EUROPE

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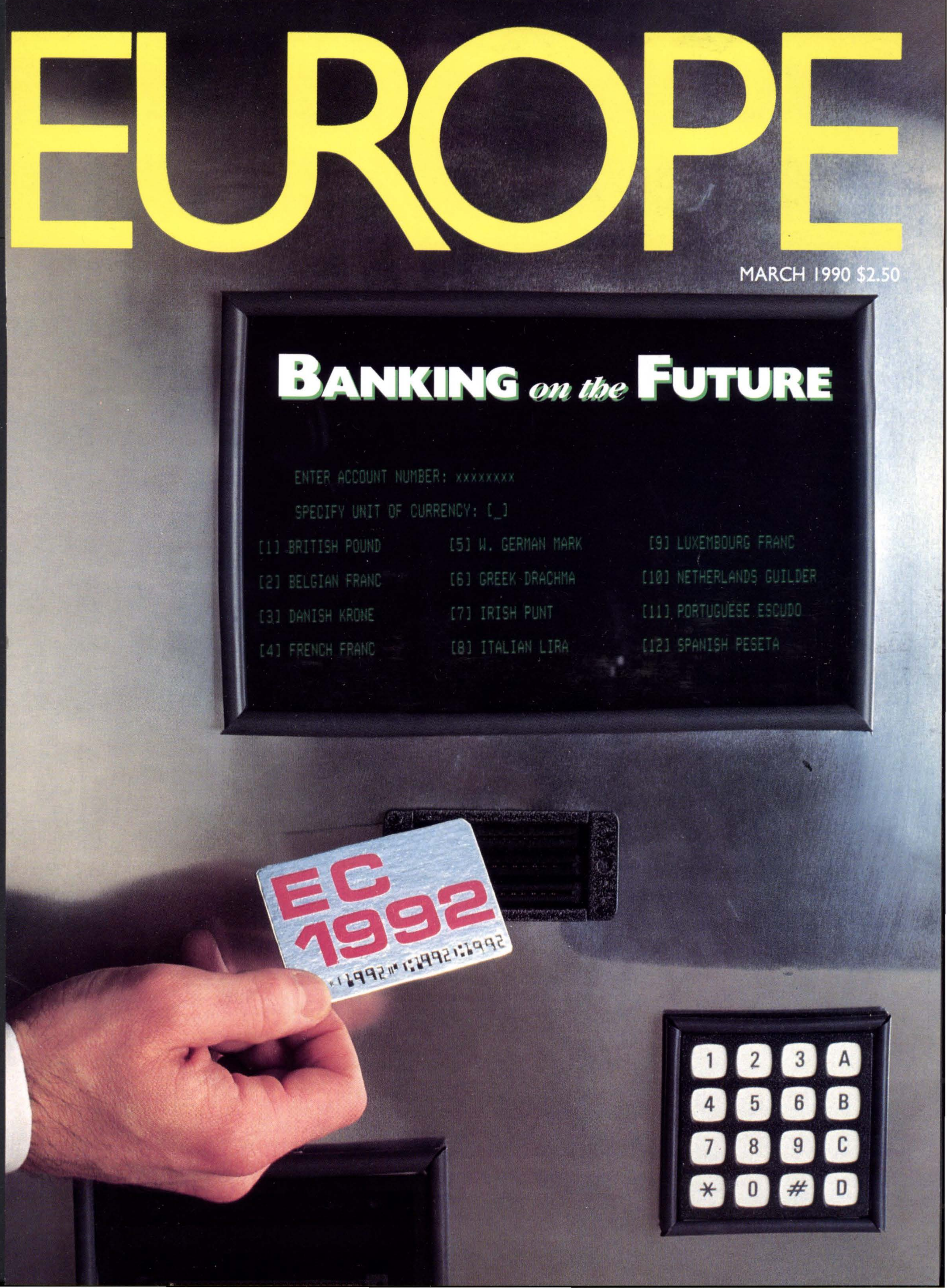
BANKING on the FUTURE



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MARCH 1990 NUMBER 294

EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY

JOSEPH PALMIERI

6

GLASGOW TOURIST BOARD

35

FEATURES

EUROPEAN AFFAIRS

MEMBER STATE REPORT

DEPARTMENTS

REUTERS/BETTMANN NEWSPHOTOS

21

31

LEE SNIDER/PHOTO IMAGES

Letter From The Editor

MANY CHANGES IN THE FInancial services field will occur as a result of the 1992 single market. *Europe* scrutinizes these changes in banking, insurance, stocks and bonds, mutual funds, money markets, and other securities.

