for the Prime Minister in the British House of Commons. In addition, an escort and, when needed, a translator, were provided at each national capital I visited. The escort served as a knowledgeable tourist guide on sightseeing trips.

In return for its generosity, all the E.C. asked of me was a brief letter summarizing my impressions of the visit. For me, the program was a complete success. I established many contacts that I intend to maintain, thoroughly enjoyed myself, and learned far more in three weeks than I would have thought possible.

What lesson do I cherish most? Beyond the substantial increase in my basic knowledge of the E.C., I acquired a better understanding of what drives the Community and those who work for it. Through my many meetings, both with European and national officials, I was able to appreciate how the E.C. and its work are perceived. It is clear that all the member states are not completely united on the E.C.'s goals, and that the difficulties of nine official languages, three working languages, and institutions established in three separate cities make many tasks arduous. It is also clear that those who work for the Community believe in it and are dedicated to it. Progress may be slow, at times almost imperceptible, but with the momentum provided by the 1992 initiative and the enduring efforts of its staff at all the institutions, the European Community can only continue to prosper. €

Stephen W. Young, a Rosenthal Fellow and recent ECVP participant, is a freelance writer based in Washington, D.C.

THE EUROPEAN COMMUNITY'S VISITORS PROGRAM

What is the ECVP?

The European Community's Visitors Program (ECVP) invites young leaders from countries outside the European Community to visit Europe to gain a first-hand appreciation of the E.C's goals, policies, peoples, and the differing cultures of its 12 member nations. A further aim is to increase mutual understanding between professionals from non-E.C. countries and their E.C. counterparts.

The ECVP is jointly sponsored and administered by the European Parliament and the Commission of the European Communities. Since 1974, approximately 400 travel grants have been awarded.

Who is eligible to participate?

Those eligible to participate are politicians, government officials, journalists, trade unionists, academics, and other professionals in their mid-20's to late-30's and, in particular, those with some professional interest in the Community. Participants are normally required to have completed their university education or equivalent training and to have been employed for several years.

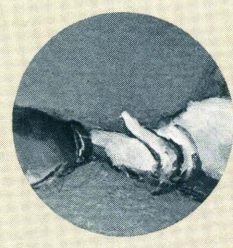
ECVP candidates are currently selected from Australia, Canada, Japan, New Zealand, the United States, and Latin American countries. In the future, the program may be expanded to include other non-member countries.

How are participants selected?

ECVP participants are selected from a short-list drawn up by officials of the E.C. delegations in the non-member countries concerned by a committee chaired jointly by a Member of the European Parliament and a Member of the Commission of the European Communities. Approximately 50 visitors are selected for individually tailored ECVP study grants each year.

What is an ECVP grant?

An ECVP grant, valid for a maximum of 21 days, enables the recipient to visit the E.C. institutions in Brussels, Luxembourg, and Strasbourg. In addition, grantees visit up to three other E.C. countries of their choice. Travel and subsistence costs are met by the ECVP. Group visits are also available for 10-day periods, during which the group visits one additional member state.



For further information, please write to:

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2100 M Street, N.W., 7th Floor
Washington, D.C. 20037

MAKING DEALS IN POST-1992 EUROPE

RICHARD R. RIVERS
GEORGE S. VEST

As the internal market takes shape, what will be the Commission's role in regulating the growing M&A sectors?

COURTESY BRITISH PETROLEUM

With 1992 rapidly approaching, it is no surprise that the international business community is paying close attention to dramatic changes in an area that has become increasingly active: the high stakes world of mergers and acquisitions (M&A). The proper role of the E.C. Commission in merger activity has been debated for 16 years. As European economic integration progresses, the potential importance of the E.C.'s new M&A proposals to U.S. and European firms guarantees that merger control will be a central issue of debate in the near term.

What will the E.C. proposals mean to business managers and their investment bankers when they do business in the future? First, they may mean greater opportunity. The E.C. expects that market integration will promote trade, productivity, and the general welfare. Integration will create a more open and dynamic market, which will benefit those European and U.S. companies ready to take advantage of the new opportunities. Second, they may affect U.S. business activity in profound ways. The U.S. economy has an enormous stake in the E.C., which, accounting for 25 percent of U.S. exports ($60.6 billion in 1987), and 40 percent of U.S. foreign investment (about $122 billion in 1987), is the largest recipient of U.S. exports and investment. This means that the U.S. exports slightly more to the E.C. than to Canada, and far more than to Japan, other East Asian countries, or Latin America. In 1986, U.S. affiliates in the E.C. employed 2.5 million people, and sales were estimated at $430 billion.

Recent business trends demonstrate the pervasive effect that the new E.C. competition rules will have. According to a Commission report, mergers occurring with the E.C.'s top 1,000 companies nearly doubled from 155 in 1984 to 303

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The role that the E.C. might play in mergers and acquisition policy is becoming more important as these deals increase in number. British Petroleum, for example, recently acquired the Britoil company. This page: BP's exploration headquarters in Glasgow, Scotland.

in 1987, a trend that is expected to accelerate in the next few years, as current figures for European acquisitions confirm. In the last year alone, both Rowntree of Britain and Buitoni of Italy were taken over by Nestlé of Switzerland. Britoil was acquired by British Petroleum and Martell of France was acquired by G.H. Mumm of France. And last July, in Britain's biggest takeover offer to date, Sir James Goldsmith bid $21.5 million for Britain's British-American Tobacco (BAT) Industries PLC.

There is also growing Japanese involvement in the European M&A market. The Bank of Yokohama bid $148 million for Guinness Mahon, a small British merchant bank; the soap maker Kao has offered up to $133 million for a 75-percent stake in a West German hair care products company; and, on August 17, Honda announced plans to buy 20 percent of Britain's Rover Group for an undisclosed amount. American commercial banks are well aware of the potential business opportunities of this trend, as evidenced by the fact that the leading investment banks, including Shearson Lehman, Morgan Stanley, Goldman Sachs, Salomon, and First Boston, all now specialize in intra-European and trans-Atlantic dealmaking. The planned harmonization of E.C. competition rules will likely lead to increased market activity, and will require astute financial advice on the part of U.S. businessmen, bankers, trade associations, and consultants.

The E.C. Commission has formulated two proposed directives—on merger control and on the regulation of takeover bids—that will shape future M&A activity in Europe. A brief review of the more important of these proposals relating to merger control will show how it might work and how it will change the way we do business today.

Merger Control Proposal

The merger control proposal is found in the Commission's "Amended Proposal for a Council Regulation on the Control of Concentrations Between Undertakings" of November 30, 1988. At present, the Commission can examine cross-border mergers for anti-competitive effects only *after* they have occurred. The proposed regulation would empower it to review such mergers in advance. The Commission could block or order the restructuring of mergers that have a "Community dimension." An example of this would be where the aggregate worldwide gross sales of all the undertakings concerned was more than 2 billion European Currency Units (ECU) (about $2.2 billion), and where the aggregate E.C.-wide turnover of each of at least two of the undertakings involved is more than 100 million ECU (about $110 million). The most recent French proposal would raise this amount to 250 million ECU (about $275 million).

Through 1992, however, mergers would be subject to Commission advance review only if the turnover totaled more than 5 billion ECU. Mergers in which each undertaking achieved more than two-thirds of its E.C.-wide turnover within one and the same member state would be exempt from Commission scrutiny. Although the proposal has not yet been adopted, European companies have already submitted planned mergers for Commission approval.

The proposal affords the Commission an extensive scope of review. Concentrations would be evaluated for their compatibility with the common market, and would be disallowed if they impeded maintenance or development of effective competition. Exceptions would be made, however, if the mergers would show that improvement in production and distribution, promotion of technical or economic progress, or improvement in the competitive structure of the market outweighed damage to competition. Under the proposal, the Commission has "sole competence" to make decisions on competition grounds, although member states can protect such legitimate interests as national security or the safety of investors' funds.

The proposal would allow the Commission one month from notification to decide whether to initiate a formal investigation. Decisions declaring concentrations "compatible" must be issued within one month after initiating an investigation. Decisions determining concentrations to have anti-competitive effects but to be ultimately compatible with the common market would have to be issued within four months of the commencement of an investigation. The same would be true for those mergers deemed incompatible with the common market, which would therefore be disallowed. It is not yet determined whether undertakings would have to suspend the implementation of a concentration until the Commission had decided whether to initiate an investigation or, in certain cases, until it had made its final decision.

Despite attempts at the E.C. Council of Ministers meeting on September 18 to resolve differences among member states, several points of contention in the Commission's proposal remain. First, the appropriate threshold level above which the Commission would be allowed to re-

Continued on page 46.

ANNOUNCING

the next in a series of all-advertising features in The New York Times focusing on the European Community's move to a frontier-free market.

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It will appear in the Business Day section of The New York Times in December, 1989

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The New York Times

ASIA PREPARES FOR 1992

THE IMPORTANCE OF TAKING THE LONG VIEW IN TRADE WITH THE FAR EAST.

JULIAN WEISS

The increasingly affluent economies of East Asia are quietly preparing for European integration. Japan (See *Europe*, September 1989) has its own agenda, while the other countries in this dynamic region are addressing specific trade and investment initiatives that may lessen chances for future commercial disputes.

The attitude to Europe's program for economic integration varies from country to country. "We are a little concerned about being kept out of future markets," says Halida Milhani, an official in the Indonesian industry department. And Kernial Sandhu, director of the Institute on Southeast Asian Studies, a think tank in Singapore, adds: "All [countries] need time to prepare so that trade war is avoided." It is worth noting some of the background to this development.

The nations of East Asia have special relationships with one or more major industrial powers—in some cases these are former colonial masters. Western Europe in particular has always been of particular interest to Japan's neighbors: Torres wine from Spain has been popular in Taipei for over a decade, and the allure of Maserati cars is prevalent among sports car enthusiasts in Seoul. Apart from high-brand recognition, however, European products have gained from years of cultural outreach programs offered by the European Community. The Dutch company Philips, for example, which is competing effectively in some markets once dominated by Japanese rivals in consumer electronics, is a renowned trademark. The German-Singapore Institute, too, is considered a major player in efforts to automate that prosperous city-state's technology-based industries, and Hong Kong is home for some 700,000 expatriates, a surprisingly large share of whom are non-British Europeans.

Nevertheless, certain current trends do indicate the basis for tomorrow's possible trade frictions. The volume of E.C.-Asian imports and exports (including Japan) reached $70 billion last year—a 10-percent increase over 1987 levels. Imports to the E.C. constitute two-thirds of that figure, resulting in trade deficits. More worrisome, however, is the prospect that, in the words of a Siemens executive in Hong Kong, "the 'Four Tigers' could duplicate what Japan has already done to us over the years."

The "Tigers" (sometimes termed "Dragons") are Hong Kong, Korea, Taiwan, and Singapore. Each of these four success stories is basing its future growth on a range of technology-based industries, primarily in electronics and telecommunications. Korea also has bold plans for niche markets in aerospace. In addition, the Tigers' blueprints for long-term economic growth are remarkably similar to those not only of the E.C., but of the United States and Canada as well.

Recent developments underscore an appreciation of the potential for both harmony and rivalry. The Federal Republic of Germany, which exported goods worth roughly $2.5 billion to the Association of Southeast Asian Nations (ASEAN), and an equal amount to China, sold nearly three times as much to the Tigers last year. To sustain this relationship, Bonn is extending technology agreements, a policy that is welcomed throughout the Asian-Pacific region.

Ongoing trade disputes cover all types of products. In the past few months, Hong Kong and the E.C. have argued over allegations of textile dumping by the Tigers. Imports to the Community soared 15-fold from 1985-88, when over 15,000 metric tons of textiles were supposedly

Julian Weiss, who travels to East Asia regularly, is author of the recently published *The Asian Century* (Facts on File/Oxford University Press).

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The economic successes of Asia's "Four Tigers" are making them competitive in many high-technology industries. Here: Hong Kong's container port.

dumped on E.C. buyers. Results, says the Community, were that European producers have been forced to slash prices—and witness their own output fall dramatically during those three years.

Not surprisingly, automobiles are another flashpoint. Korea is one vehicle manufacturer that is finding satisfactory resolutions to possible problems in this sector. This summer, the European Commission instituted a less stringent system regarding that country's automobile exports—a system that will phase in an open market over time. The relaxed policy comes in part from the belief that Renault, BMW, Fiat, and other Community-based automakers can at last withstand further Asian penetration.

Both European investors and other non-Japanese foreigners share a dilemma in China: the inability to sustain lengthy, tangible signs of success. E.C.-Chinese trade has risen fourfold since 1978, when it stood at $3 billion. Yet investment by the Twelve in plants and equipment is a mere $2 billion of the $25 billion talleyed by all foreign investors last year. Also, since the turmoil erupted last spring, the outlook is now one of retrenchment and extreme caution. "In China, the lack of European technology will put the country at a disadvantage for many years," says Seiji Naya, former chief economist at the Asian Development Bank, and now a vice president of the East-West Center, a think tank in Hawaii.

> Historic, economic, and cultural ties between the E.C. and East Asia have created the potential for harmony and competition.

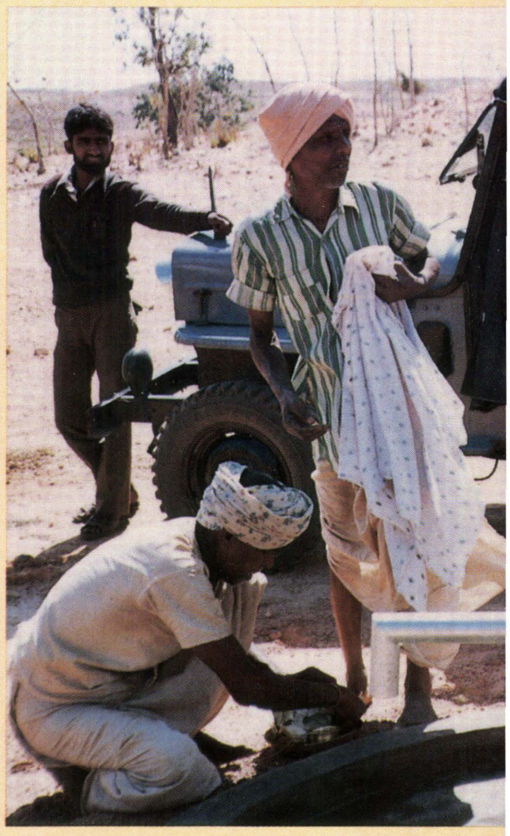
Asia's willingness to broaden trade has been shown in different ways. One example demonstrates the principle of enlightened self-interest. Taiwan, while diplomatically isolated from most of the E.C. except the Netherlands, is nevertheless commercially intertwined with the Community—despite most other countries' preference for a "One China" policy. The Taiwan-based company Evergreen, now the world's largest shipping line, announced plans months ago for an air carrier, and it is likely that at least seven Airbus jets will be purchased before 1992. In this way, the tiny East Asian island neutralizes criticisms about its own closed markets while scoring quasi-diplomatic points in Europe.

Some Asian countries are extending relations with the E.C. by increasing direct investment. Japan is the clear leader in this field, establishing plants and thereby simultaneously increasing market share to avoid future skirmishes over import levels. Totals thus far from the other Asian manufacturing countries are not great, although some will seek ways of sidestepping possible regulations governing local content. Korean conglomerates such as Daewoo and Hyundai are most likely to follow Japanese patterns of plant siting.

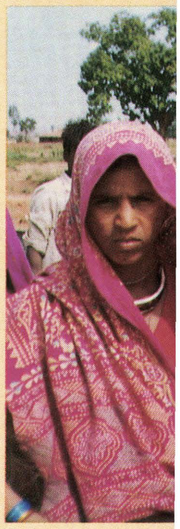
Specific strategies for Asian industries seeking E.C. locations include selecting partners for distribution and marketing. Many believe that 1990 will see the first serious wave of Asian-E.C. joint ventures. First, rationalization and restructuring will continue throughout the industrialized world. Then the recent concept of globalization—with geographical divisions of research, production, and marketing—can proceed in earnest.

For now, allegations of copyright infringements between the E.C. and Thailand will probably continue, while Malaysia appears to be drawing increasingly large amounts of Community investment: This demonstrates clearly that bright spots and potential problems co-exist in the dynamics shaping the next decade. Standards on equipment and products will form the core of future disputes. High-definition television standards, for example, are currently being discussed by Commission and Korean negotiators.

Regardless of their size in relation to that of the Community itself, the Tigers are potent trade rivals, able to both help and hinder Europe's efforts to achieve globalization. And other potential Tigers of the late 1990s, whether in heavy industry or financial services, are already considering niche markets for their indigenous corporations and trading companies. The irony, however, is that, to secure sales today, the E.C. must supply much needed technical support and managerial training to its future competitors. €

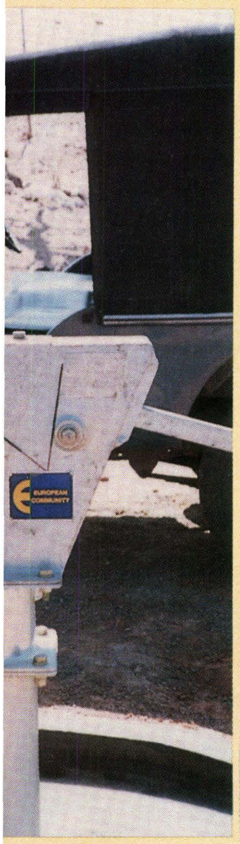


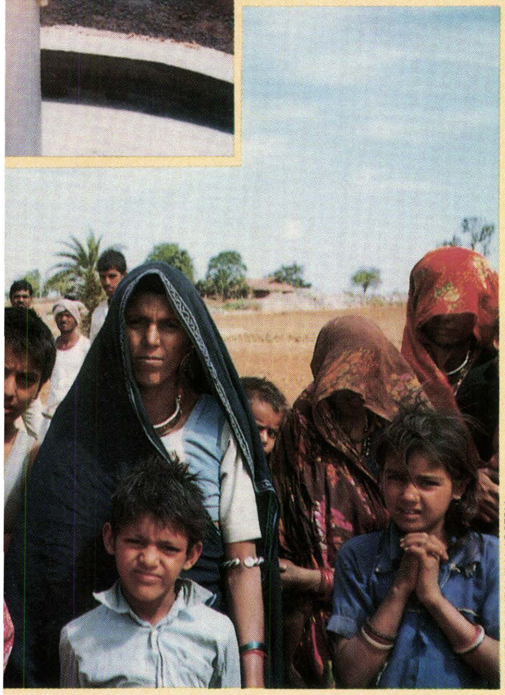
While the E.C. has kept a low profile in South Asia, some of its development projects have made a vast difference to the quality of life in the region. Above and right: Inauguration of the hand pump in India's Rajasthan desert in 1987.



COMMUNITY AID AND PRESENCE ON THE SUBCONTINENT ENCOURAGE ASIAN ECONOMIC SELF-SUFFICIENCY.

THE E.C. IN SOUTH ASIA





PHOTOS © LUDWINA JOSEPH

LUDWINA JOSEPH

When the European Community established its South Asian Delegation in New Delhi, there was confused muttering among journalists over the reasoning. But six years later, it is clearly evident that the Delegation has carved a special niche for itself in South Asia.

In those first few years there were visits around India, Sri Lanka, Bangladesh, and Nepal, either on joint commissions or with trade delegations. I also recall some frenzied traveling with European Parliamentarians and, most of all, three high-powered trips by Claude Cheysson, the E.C. Commissioner responsible for North-South Relations from 1985-88.

In general, the Community has kept a rather low profile on the Indian subcontinent. Unlike other diplomatic missions, there is no public handing over of checks worth millions of European Currency Units to South Asian heads of state—whether for cyclone relief, food aid, drought rehabilitation, or new project funding. Instead, the Delegation goes its own way quietly and efficiently, with its dedicated and professional aid experts, advisers, technicians, and consultants. E.C.-assisted development projects that have proliferated in the last six years range from integrated rural development to reforestation, dairy development, soil and water management, and environmental conservation.

One of the most fascinating E.C. projects was in the forestry development sector in the Terai plains of southern Nepal. Considerable depredation of the region's forests, due to overgrazing by cattle and unrestrained timber-felling, has had a chain reaction (in erosion and flooding), the effects of which are being felt hundreds of miles away in the Ganges delta. Interestingly enough, this project did not seek to ban the local inhabitants from using the forest, but to educate them to use its resources in a way that still left room for regeneration and regrowth. In this way, the much needed balance between preservation and development was also re-established.