Sir Leon Brittan, Vice President of the E.C. Commission in charge of Competition and Financial Institutions, gives *Europe* readers a detailed look at the Second Banking Directive; the role of competition in the new 1992 single market; American banks and Glass-Steagall; winners and losers in the banking field; the European Monetary Union; the new East European market; reciprocity; and a host of other financial service issues in an exclusive *Europe* interview.

Dominique Chatillon, president of the French Banking Association, and **Jan Huyghebaert**, president of Kredietbank N.V. in Brussels, give their views on the 1992 single market and how it will affect financial institutions in France and Belgium, respectively.

Patrick Hosking, banking correspondent for *The Independent*, looks at how banks will respond to 1992 and sees caution as the key word as he sorts out the "winners and losers" in the banking field, which will be changing dramatically in the next decade.

COVER: Now that the Second Banking Directive is final, banks are looking for ways to do business throughout the Community.
Photo: © Joseph Palmieri/AFI Photo Illustrations

We present an article on how Americans are purchasing European mutual funds in record numbers. And rounding out our coverage, a chart of the leading banks in all of the E.C. nations supplements our cover articles on banking.

In another direction, changes are happening so fast in Eastern Europe that it is hard to know who is in and who is out in these countries as they move toward democratic elections in the next year. *Europe* gives you a look at the new leaders running Eastern European nations along with the dates of the upcoming elections, the first of which is the important March 18 election in East Germany.

Zbigniew Brzezinski, former National Security Adviser to President Jimmy Carter, discusses the fall of communism in Eastern Europe in an exclusive *Europe* interview. Brzezinski outlines what he thinks will happen in the Soviet Union and what will be the next "ism" to replace communism in Eastern Europe.

The Delegation of the Commission of the European Communities in Washington, D.C., is pleased to announce the appointment of **Andreas van Agt**, former Prime Minister of the Netherlands, as the new Ambassador of the E.C. to the United States. *Europe* presents a profile of our new Ambassador.

Europe also highlights the **United Kingdom** and **Glasgow**, the 1990 cultural capital where "There's A Lot Glasgowing On."

Europe hopes you enjoy reading the issue as much as we enjoyed putting it together.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

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EUROPE: HORIZON 1992

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It will appear in the Business Day section of The New York Times on May 7, 1990

The first in the "Europe: Horizon 1992" series appeared in the Business Day section in December, 1988. Each June and December through 1992, The New York Times will publish features updating the European Community's progress toward its historic goal, analyzing such key questions as monetary integration, labor legislation, airline deregulation and those centering on banking and financial services.

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The New York Times

EUROPEAN SCENE

1992

'A POSITIVE DREAM'

Down all the days

All nations will unite as one

A new horizon clear to view

Down all the days to 1992.

COURTESY BLACKHEART RECORDS

Remember the Kinks, the bold British band that startled the 1960s with a string of less-than-wholesome hits like "All Day and All of the Night" and "You Really Got Me"?

Well, they are back on the road again, currently on tour in the United States with their latest album, *UK Jive.*

What is so special about that? Answer: the Kinks have not only proved that they are a durable force in the fast world of "rock," but more important, that they still have something to say . . . even about something as fraught with complexity as 1992.

"Down All the Days (to 1992)" is one of the album's bright points. It is about hope, optimism, and the 1992 deadline for removal of barriers within the European Community. A middle-aged Englishman looks forward to 1992 and "breaking out of [his] isolation reaching out with hands across the sea" to comely fräuleins on the mainland. A peel of sleepy church bells gives way to crashing, sharp, shrill chord sequences that carry the song in a "countdown" toward reconciliation, reunification, and celebration ("There's going to be a celebration in 1992/somehow we lost communication").