Other outstanding projects were a cotton development project at Streepur, Bangladesh, and a handpump project in India's Rajasthan desert, implemented at the time of the 1987 drought. The latter was rather modest by E.C. standards, but definitely effective, bringing drinking water within the reach of tribal people who had once trudged 15 to 20 miles a day to the nearest well. The project was the human face of development, getting down to man's basic need—water—and was also both vital and tangible.

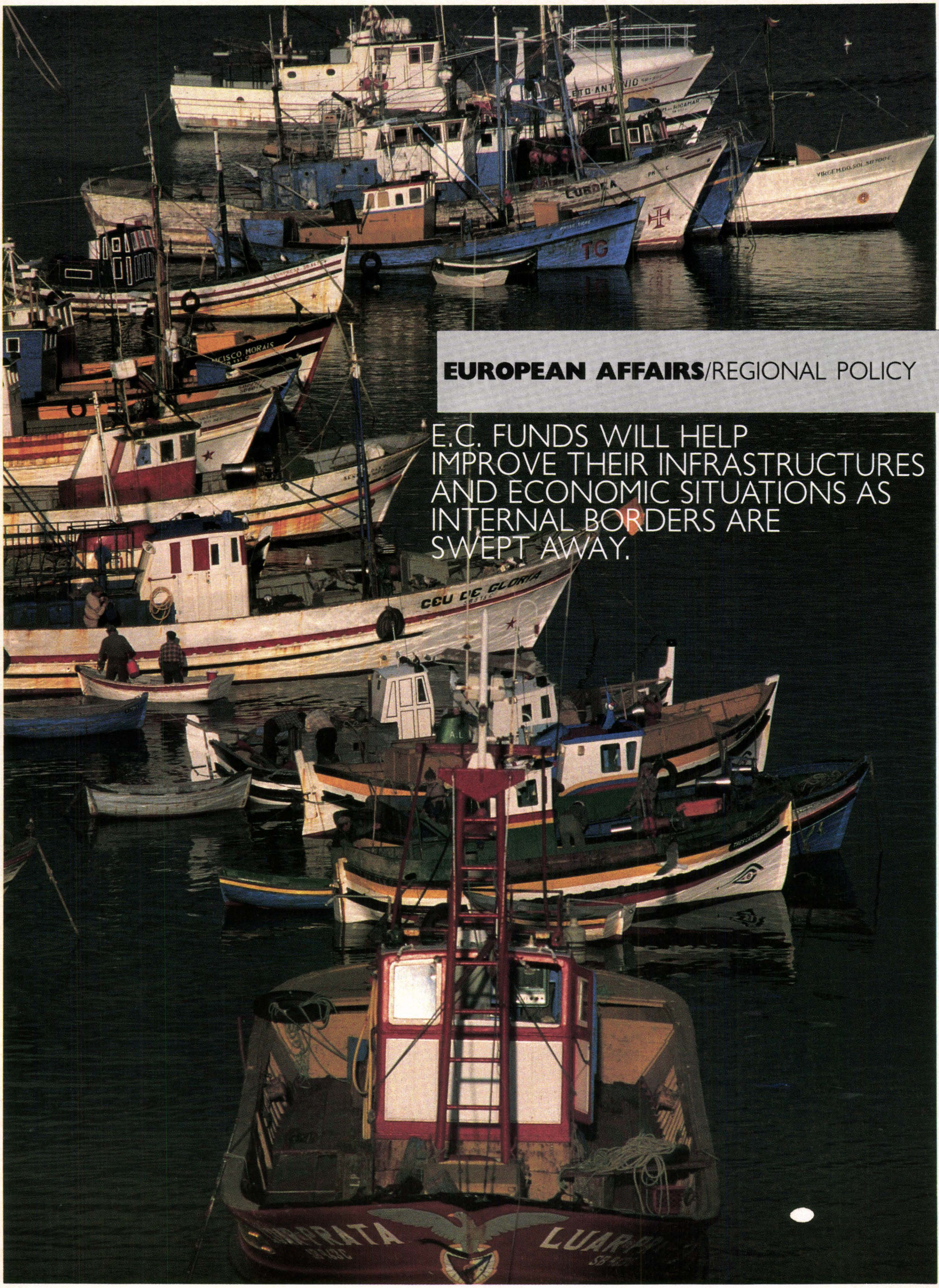
As the dominant country in the region, India naturally takes up a large portion of the Delegation's time and resources. The other nations of the subcontinent (Bangladesh, Nepal, Sri Lanka, the Maldives, and Bhutan), however, do not suffer as a result. The Dhaka, Bangladesh, office has been upgraded to Delegation status and Columbo and Katmandu may also be getting small offices.

The last three years have seen a tremendous upsurge in E.C.-India cooperation, culminating in the signing of the E.C.-India Industrial Cooperation Program, the first of its kind adopted by the E.C. in its relations with Asian and Latin American countries. The areas of cooperation are vast, and so far only the periphery has been tapped, but the program is sure to push progress along and to prod the often elephantine workings of the Indian bureaucracy.

Another gargantuan task facing the E.C. is to prepare the South Asian countries to take advantage of the Community's economic integration in 1992. Indeed, European solidarity and integration, and the economic and political benefits felt by its member states, serve as an excellent role-model to the continents of South America, Africa, and Asia. A unified South Asian economy could eventually usher in a more balanced and less exploitive socio-economic system. The establishment of the South Asian Association of Regional Cooperation in 1985 presumed that here at last was a regional entity with which the E.C. could establish meaningful links. A beginning has been made but, given the regional implications and sometimes cantankerous atmosphere, progress has—understandably—been slow.

In conclusion, it would be interesting to examine the reasons for the Community's success in South Asia, which seem to be a combination of low-key presence and sometimes aggressive diplomacy. The essential factor behind the E.C.'s successful activities in the region is its recognition of interdependence with the Third World. The Community is not doling out charity to South Asia, but rather financial and technical assistance, which, in an era of suspicion, is considered to be "untied" or "unlinked" to foreign policy, defense, and other extraneous issues. Instead, the European Community is seen as helping the region's countries to reach self-sufficiency so that they can become true economic partners in a less unequal world of the future. €

Ludwina Joseph is a former press and information officer at the E.C. Delegation in New Delhi. She is now a freelance writer based in Washington, D.C.



EUROPEAN AFFAIRS/REGIONAL POLICY

E.C. FUNDS WILL HELP IMPROVE THEIR INFRASTRUCTURES AND ECONOMIC SITUATIONS AS INTERNAL BORDERS ARE SWEPT AWAY.

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BRUCE MILLAN

DEVELOPING EUROPE'S PERIPHERY

The most important task of the present Commission is to put into effect the Single European Act. Anybody might be forgiven for imagining that this is synonymous with completing the internal market. While the commitment to achieve a frontier-free Europe by 1992 is certainly the most talked-about and arguably the most important element in the Single Act, it contains a lot more.

The article in the Single Act to which I want to draw attention amends Article 130 of the founding Treaty of Rome, which contains a solemn commitment to promoting economic and social cohesion, something that is intimately linked with the undertaking to complete the internal market. Indeed, without it, the Single Act with its 1992 target date would never have been signed, let alone ratified by national Parliaments.

The notion that the E.C. should have policies and instruments to improve the lot of its weaker regions and social groups is neither new nor surprising. All member states have such policies and programs, even the richer ones. The Federal Republic of Germany, for example, uses various schemes to encourage investment in areas that, by the country's high standards, are relatively underdeveloped or in decline. The United States has similar policies that favor federal spending on major infrastructure projects in poorer states. In the case of the E.C. in the run-up to 1992, however, there are special reasons for giving emphasis to such policies.

In the first place, the disparities of wealth and development between the Community's regions are very marked and have become more so in the 1980s. With the accession of Greece in 1981, and of Spain and Portugal in 1986, the gaps between the richest and the poorest parts of the E.C. have grown. In Greece and Portugal, for example, income per capita is barely half the E.C. average—which has itself been lowered by enlargement.

These disparities are far greater than in the United States. Despite a lack of up-to-date statistics, the United States' richest regions were only one-and-a-half times richer than the 10 poorest in the first half of the 1980s, while the same comparison in Europe shows a ratio of nearly two-and-a-half. Another factor worth bearing in mind is that average per capita income in the United States as a whole is almost 50 percent higher than in the Community.

The second reason for the new urgency in the E.C.'s efforts to help its weaker regions is connected with the completion of the internal market itself. The political effort required can only be sustained if it is based on a broad consensus at the level of the electorate. People in the E.C.'s weaker regions are understandably uncertain and even anxious about the possible effects that the disappearance of internal frontiers may have on them. That they must have every opportunity to participate in, and reap the benefits of, the single market is not only a matter of equity, but a *sine qua non* of the success of the whole 1992 strategy. The internal market either works for the Community as a whole, or not at all.

It is only fair to say that we are uncertain about the effects of the internal market in terms of the allocation of resources among the regions. A number of studies are in hand, and we hope to have a clearer picture that will help us target our regional policies more accurately well before the end of 1992. One fear often voiced in the richer regions is that investment will be drawn to those areas in the E.C. where labor costs, both in terms of wages and productive labor legislation, are lower than in the more developed parts of the Community. This phenomenon has been dubbed "social dumping."

A new strategy in E.C. regional policy will move away from a large number of one-off projects to continuing programs, whose implementation will also involve local and national authorities. Opposite: Sessimbra, Portugal; this page: Spain.

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Whether or not this fear is well-founded, the Community's commitment to economic and *social* cohesion has caused this result to be rejected in advance. It is not a matter of abandoning the goal of greater labor market flexibility, the pursuit of which has already helped to ease Europe out of the so-called Eurosclerosis of the early 1980s. Nor is there any question of introducing Marxism through the back door of Brussels, as at least one Community leader seems to believe. The effort to help poorer regions is a matter of equity and political good sense. Again, if we want the internal market to work, it cannot be on the backs of the economically and socially weak.

Europe's regional policies are therefore at the forefront of the E.C.'s drive toward a frontier-free market after 1992. It would be wrong to see the job as gathering in the stragglers and keeping them sweet with pay-outs. Instead, there are sound economic arguments for promoting development in regions where the starting point is low. The full growth potential that would be released by the removal of internal barriers can only be realized if all regions participate. Underdevelopment means wasted resources, while more investment in already heavily developed regions could lead to an unacceptable degree of congestion and put dangerous strains on the environment.

I cannot mention the word "environment" and simply pass on. Many of the E.C.'s least developed regions have very fragile environments, upon which more rapid development could impose greater strains. While this problem is not one to be solved by regional policy alone—it requires a massive and properly funded effort addressed specifically to its solution—it is nevertheless essential that regional development be environmentfriendly. The Commission has pledged to ensure that this will be the case so far as E.C.-supported activities are concerned.

What does E.C. support in fact amount to? The Community has three Funds to assist structural adjustment. In order of size, they are the European Regional Development Fund (ERDF), the European Social Fund, and the Guidance Section of the European Agricultural Guarantee and Guidance Fund (EAGGF). Together, these funds accounted for about 12 percent of the Community budget in 1987, a figure that the 12 Heads of State and Government decided, at their February 1988 summit, would be doubled by 1993. In today's prices, that means that the three funds will disburse over 14 billion ECU ($14.7 billion) in 1993.

In the past, the funds have tended to operate independently of each other—the ERDF supporting mainly infrastructure projects in the member states, the Social Fund backing training and retraining to help ease the strains of economic restructuring and dangerously high levels of youth unemployment, and the EAGGF providing help for adapting outdated and inefficient farming structures. With the doubling of their resources, however, their operation has been thoroughly overhauled, and special attention is being given to integrate their activities and focus their efforts on a limited range of common objectives. The broad shape of Community funding is now being planned over a longer period—five years in the case of the least developed regions—and there will be a shift from one-off projects to continuing programs. Their selection and implementation involves a "partnership" that embraces the Commission, national governments, regional and local authorities, and local economic bodies (such as chambers of commerce and trade unions).

This year marks the beginning of this new effort in Community structural policy. The transition is by no means easy, but we are making real progress. At the same time, we are vigilant over the whole spectrum of E.C. policies to ensure that decisions in other areas do not—unintentionally—run counter to our efforts to develop the weaker regions. In this context, state aids are a good example: It is important to maintain a differentiated approach that, on the basis of E.C.-wide criteria, allows national aid regimes to be geared to regional development needs. Transport policy is another area in which decisions can critically affect the success of regional development efforts.

"The E.C.'s weaker regions must have every opportunity to reap the benefits of the single market. . . . This is a matter of equity, and a condition for the success of the whole 1992 strategy."

© CLAUDIA PARKS

E.C. regional policy is taking on a new urgency as the disparities of wealth and development in the E.C. are becoming more marked, and as the single market is becoming a reality.

What might our trading partners in the United States make of all this? First, I would come back to the organic link between economic and social cohesion and the internal market. Americans see both risks and opportunities in a frontier-free Europe. It seems to me that the successful pursuit of the E.C.'s goal of economic and social cohesion would both diminish the risks and enhance the opportunities for U.S. businesses. "Fortress Europe" never was a real risk: It is a scary ogre, useful (if that is the right word) for causing alarm and the attendant clamor. But anxieties about the weaker sectors and regions of our economies undoubtedly create pressures to resort to protectionism, pressures that will be easier to resist if these anxieties are allayed or at least moderated by successful national and Community policies.

The same applies to the opportunities the internal market could offer. We hope that a successful regional development policy will widen the choices that the E.C. offers for both trade and inward investment. Those regions that businesses might previously have rejected for possible investment will come into the reckoning with an improvement in their basic infrastructure, such as utilities, telecommunications, transport—all the things that make it possible and profitable to do business.

We believe that indigenous local initiatives are vital to the future economic health of our problem regions, but inward investment will also play an important role. We have every expectation that not only European, but also American, Japanese and many other foreign businesses, will participate in the development of Europe's poorer regions. American companies, who have been so much a part of European development since the last war, have a head-start and no doubt will make the best of their opportunities. €

Bruce Millan is the E.C. Commissioner responsible for regional policy.

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EUROPE'S CARMAKERS GEAR UP FOR 1992

THE EUROPEAN INDUSTRY MUST BECOME MORE COMPETITIVE TO MEET THE CHALLENGES OF A FRONTIER-FREE MARKET.

KEIR B. BONINE

The European car industry is booming! As manufacturers strain to increase production in the face of capacity ceilings, 1989 looks to be another record year. Italy's Fiat-Lancia posted a record $2.3 billion in corporate profits in 1988 and maintained a clear European car sales lead in the first half of 1989. France's Peugeot-Citroën surpassed West Germany's Volkswagen in the first half of 1989, thereby gaining second place in the European market (although it is losing market share now after having hit capacity). The Volkswagen-Audi Group is looking strong and set to regain second place in the European sales competition. Nevertheless, despite this rosy picture, most carmakers are expecting the European market to decline soon and, with the exception of Fiat, none are considering opening new plants.

The fact that European carmakers are doing a booming business at present, and that Fiat, Peugeot, and Volkswagen are dominating the market, must be at least partly attributed to the distorted nature of Europe's automobile market. Various overt and veiled trade barriers have largely insulated European car manufacturers from Japanese competition in the automobile industry. With the elimination of trade barriers, due to the scheduled completion of the E.C.'s internal market at the end of 1992, however, European producers may find it more difficult to maintain their hold on the market under increasingly competitive conditions.

The West European car market is the largest in the world, with just under 13 million registered automobiles and a little over 13 million built in 1988. Globally, Volkswagen ranked fourth in 1988, behind General Motors (GM), Ford, and Toyota, respectively; Fiat was number seven, Peugeot-Citroën number eight, and Renault number nine, just ahead of Honda. However, these European automakers depend heavily on their domestic markets and are not doing as well outside Europe. Volkswagen, for instance, was once the undisputed automobile imports champion in the United States, selling 569,182 cars in its peak year of 1970. Since then, it has been losing out to Japanese imports in the American market: the German manufacturer now sells only 83,515 cars a year in the United States, fewer than the Japanese producer Subaru. Niche cars, like Porsche, are also taking a beating in the United States, and the luxury auto market, once the undisputed domain of the European carmakers, is beginning to be challenged by Nissan's and Toyota's luxury models, Infiniti and Lexus.

Fiat has never done well in America, despite being the top automaker in Europe, where it claims 15 percent of the market. That success, however, is largely due to its domination of the domestic Italian market: The company's Fiat, Lancia, and Alfa Romeo cars made up 60 percent of Italy's registrations last year.

Fiat dominates the European market partly because Italy maintains the strictest quotas in Europe on Japanese automobile imports. For 1989, the limit of Japanese imports to Italy was set at only 2,550 cars, barely 1 percent of the market. This lack of competition will probably make Fiat the most vulnerable European carmaker in the post-1992 period, when all national quotas must be scrapped.

Similarly, the "national champion" automobile producers Peugeot and Renault together control over 60 percent of France's car market. France facilitates this market dominance by unilaterally imposing a cap on Japanese car imports of 3 percent of the domestic market. To put this into perspective, the total Japanese share of the E.C. market is 9.2 percent. It is 11.2 percent in the whole of Western Europe, almost 30 percent in the European Free Trade Association countries, and almost 40 percent in some small countries such as Ireland and Greece. It therefore comes as no surprise that France and Italy have been scrambling to get assurances from the E.C. Commission that there will be an indefinite transition period after national quotas are lifted, so that Japanese cars will not come flooding in and catch their insulated industries unprepared.

While the Italian and French automakers look to be the most exposed in the post-1992 market, the London-based management consulting firm Ludvigsen Associates predicts that, on the contrary, Fiat, Peugeot-Citroën, and Germany's Volkswagen will in fact fare the best. The company argues that the 1992 process will not dent the success of these manufacturers because of their strong centralized production bases in the E.C., their diversity of models, and their independent control of global sales and marketing. The report adds that the single market reforms will negatively affect General Motors of Europe and Renault, but will have a neutral effect on Ford of Europe, Nissan's European operations, and the Rover Group.

Meanwhile, other industry analysts have identified General Motors, Ford, and Volkswagen as best prepared to succeed in post-1992 Europe, due to their widely distributed manufacturing and sales bases and to the greater existing competition in their domestic markets. The virtual lack of similar competition in the French and Italian car markets stands in stark contrast to Japan, for example, which has nine domestic manufacturers. It is often pointed out that such stiff domestic competition has been the key to Japan's strength, for it has stimulated the production of increasingly high-quality products and shorter product cycles.

European manufacturers are scared of the prospect of increased Japanese com-

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Some analysts suggest that, due to their centralized production bases, variety of models, and independent sales and marketing control, Fiat, Peugeot-Citroën (shown here), and Volkswagen will be best poised for the post-1992 market.

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European carmakers dominate their own markets due to protectionist measures, but these will be abolished after 1992.

petition, and have been calling for E.C.-wide barriers to Japanese car imports, restrictive rules of origin, and local-content requirements. However, Martin Bangemann, Commission Vice President responsible for the internal market, and his free-market allies and colleagues, Frans Andriessen, Vice President in charge of trade policy and Sir Leon Brittan, Vice President responsible for competition, have succeeded in winning agreement on the broad strategy for a free market in automobiles. This is good news because, even if European car manufacturers were successful in convincing the Commission to protect their industries, it would only mean a brief postponement of the inevitable necessity to restructure their enterprises to meet world competition.

vague aspect of the program is the yet-to-be-defined common trade policy. The Japanese, however, are not sitting back and waiting to see how open the post-1992 market will be to their car exports. They are already setting up manufacturing facilities or "transplants" on E.C. soil, such as Nissan's plant in the United Kingdom, which is already producing cars for the European market. In addition, Japanese auto makers are planning to ensure continued access to the E.C. market by exporting cars to Europe from their manufacturing facilities in the United States.

The Japanese are not the only ones poised to pull the rug out from under the European car producers. The South Koreans are quickly establishing themselves as successors to the Japanese in the econ-increasingly into upscale models. The

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European cars like Porsche once dominated the luxury niche of the U.S. market, but are now being edged out by the new upscale Japanese models.