One of the catchier tunes on the album with a word for everyone (*"Guten tag amour prego ola combien"*), "Down All the Days" has won the hearts of thousands of E.C. officials who are working away in the E.C. Commission's Brussels headquarters to keep the 1992 program on track. In fact, the Kinks song has become part of the material now being used by the E.C.'s public affairs program, Team '92.

What does lead singer and lyricist Ray Davies think of the song's popularity with the European Community? Speaking in a recent interview with *Europe,* Davies said (in a voice wearing the strains of a New York concert and a cold) he is pleased by the Brussels reaction, but he insisted that the song was "self-motivated" and not a "commissioned" idea. Asked whether the Kinks would celebrate 1992, Davies said it was a possibility.

The song, Davies explains, must be seen as part of the entire album, which is dedicated to a generation of English people who experienced that destruction of World War II, listened to jive and bebop, and slowly watched the erosion of the Empire they fought for in the 1940s. Davies believes it is hard for these people to "appreciate . . . the changes taking place in Europe."

Davies himself calls the 1992 idea a "positive dream . . . a dream about a positive Europe." His song, he admits, "sounds euphoric, totally market-oriented, and optimistic," but it is kind of necessary optimism. "Down All the Days" is a middle-aged man's "coming of age," his coming to grips with the possibility of embracing the changes, the joining of nations "as one" without losing any of his patriotism.

Down All the Days (to 1992). Words and music by Raymond Douglas Davies (Davray Music Ltd.) from the album, *The Kinks/UK Jive.* Used by permission.

AMERICAN FOOTBALL TACKLES EUROPE

European football is what we know as soccer. What we call football is closer to the English game of rugby. Now, to confuse matters more, American football is coming to Europe, complete with marching bands and cheerleaders.

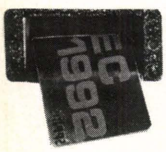
In March 1991, the World League of American Football (WLAF) is scheduled to begin a season of 10 games plus play-offs that will last until June. There will be 12 teams, the bulk of which will be American and European. Clubs have also been established in Mexico City and Montreal. The four European teams will most likely be based in Frankfurt, London, Milan, and Barcelona, although Rome, Madrid, Amsterdam, Dublin, and Paris are being considered as well. The league will be separated into three divisions, one Mexican-American, one Canadian-American, and one European. Each organization will play five away games and five home games.

> *"The WLAF intends to re-create the entire American football experience in Europe, with in-stadium instant replays and play-by-play announcements in the fans' native language."*
>
> *—Tex Schramm, President of WLAF*

BANKING ON THE FUTURE

EUROPE'S BANKERS ARE DIVIDED ON HOW TO REACT TO THE SECOND BANKING DIRECTIVE.

PATRICK HOSKING



Western Europe's bankers are just a trifle peeved. Just as they had begun to grasp the profound impact of the single European market and had started to cough out plans, along came the momentous changes in Eastern Europe.

The collapsing Iron Curtain has sent banking strategists scurrying back to the drawing board. The stampede is most marked in Germany, where all the talk is of reunification.

The West German central bank, the Bundesbank, after voicing strong protests, is now committed to monetary union with East Germany. The big three West German commercial banks—arguably some of the most powerful institutions in Continental Europe—are rapidly forging stronger ties Eastward.

Deutsche Bank has appointed regional teams in six East German cities. Dresdner Bank has made an emotional return to its hometown of Dresden, setting up a fund for the city of 20 million German marks. Commerzbank has also opened representative offices in several East German locations.

Hungary, Poland, and Czechoslovakia are also attracting cautious interest from commercial banks, although many optimistic bankers return from trips to Budapest and Prague empty-handed, uncertain as to how they would be paid in hard currency.

The degree of interest Western bankers have shown toward Poland reflects the attitudes different countries have toward Eastern Europe as a whole. Of the 20 foreign banks that have recently applied for banking licenses there, six are German, five are American, three are French, and two are Austrian.

There are no British candidates. Indeed, British banks and their regulator, the Bank of England, appear united in their deep caution. Sir Kit McMahon, chairman of Midland Bank, the U.K. bank most badly damaged by its exposure in Latin America, recently told Members of Parliament that any new loans to Eastern Europe would have to be guaranteed: "You won't find the [U.K.] banks lending under their own names to these countries."