The 1992 program will bring about a more efficient and unified European car market. National import quotas now restricting Japanese car sales in France, Italy, Spain, and Portugal should be phased out, there should be a single E.C.-wide technical approval procedure and standard vehicle specifications, and national disparities in value-added tax and other car taxes should be approximated. Strict state aid controls will govern car industry investments so that all such aid exceeding 12 million European Currency Units must be approved by the Commission. All of these reforms promise to mean a savings of as much as $700 per car for the average size manufacturers.

Most of these reforms remain to be decided upon, however, and the most

Americans are also planning to step up their automobile exports to Europe and, given that American-built automobiles suffered on average 32 percent fewer manufacturing defects than those made in Europe, the Big Three (General Motors, Ford, and Chrysler) should do well.

Nineteen-ninety-two presents a crossroads for European car manufacturers. If they seize the opportunity to shake out their current practices and meet the challenge of world competition head-on, they should fare very well on the whole. If they try to insulate themselves from foreign competition, however, it will not only exacerbate the decline of the European car industry, but will also be harmful to international trade and the world economy. €

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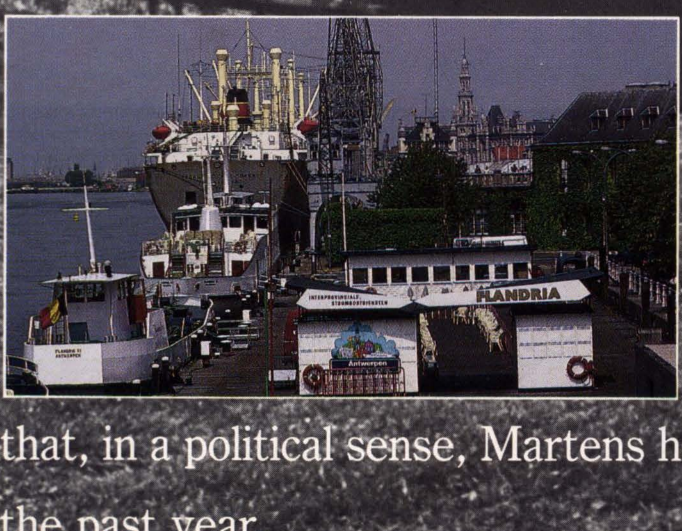
MEMBER STATE REPORT/OVERVIEW

Belgium's economy has improved dramatically in the last year. Real growth is up, inflation is down, and business investment is rising. In the background: Beloeil Castle; below: Antwerp.

BELGIUM

ALAN OSBORN

THE ONLY NEWS ITEM OUT OF BELGIUM TO FIND ITS WAY INTO British newspapers this summer was a report that Prime Minister Wilfried



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Martens had fallen off his bicycle. "Clearly Belgium needs greater balance and control in its leadership," scoffed an English wit. Ironically, however, these are the very qualities that, in a political sense, Martens has demonstrated very handsomely over the past year.

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AFTER YEARS OF POLITICAL INFIGHTING AND ECONOMIC AUSTERITY, FEDERALISM IS NOW A CLEAR PROSPECT AND THE ECONOMY IS BOUNCING BACK.

One of Martens' most admirable feats as Prime Minister has been to calm the frictions between Belgium's French-, Dutch-, and German-speaking communities. Above: Bruges.

The big news in Belgium is that there has been no news. The collapse of the unwieldy five-party coalition government—widely predicted a year ago—has not materialized. The eruption of new frictions between the linguistic communities feared by some has only happened on a microscopic scale, if at all. Economically, Belgium is stronger than at any time since the mid-1970s, with business investment and the stock exchange continuing to flourish. One may take a poor view of Martens' skills as a cyclist, but there can be little doubt of his political wizardry.

The evidence that Martens has retained his top form as a statesman will be a comfort to his government as it faces the exacting challenge of steering through the third and final stage of the constitutional reforms designed to tilt power away from the central administration toward the three regional authorities. For the past 10 years, the reform process has been at the center of Belgian politics, evolving not always smoothly but with an inevitability that makes the establishment of a genuine federal state a virtual certainty within the next two to three years. Indeed, it could be claimed that the sharing of powers existing between the central and regional governments even now is as close to federalism as a country the size of Belgium could realistically sustain.

It seems likely that this is Martens' own view, and he is credited with initiating the move to devolve power to the regions. A decade ago, the clashes between Dutch-speaking Flanders and French-speaking Wallonia, which could, at best, be kept from each other's throats by a strong central government, were widely held to be an inescapable condition. Although Martens may not have been the first to suggest that the problem could be solved by giving each community wide-ranging independent powers, he refined and developed the idea and made it the bedrock of the political philosophy that has helped keep him in almost unbroken power since 1979.

The present three regions are Flanders, Wallonia, and Brussels, which contain, with some overlap, the country's three linguistic communities: the Dutch and French speakers and the much smaller German-speaking colony in the eastern part of the country. Between them, the regions and their communities have broad powers in the areas of education, culture, public works, health, social affairs, transport, water, energy, housing, and the environment. The central government remains responsible for, among other things, overall economic and monetary policy, foreign affairs, labor, social security, and consumer protection. Taxation revenues are divided between the central government, the regions, and the communities, with the two latter commanding about 40 percent of total spending and having the right to levy their own taxes from 1994.

This is by any measure a formidable move toward genuine federalism, and Martens is not alone in believing that the time has come to halt the process, if only for long enough to allow the new institutions to consolidate and for the division of responsibilities between the regions and the center to become more clearly defined. Those taking this view argue that the third stage of the constitutional reforms should concentrate on provisions for direct elections in the regions (effectively giving them their own parliaments), and on formally defining those responsibilities to be left solely to the national parliament and central government (which basically cover international affairs, security, and defense).

Most Belgian Parliamentarians and the public would probably agree with this. But that consensus, unfortunately for Martens, does not extend to all members of the governing coalition. In particular, the fiercely nationalistic Flemish Volksunie Party and the strong French-speaking wing of the Socialist Party are pressing for further regionalization and may be expected to oppose any moves to slow the process. Among other things, they are calling for decentralization of social security and a measure of independent authority for the regions in their relations with foreign countries.

These demands could wreck the government. For, while the centrist coalition—composed of the French- and Dutch-speaking halves of the Christian Democratic (CD) and Socialist parties, plus the Volksunie—could govern without the last-named, a Volksunie defection could make it impossible for the government to muster the two-thirds majority required to approve constitutional changes. Martens has warned that he will dissolve the coalition—but not necessarily seek new elections—if this happens. The implication is that he will turn to the right-wing Liberals for support. Political observers detect a powerful measure of saber-rattling in this, but the language nevertheless remains strong enough to raise some disquiet over the present government's survival powers.

It may all be part of one of those sophisticated political strategies for which Martens is famous. In late summer, he announced plans to hold a massive national celebration of the Belgian monarchy in 1990-91. The cynical view is that Martens (a Belgian "father-figure" even at the age of 52), who is expected to be riding a crest of national euphoria about then, will use that opportunity to call an election, hoping to be returned for his ninth government, with the rightist Liberals replacing the awkward Socialists as coalition partners.

More charitably, and probably more realistically, Martens will not allow his displeasure with the constitutional rebels to boil over into a confrontation that could revive dormant linguistic tension, scuttle the government, and derail Belgium's remarkable economic recovery. However highly one regards Martens' political abilities, it is also true that the refreshing absence of political uncertainty and community bickering over the past year has come about largely because of the Belgians' collective will to knuckle down to the job of getting their economy in shape.

The rewards of this, together with the often painful decisions taken by previous Martens governments in the late 1980s, are striking. Last year's real economic growth of 4.2 percent, together with an inflation rate of only 1.2 percent, mark the best results achieved by Belgium since 1976. For the current year, growth is expected to be slow, but still remain robust at over 3 percent and, while prices will also rise faster than in 1989, inflation should stay below the E.C. average. Perhaps the most gratifying development of all is the dramatic leap in business investment, which soared by more than 20 percent in 1988 and is set to rise at a double-figure rate again this year.

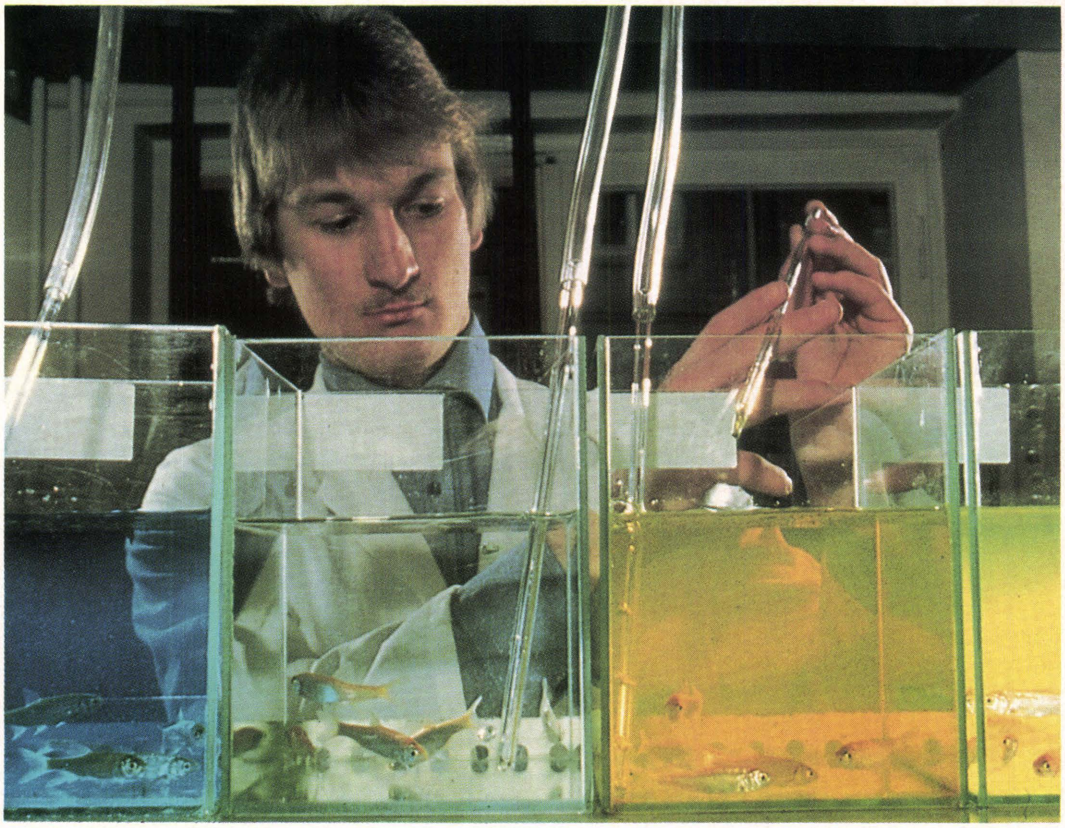
Analysts believe the surge in productive investment now taking place to be partly a cyclical recovery from earlier depressed years, partly a response to the challenge of the single market, and partly a more adventurous spirit in Belgian boardrooms following last year's shock raid on Société Générale, Belgium's largest company, by Italian financier Carlo de Benedetti. Whatever the precise reason, the development has served to inspire renewed confidence throughout the business community, and has made its own handsome contribution to Belgium's economic growth and employment.