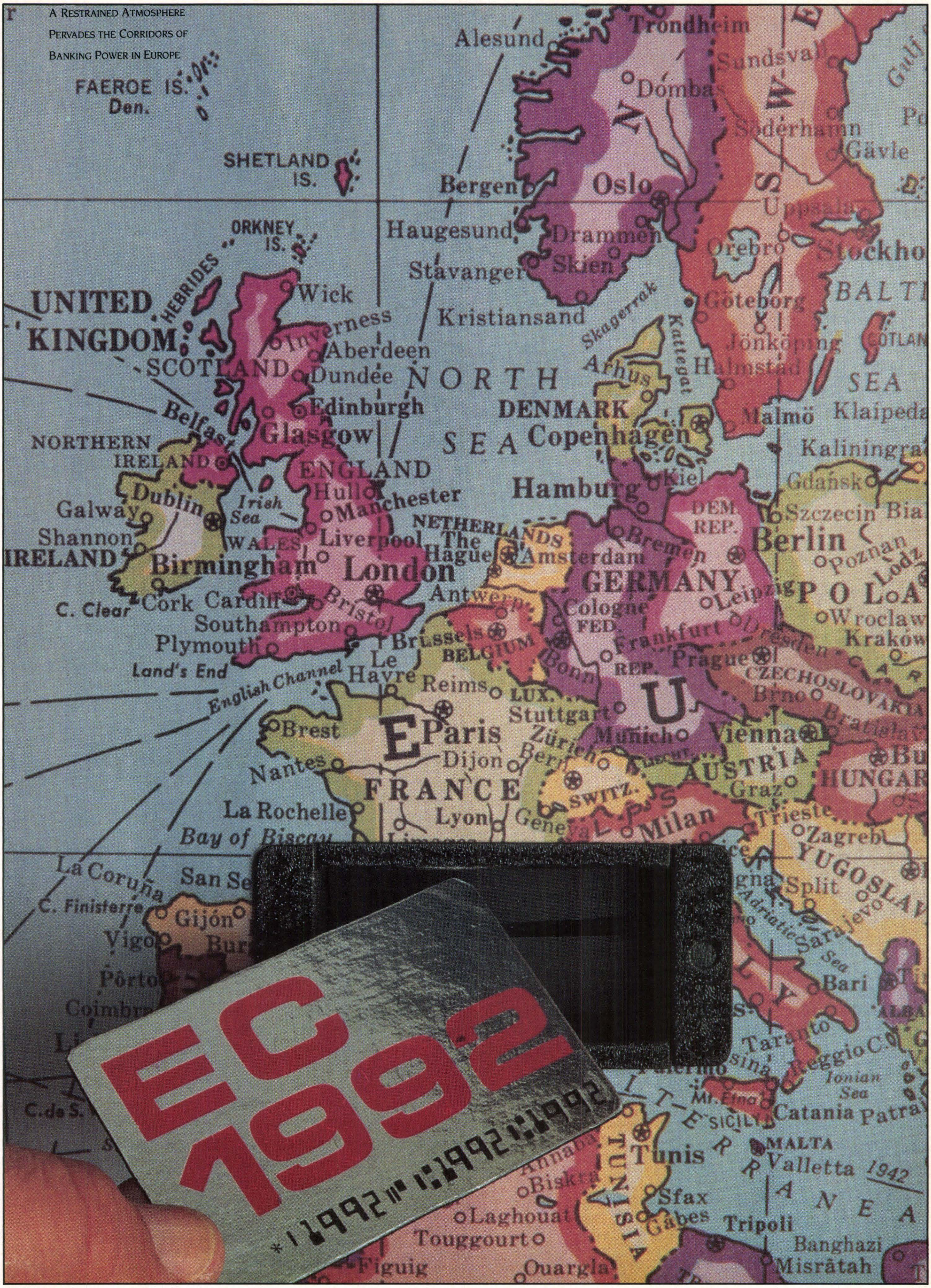
Robin Leigh-Pemberton, governor of the Bank of England, also sounded a note of caution in a keynote speech in February. The bank's guidance on how commercial banks should set aside provisions against questionable debts has recently been modified and will make lending to most East European countries harder to justify. Before, countries had to suspend interest payments before the provisions were triggered. Now, a country's economic conditions alone can force banks to set aside funds against bad debts.

This caution about exposure—either through lending or direct investment—has led some analysts to think that Eastern Europe will remain peripheral for most banks. Robert Poldermans, head of the European financial services practice at the management consultancy firm Arthur D. Little, says: "I doubt we'll see acquisitions in Eastern Europe in the next five years, but we may very well see more joint ventures." He also predicts greater opportunities for trade finance and for the financing of East-West industrial joint ventures.

Meanwhile, the E.C. continues to pose enormous challenges and threats to the banks. A flurry of activity in Brussels just before Christmas has propelled the single banking market very much closer to realization. The E.C. is committed to lifting residual controls on moving capital across borders by July of this year, although there are grace periods for Spain, Italy, Portugal, and Greece.

The long-heralded Second Banking Directive was also finally agreed upon. Its central tenet is that a bank given the green light to operate in one E.C. country is automatically entitled to open branches in any of the 11 other member states.

A Restrained Atmosphere Pervades the Corridors of Banking Power in Europe.



PHOTOGRAPHS BY JOSEPH PALMIERI

Largest Banks in the European Community

All Assets in U.S. Dollars as of December 31, 1988

Belgium	Assets
Générale de Banque *(Brussels)*	**62,006,302,400**
Banque Bruxelles Lambert *(Brussels)*	**45,143,343,613**
Kredietbank International Group *(Brussels)*	**38,638,965,100**
ASLK-CGER Bank *(Brussels)*	**36,516,884,557**
Société Nationale de Crédit à l'Industrie *(Brussels)*	**13,977,106,633**

Denmark	
Danske Bank (merger of:)	
• Den Danske Bank *(Copenhagen)*	**23,263,104,000**
• Handelsbank *(Copenhagen)*	**17,936,085,880**
• Provinsbank *(Aarhus)*	**9,275,834,585**
UNI Bank (merger of:)	
• Privatbanken *(Copenhagen)*	**14,870,737,450**
• Sparekassen SDS *(Copenhagen)*	**13,352,731,580**
• Andelsbanken *(Copenhagen)*	**7,605,836,090**
Bikuben *(Copenhagen)*	**8,082,420,205**
Jyske Bank *(Silkeborg)*	**7,703,862,433**

France	
Crédit Agricole Mutuel *(Paris)*	**207,988,000,000**
Banque Nationale de Paris *(Paris)*	**194,515,887,000**
Crédit Lyonnais *(Paris)*	**176,662,569,861**
Société Générale *(Paris)*	**143,857,280,000**
Banque Paribas *(Paris)*	**72,143,637,000**

Germany	
Deutsche Bank *(Frankfurt)*	**170,289,623,280**
Dresdner Bank *(Frankfurt)*	**129,339,840,000**
Commerzbank *(Frankfurt)*	**100,815,213,284**
Westdeutsche Landesbanke Giozentrale *(Düsseldorf)*	**92,099,891,993**
Bayerische Vereinsbank *(Munich)*	**90,965,341,040**

Greece	
National Bank of Greece *(Athens)*	**25,923,144,200**
Commercial Bank of Greece *(Athens)*	**6,178,704,539**

Ireland	
Allied Irish Bank *(Dublin)*	**21,038,562,000**
Bank of Ireland *(Dublin)*	**15,854,049,000**

Italy	
Banca Nazionale del Lavoro *(Rome)*	**91,025,055,000**
Instituto Bancario San Paolo di Torino *(Turin)*	**81,698,751,045**
Monte dei Paschi di Siena *(Siena)*	**66,488,882,580**
Cassa di Risparmio delle Provincie Lombarde *(Milan)*	**65,411,325,000**
Banca Commerciale Italiana *(Milan)*	**62,633,763,000**

Luxembourg	
Deutsche Bank Luxembourg	**17,475,937,105**
Banque Internationale à Luxembourg	**11,442,420,663**
Compagnie Luxembourgeoise de la Dresdner Banque	**11,404,462,756**
Banque Générale du Luxembourg	**11,113,506,477**
Commerzbank Internationale	**9,877,005,607**