The pattern has also left its mark on the stock exchange, where share prices, responding to the electrifying impact of the de Benedetti bid, have risen by around 50 percent in the past year and now stand close to an all-time high. The past 18 months have been unparalleled in

Continued on page 46.

Alan Osborn is a political writer for the *Daily Telegraph.*

NEWS OF THE E.C.



The Commission's proposed increase in research funding would include $770 million for environmental projects. Above: Rhine water testing.

COURTESY GERMAN INFORMATION CENTER

AID AND DEVELOPMENT

E.C. AID TO LEBANON

Following the recommendations of a fact-finding E.C. delegation to Lebanon in August, member state governments have decided to give the country's civil war victims over $9 million in emergency humanitarian aid. This package, the E.C.'s second to Lebanon since mid-August, includes $5.6 million worth of food aid. The remainder will be spent on medical aid, tents, water pumps, and generators. The aid is, "without discrimination, for all of Lebanon's people," an E.C. spokesman said.

The aid will be distributed by several non-governmental organizations, including the World Food Program, Belgium's Médecins Sans Frontières, the International and Dutch Red Cross, a French disaster relief organization, and the U.N. Disaster Relief Office. In addition, Italy and Luxembourg plan to send $4.44 million in aid for dump trucks, generators, water banks, excavators, ambulances, medicine, and pasta.—*Reuters*

E.C. BANS IVORY IMPORTS

As part of its effort to protect endangered species, the Commission has banned the importation of African elephant ivory. "Our action is part of a series of measures that the Commission has taken recently and will continue to take to protect the species," stated Carlo Ripa di Meana, Commissioner in charge of the environment.

SCIENCE & TECHNOLOGY

E.C. PROPOSES INCREASED RESEARCH FUNDS

Although scientific research is the third-largest area of E.C. spending (after agriculture and structural development), the Commission has proposed an additional $8.4 billion on scientific research over the next five years. Filippo Maria Pandolfi, E.C. Commission Vice President for research, explained that the Commission wanted future research programs to cover every stage from basic research to feasibility studies of new products, rather than simply following individual steps in isolation. Consequently, the new framework would reduce the 37 existing programs to six basic areas: information technology and telecommunications, industrial technology, the environment, biotechnology, energy, and human resources.

The Community has already committed $3.7 billion for research until the end of 1992. The new proposal increases that amount by $3 billion from 1990 to 1992, and includes $5.4 billion for 1993 and 1994. $770 million, a doubling of the funds available under the first five-year framework, would be earmarked for environmental projects. An additional $1.2 billion would be spent to develop safe and clean energy sources, and to study the safety of traditional nuclear fission and the experimental technology of nuclear fusion. Finally, the Commission proposes that $770 million be set aside to encourage young scientists at the postdoctorate level to spend some time working in other E.C. countries.—*Reuters*

CURBS ON DIOXON STUDIED

Following several incidents in which high levels of dioxin—one of the world's most toxic substances—were found in milk from farms near a waste incinerator, the Commission is studying ways to stop the chemical from entering the food chain.

Dioxin emissions from incinerators near Rotterdam contaminated grass and subsequently the milk from grazing cows, causing a row between the Netherlands and Italy, which temporarily banned all dairy and meat products from the affected area. Although the ban has now been lifted, and the Netherlands has tightened regulations on emissions, both countries want the Commission to set E.C.-wide rules to prevent future contamination. Italy especially fears the effects of dioxin, since the chemical caused widespread illness after an explosion at a plant storing insecticide at Seveso.—*Reuters*

BUSINESS

TELEVISION RIGHTS MAY BE ILLEGAL

Wide-ranging agreements giving broadcasters exclusive television rights could break E.C. competition rules, the Commission said in September. The

Commission ordered ARD, West Germany's network of public broadcasting organizations, to let private companies screen films to which ARD owns the rights. The Commission argued that the length of the exclusive rights and the number of films owned by the television company made it unreasonably difficult for other stations to get access to the productions. "The decision is the first of its kind to make clear that agreements relating to exclusive television rights can be contrary to E.C. competition rules because of the number and duration of the rights," the Commission stated.

In 1984, ARD bought the television rights for over 1,000 feature films for the German-speaking world. These include cartoons, television programs, 14 James Bond movies, and all feature films produced by Metro Goldwyn Mayer/United Artists between 1984-98. As well as covering the German-language versions of the films, the deal also prohibited the distribution of versions of the films in different languages to other television stations.—*Reuters*

TRANSPORT

DEREGULATING EUROPEAN AIRLINES

Although the E.C.'s Transport Ministers adopted measures in 1987 to liberalize air transport—a sector dominated by national monopolies, inter-governmental agreements, and other discriminatory practices—air fares have tended to rise instead of fall. The Commission, feeling that the measures provided too many exceptions and left government preserves untouched, has proposed a system to prevent the growth of unfair competition and the adoption of doubtful fare proposals.

This system would reduce a Community country's share from the current 40 percent to 25 percent in relation to the total number of seats available on a given European route. Other measures would require governments to treat airlines of all E.C. nations equally if they meet certain technical and financial conditions.

Safety, however, is still a high priority. Between September and December, the Commission will ask E.C. members to harmonize the technical standards applicable to civil aircraft and the regulations regarding the authorized number of flying hours for flight crews. It also envisages licenses for flight crews and air traffic controllers.

THE BICYCLE SOLUTION

At the International Cycling Conference in Copenhagen, Karel van Miert, Commissioner responsible for transportation, encouraged the increased use of bicycles, noting that this means of transportation would help reduce noise and air pollution, lessen traffic jams, conserve energy and natural resources, and improve the health of E.C. citizens. He welcomed that bicycle ownership in Europe was estimated to have increased by 30 percent in the last two decades, but was concerned there have also been many accidents involving bicycles: In 1985, of some 133,000 accidents involving bicycles, about 2,800 cyclists received fatal injuries.

The Commission is presently examining a report on a European cycling policy. The report recognizes that, in order to promote the bicycle as an alternative mode of transport, safety must be increased through infrastructure changes, such as clearly marked bicycle lanes. Cyclists should also be given adequate access to railway and bus stations, and cycle-parking facilities designed to prevent theft and vandalism should be built. Moreover, the problems cyclists currently encounter when transporting bicycles by rail and air should be resolved, and insurance practices and customs formalities harmonized within the Community. Finally, schools should promote good road safety training.

E.C. LAW

DETECTING E.C. LAW VIOLATIONS

A Commission report on the member states' application of new Community laws has found that more procedures to make states conform with E.C. law have been undertaken.

The Commission is alerted to such infractions by complaints from individuals or companies who feel disadvantaged by a member state's non-application of Community law, or by Parliamentary questions or petitions. The Commission examines the complaint, informs the concerned state of the complaint against it, and asks other member states to comment. The Commission then sends a reasoned opinion to the member state threatening legal action. If the problem remains unresolved, the case goes before the European Court of Justice in Luxembourg. If the Court rules in favor of the Commission, the member must conform to its decision.

Most of the violations in the report dealt with the internal market and industrial relations. This demonstrates that the Commission is watching the implementation of single market directives and the treaty provisions dealing with the free circulation of goods more closely. Interestingly, cases dealing with the environment resulted in the largest number of reasoned opinions as well as Court decisions. Questions on social affairs are also being increasingly referred to the Court.

The Commission is especially concerned about the delays in implementing directives dealing with the internal market. While it can use the procedure mentioned above to encourage member state compliance, it has also encouraged Members of the European Parliament to use their position to influence their national parliaments.

EUROPEAN AFFAIRS

EIB LOANS HELP YUGOSLAV RAILROAD MODERNIZE

The European Investment Bank (EIB) is lending 34 million ECU ($36 million) to modernize Yugoslavia's main railway line, the most direct rail link between Greece and other E.C. countries. The funds will go to the railway transport organizations in Slovenia and Croatia, and discussions on loans for additional sections of the main line are underway with Serbia, Macedonia, and the province of Vojvodina.

The investment is part of a 1.6 billion ECU program, supported by the World Bank, to modernize Yugoslavia's railway network and to upgrade the efficiency, safety, and services offered by the Trans-Yugoslav Railway (TYR). The 1,400 kilometer TYR connects Yugoslavia's principal economic and population centers, and is also the main route through the country for international freight and passenger traffic. It carries between 3 million and 5 million tons of international freight and 900,000 passengers a year, mainly from E.C. countries.

The EIB loan will fund an electrified double-track Zagreb western bypass, the replacement of points, the expansion of computerized management information systems, and the purchase of welding equipment.

E.C. WELCOMES NEW POLISH GOVERNMENT

The E.C. welcomed the formation of Poland's Solidarity-led Government and said it would support further political and economic reforms by Warsaw. The Polish Parliament formally ended 45 years of Communist rule on September 12 by voting Prime Minister Tadeusz Mazowiecki's cabinet into office.

A statement issued by France, which currently holds the E.C. presidency, said that the Community sees the new government as "the start of fuller implementation of the economic and political reforms that the Poles expect." It added: "[The E.C. members] underscore their determination to support the efforts of the Polish Government to establish a more democratic and prosperous society for the good of the Polish people and for cooperation in Europe." Enrique Baron Crespo, President of the European Parliament, also sent his congratulations to Mazowiecki, saying that: "[The formation of your government] provides an opportunity to strengthen cooperation between Poland and the European Community." —*Reuters*

E.C. SUPPORT FOR POLAND AND HUNGARY

Frans Andriessen, Commission Vice-President in charge of trade and external relations, visited Poland and Hungary in September to sign a commerce accord with the new Polish government and to discuss a trade agreement with officials in Budapest.

Andriessen's visit is indicative of increased Community interest in Eastern Europe. In early August, following a request from the Paris Economic Summit participants, the E.C. Commission organized a meeting to coordinate support aimed at transforming Poland's and Hungary's markets. The 24 countries attending the meeting included the 12 E.C. members, the six European Free Trade Association countries (Austria, Finland, Iceland, Norway, Sweden, and Switzerland), Canada, the United States, Japan, Australia, New Zealand, and Turkey.

Participants stressed the need to encourage the economic reform process in Poland, in particular by assisting the private sector. There was consensus that the Polish Government's new structural reform program would be discussed with the International Monetary Fund (IMF), and that any assistance be well coordinated. The reform program should also aim to improve Poland's integration into the multilateral trading system, primarily by increasing its exporting capacities through easier market access, and by including assistance for vocational and professional training in Poland, especially in the financial services sector. The participants also agreed that the reform program should focus on encouraging and protecting Western investment in Poland, and on environmental protection.

Food aid was also discussed at the meeting, and the E.C. has now started sending goods to Poland. The first shipment of 10,000 tons of beef was sent from West Germany at the end of August, with deliveries scheduled through October 8. The E.C. food aid package also includes 5,000 tons of Italian and Spanish olive oil.

Unlike Poland, Hungary has not requested food aid or debt rescheduling, but would like Western capital and direct investment, and support from Western countries in international organizations such as the IMF. In this context, the priorities of "the 24" are to improve access to Western markets, encourage foreign investment and joint ventures, aid in management and vocational training, and pursue environmental cooperation.

The E.C.'s food aid package for Poland includes 10,000 tons of beef and 5,000 tons of olive oil.

NOTES ON 1992

POSTAL SERVICE REFORM PROPOSED

The E.C. Commission proposed curbing national postal monopolies to give the E.C.'s single market cheaper and more efficient mail services, but stopped short of throwing open normal mail deliveries to outside companies. The plan is modeled on the process already underway to inject more competition into the E.C.'s highly protected telecommunications market.

The Commission document says the E.C.'s drive to create a barrier-free market means that it must tackle divergences in postal service standards and the different national regulations governing them. "[Postal] administrations are facing growing difficulties because of the ever greater gaps between them in tariffs, quality of service, and the type and number of services," the document states. Moreover, the postal authorities' financial problems, caused partly by obligations to deliver some official material free, and newspapers and other publications at cheap rates, have meant inadequate investment in new technologies. Also, the growth of specialized express courier and direct mail companies has reflected an increase in demand from businesses that was not being met by traditional postal services.

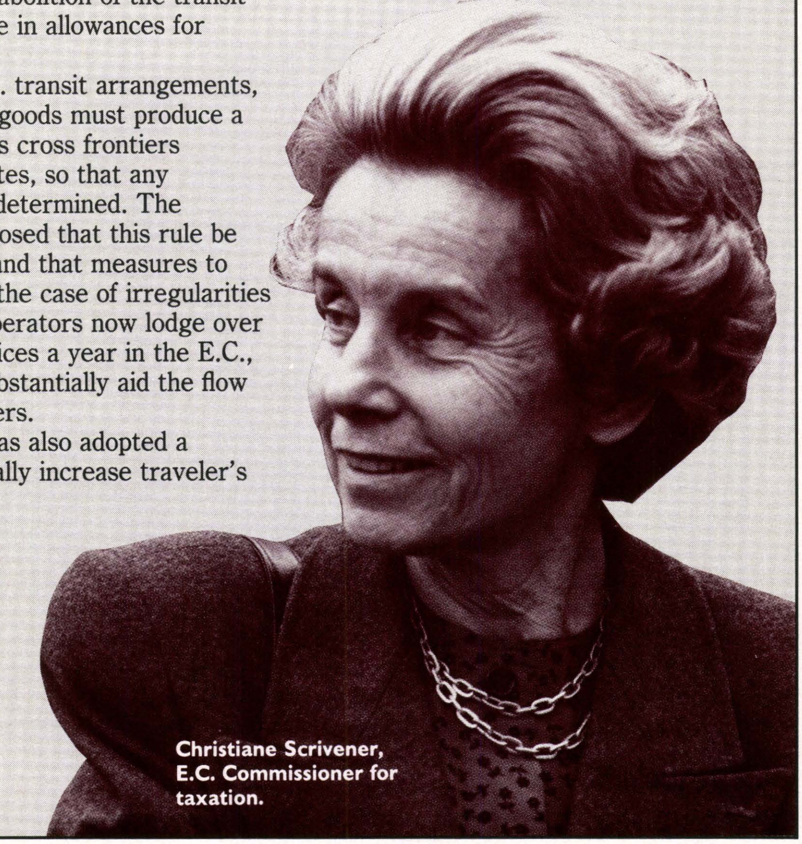
The Commission has proposed that a core of essential postal services—such as letters, postcards, and small packages—remain a monopoly, but that other services be opened to free competition, with common E.C. standards to guarantee confidentiality and other minimum requirements. Providers of core services would be allowed to compete in those areas as long as they did not subsidize one activity with another.—*Reuters*

MORE FREEDOM FOR TRAVELERS AND SHIPPERS

The Commission, following a recommendation by Christiane Scrivener, Commissioner for taxation, has adopted two texts concerning the abolition of the transit notice and an increase in allowances for individual travelers.

Under present E.C. transit arrangements, an operator shipping goods must produce a document when goods cross frontiers between member states, so that any irregularities can be determined. The Commission has proposed that this rule be abolished next year, and that measures to recover sums due in the case of irregularities be accepted. Since operators now lodge over 10 million transit notices a year in the E.C., their abolition will substantially aid the flow of traffic across borders.

The Commission has also adopted a proposal to substantially increase traveler's allowances: from the current 390 ECU to 800 ECU by January 1990; to 1,200 ECU a year later; and to 1,600 ECU in 1992. Limits will be abolished after January 1993.



Christiane Scrivener, E.C. Commissioner for taxation.

A COMMON MARKET IN ENERGY

The Commission believes that billions of European Currency Units (ECUs) could be saved by a single market in gas and electricity, thus making it possible to exploit the E.C.'s energy resources more rationally. As a result, it has proposed facilitating intra-E.C. trade in gas and electricity, clarifying energy pricing, and coordinating future investments in the energy sector.

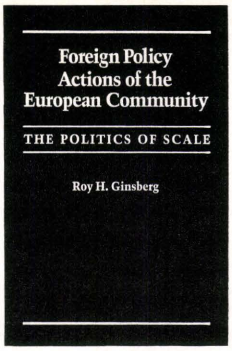
The Commission has asked E.C. members to guarantee energy transit rights by July 1990. This would be followed by their coordination of investment in energy production and transport, and, finally, by providing transit rights for electricity sold by a company in one E.C. country to one in another.

The Commission estimates that the savings from the resulting common electricity market would be 1.3 billion ECU in 1992, thereafter rising to between 6 billion ECU and 13 billion ECU by 2010. Currently, the E.C. market for electricity is characterized, on the one hand, by producers who cannot meet domestic demand at acceptable prices, and on the other by those who produce a surplus. Sometimes, however, it is difficult for the former to import from the latter: For example, there are often bans (the Netherlands forbids the import of electricity) or technical problems (Portugal would have to use the Spanish grid to import electricity from France).

The Commission has proposed a similar plan for natural gas. While there are fewer obstacles to intra-E.C. trade in this sector, an open market could still save some 625 million ECU annually.

In addition, the Commission wants E.C. members to compel all gas and electricity companies to provide the information needed to assess their prices, thus enabling it to publish benchmark prices biannually for consumers. The Commission would also like information on all projects in the electricity, gas, and oil sectors, so that other E.C. nations can be informed of the possible cross-border impact of a project.

BOOKS IN REVIEW



Foreign Policy Actions of the European Community: The Politics of Scale. By Roy Ginsberg. Boulder: Lynne Rienner Publishers, 1989. 203 pages. $30.00.

LILY GARDNER FELDMAN

Roy Ginsberg's excellent and timely study adds a crucial dimension to the current resurgence of American interest in the European Community. While academic, business, and policy communities have focused primarily on the commercial aspects of 1992 and the potential for a "Fortress Europe," the significant long-term changes within the E.C. probably reside more in the political arena, the subject of Ginsberg's work. The Community is seeking to establish a foreign policy identity through a process Ginsberg calls the "politics of scale," where the benefits of collective action clearly outweigh the costs of unilateral initiatives by individual states.

The book's strength lies in its systematic and multi-dimensional approach to the nature of the E.C.'s international political and economic actions, the reasons for the evolution of these actions, and the consequences for U.S.-European relations.

Although the complexity of the E.C. and its bureaucracies has frequently defied categorization, Ginsberg demystifies it by defining the nature of foreign policy activities and outlining their institutional and legal bases.

Institutional developments have coalesced around the two poles of the low politics of commercial and economic questions based on the 1957 Treaty of Rome, and "European Political Cooperation," (EPC), which involves the high politics of diplomacy and the political and economic aspects of security. The Single European Act removed some of the differences between the two by according EPC a legal basis and a secretariat, but retained the major distinction: "The Community method [external relations] of foreign policy action is legally binding on the member states, whereas the EPC method is not."

In evaluating the E.C.'s foreign policy behavior, Ginsberg distinguishes between joint action ("a specific, conscious, goal-oriented undertaking putting forth a united membership position toward nonmembers, international bodies, and international events and issues") and joint foreign policy ("a composition of mutually related joint actions that set forth a unified position intended to serve predetermined objectives").

The empirical basis for quantitative analysis is provided by 480 cases of foreign policy activity. By excluding mere declaratory statements, Ginsberg refutes the criticism that E.C. foreign policy lacks depth. Indeed, his survey of activity between 1958 and 1985 establishes both substance and diversity: E.C. foreign policy action increased after 1972, with 65 percent of the total occurring between 1973 and 1985, and the bilateral and multilateral actions of 1958-72 expanded to security-related, interregional, and unilateral actions between 1973-85. Aggregate analysis is accompanied by detailed evaluations of individual years from 1973-85 and by three case studies (the E.C.'s Mediterranean policy, relations with the United States, and enlargement). Ginsberg's data reveal that the E.C. had become a mature, sophisticated, and effective foreign policy actor by 1985.

Ginsberg also discusses two theoretical explanations for E.C. foreign policy behavior—regional integration and global interdependence—and introduces a third. Regional integration accounted for 99 percent of all foreign policy activity until 1972 and between 65 percent and 85 percent thereafter. This theory holds that integration has resulted in the Community's pragmatic and reactive stance to demands for relief from the effects of internal E.C. policies.

The global interdependence explanation, which involves E.C. responses to changes in the international political and economic systems, has grown in importance from 3 percent of all cases in 1973 to 18 percent in 1985.

Ginsberg's own explanation, "self-styled logic," characterizes E.C. foreign policy initiatives as a reflection of the internal dynamic and philosophy of political union. This category also increased, from 6 percent of all cases in 1973 to 14 percent in 1985.

Ginsberg's development of "self-styled logic" as an explanation for E.C. foreign activity challenges the conventional American social science view of the E.C. as ineffective and irrelevant by positing it as an assertive actor willing and able to help shape the international environment. It also synthesizes the classical political science explanations (particularly the national interest and elite actor literature) and more recent ideas from political economy (especially global interdependence). Finally, it resurrects key concepts from earlier integration studies such as the Schmitter notion of "externalization" and the Lindberg/Scheingold sense of "symbiosis."

The descriptive and explanatory strength of Ginsberg's work is complemented by astute prescription, particularly in the area of U.S.-E.C. relations. He is cautious about this relationship, in which each side lacks a coherent policy toward the other at a time of growing divisiveness. The effort to coordinate E.C. policies among U.S. federal agencies and the strengthening of EPC under the Single European Act augur well for greater consistency, but may not be sufficient in an era in which stable relations can be guaranteed only by an institutional link. The divergences in U.S. and E.C. trade and foreign policies may outpace their ability to create a formal early warning system to avert and negotiate problems. The emergence of security as an E.C. priority in the context of a recast Eastern Europe will only compound the tensions in U.S.-E.C. relations. It behooves American and European policymakers, the business elite, and scholars to read Ginsberg's book to understand the logic and dynamic of E.C. foreign policy behavior and the importance of institutionalizing Atlantic relations with full respect for the E.C. as an international force. €

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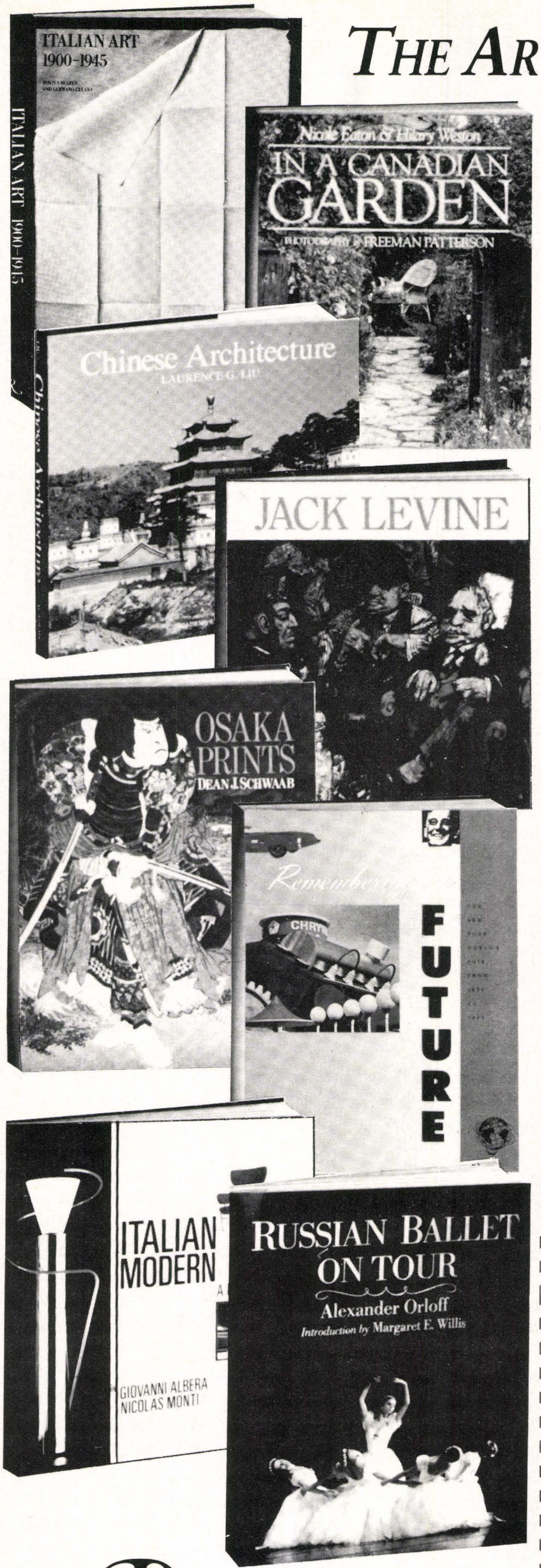

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MERGERS

Continued from page 20.

view mergers is in dispute. Although all E.C. countries apparently accept the 5 billion ECU ($5.5 billion) threshold through 1992, many member states disagree with its reduction to 2 billion ECU thereafter. They favor leaving the final figure to be defined at a later date, so that the Commission can gain experience during the transition period.

Second, there are diverse viewpoints on the policy criteria in evaluating the desirability of a merger. The United Kingdom and West Germany, for example, believe that the Commission should only consider the effect on competition when ruling on proposed mergers. The French, on the other hand, want industrial policy criteria to be considered, while Spain and Italy advocate the consideration of regional development. Despite these problems, the merger proposal is expected to be adopted by the end of this year.

There is also a troubling "double jeopardy" aspect to the Commission proposal. It remains unclear whether member states will be precluded from reviewing or in other ways applying their own competition laws to mergers that the Commission has already approved. The proposed regulation allows the Commission to empower those member states directly concerned by the merger to apply their national legislation to ensure effective competition in their respective local markets. Moreover, it is uncertain whether a person or company could sue in a member state court in an effort to halt or force the restructuring of a proposed merger. Obviously, multiple levels of review could severely complicate planned company takeovers.

Another concern is the potential extraterritorial application of the proposal, which allows the Commission to review proposed mergers between two or more non-E.C. companies if their European sales satisfy regulation threshold levels. This could delay planned mergers or force the restructuring or divestment of some of the concentration's European operations. U.S. firms are also concerned about the potential for discriminatory application of standards. If the specter of "Fortress Europe" materializes, the Commission may promote intra-E.C. competition in its rulings, or, rather, promote E.C. champions that could compete with U.S. and Japanese companies.

Adding fuel to this policy schism is a controversial plan for a European company statute, which would allow cross-border mergers to incorporate as E.C. companies, rather than having to choose the corporate laws of an individual country. This option would only be available to companies adopting one of three models of worker consultation. West Germany, Britain, and the Netherlands have greeted the plan with skepticism. Britain asserts that worker representation should be left to national laws, and is supported by the Netherlands in the argument that the plan is of limited value to business. West Germany's concerns appear to stem from the Commission's use of the majority voting tactic, which the E.C. may use to achieve measures designed to create a free internal market. West Germany and Britain think the company statute involves social policy, an issue requiring unanimity.

The Emerging Role of Brussels

It is clear that Brussels will play the dominant role in shaping the future of European investment and dealmaking through the merger control proposal and other legislative initiatives. Leaders of the U.S. and European business and financial communities must understand the new E.C. competition rules to participate fully in post-1992 Europe. €

BELGIUM

Continued from page 37.

the history of Belgium's stock exchange, witnessing a convulsive transformation from a sleepy, protected, provincial market to one almost feverish in its thirst for quick profit. The development has been assisted by sweeping reforms in stock exchange procedures and, although the government has moved to shut the door to further sneak share raids on the de Benedetti pattern, the flow of takeover bids has risen sharply. In terms of earnings, Belgian shares are now more expensive than ever before—a thought that makes many dealers uneasy. But then a genuine market—of the kind that Wall Street would recognize—had not really existed in Belgian shares before 1988.

Probably more worrying to both government and investors is the familiar and chronic national budget deficit. Last year's total net public debt amounted to 125 percent of gross domestic product, putting Belgium grotesquely out of line with its European partners. In its report on the country this summer, the Organization for Economic Cooperation and Development regretted that 1988 was a "year of lost opportunities" for Belgium because the government did not make better efforts to divert the surprisingly high level of economic activity into measures for reducing the deficit.

In the 1990 budget announced this summer, the Martens Government plans to hold spending to the same numerical figure as in the current year, which, assuming 3 percent inflation, means a cut in real terms. Higher alcohol, tobacco, and diesel taxes are also planned, as are some closures of business tax exemptions, so that the deficit should fall from 6.9 percent to 6.5 percent of the budget. This estimate excludes the perennial piling up of debt interest, however, which is made especially troublesome at present by high interest rates throughout Europe.

The huge debt overhang sharply restricts the government's options on the economic front, and suggests that any appreciable slowdown in Belgium's main export markets—West Germany, Holland, and France—could deal a devastating blow to the country's recovery. This is not, frankly, all that likely in the short-term future. On the other hand, Belgium will certainly have to make unwanted changes in its indirect tax system as the E.C. moves toward harmonization on this front. These changes could mean a fall in government revenues unless redressed by stiffer income of corporate taxes, which could complicate the opening up of the Belgian financial markets and its industry in general, to foreign investors, one of the government's cherished objectives in the march toward 1992.

The detached observer might well grant cause for some concern until and unless the debt situation is straightened out, although he would be churlish to withhold admiration for Belgium's praiseworthy economic recovery and its continuing tight grip on inflation. Given the narrow base provided by the Belgian domestic market and the consequently heavy dependence on exports, Belgium's overall economic prospects are more closely tied to the success of the single market than those of most other E.C. countries. This has always been true to some extent, and direct and indirect investment in Belgium has always been a pledge of faith in the growth of the European Community.

Two things have emerged over the past year. One is a growing belief that the long spell of worrying political uncertainty, fed by the language conflict, is at an end at last, and the other is the evidence that economic benefits are now beginning to flow copiously from the sacrifices made during the years of retrenchment and austerity. These are substantial assets that powerfully underpin the expectations of the rapidly evolving financial market. €

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