Netherlands	
Algemene Bank Nederland *(Amsterdam)*	**84,814,380,000**
Amsterdam-Rotterdam Bank *(Amsterdam)*	**83,714,796,000**
Rabobank Nederland *(Utrecht)*	**80,464,848,000**
Nederlandsche Middensbank *(Amsterdam)*	**43,123,314,000**
Postbank *(Amsterdam)*	**30,187,764,000**

Portugal	
Caixa Geral de Depositos *(Lisbon)*	**15,564,406,199**
Banco Portugês do Atlântico *(Oporto)*	**8,379,641,554**
Banco Espirito Santo e Commercial *(Lisbon)*	**6,827,314,025**

Spain	
Banco Bilbao Vizcaya *(Bilbao)*	**62,465,427,360**
Banco Español de Credito *(Madrid)*	**57,241,129,680**
Banco Central *(Madrid)*	**40,684,984,200**
Banco Santander *(Santander)*	**29,480,506,020**
Caja de Pensiones Para la Vejez *(Barcelona)*	**28,145,367,700**

United Kingdom	
Barclays Bank Plc *(London)*	**189,198,160,000**
National Westminster Bank *(London)*	**178,344,736,000**
Midland Bank *(London)*	**100,758,032,000**
Lloyds Bank *(London)*	**93,715,872,000**
Standard Chartered Bank *(London)*	**42,835,497,600**

SOURCE: *AMERICAN BANKER*, JULY 25, 1989

Authorization in one country becomes a passport throughout the Community.

Sir Leon Brittan, the E.C. Commissioner in charge of competition, is determined that the same principle should also apply to investment services (basically the securities industry) and insurance, and that the necessary legislation should be in place by January 1, 1993. A final version of the investment services proposal goes before E.C. Ministers this spring. Already, however, there are loud protests over draft proposals that place minimum requirements on the startup capital of securities firms.

Europe's bankers are divided on how best to react to the banking directive. Strategies range from wholesale cross-border acquisitions and megamergers to total inactivity. Interestingly, the two largest banks in Ireland, Bank of Ireland and Allied Irish Bank, have chosen to set their sights toward North America and have virtually ignored Continental Europe.

Deutsche Bank best illustrates the wholesale acquisition strategy. The bank recently took over the U.K. merchant bank Morgan Grenfell for £950 million ($1.6 billion) and now has substantial interests in virtually every major E.C. country. The glaring exception is France. But Deutsche's capital-raising exercise (1.66 billion marks) announced in February will give it the firepower for a large takeover there.

For most E.C. banks, acquisitions are out of the question. They do not have the capital, and tougher capital rules being implemented by the Bank for International Settlements in Basel will make life harder still. French and Belgian banks are particularly undercapitalized.

Nor are mergers of equals very appealing. The marriage of Banco de Bilbao and Banco Vizcaya to form Spain's largest bank, once considered a model of cooperation, is now the laughingstock of the country. The squabbling between the two sides over the new chairman made front-page headlines in Spain during most of January.

If bankers of the same culture and nationality cannot agree, what hope is there for cross-border mergers, some bankers are asking. However, proponents of the strategy point to the relatively harmonious union of the United Kingdom's Midland Bank and the Hongkong & Shanghai Bank, which owns 15 percent of Midland. Both sides are looking for eventual full merger.

Much more common are the networks of smaller cross-shareholding banks springing up all over the Community. Each pan-European constellation consists of three to 15 banks that hold shares in other banks in the network. Typically, members of each network take stakes of a few percentage points in some of the other members. Rod Schwartz, the London-based head of the banking analysts' team at Shearson Lehman Hutton, has identified at least eight major "constellations."

Such arrangements have two main functions. First, they form the basis for a variety of joint ventures and cooperative deals. The cross-shareholding deal between Banco Santander in Spain and Royal Bank of Scotland in the United Kingdom, for example, has paved the way for providing banking services to the millions of British tourists who visit the Spanish coasts each year. The deal is also seen as a basis for the joint development of systems and for joint banking ventures in third countries, beginning with Belgium, France, Germany, and Gibraltar.

Second, cross-shareholdings create a useful defense against possible takeover. The Paribas investment and retail banking group in France has about 20 percent of its stock in what it considers to be "friendly" hands. A third benefit is that cross-shareholdings make for good business relations. Hambros, the London-based merchant bank, similarly has about 30 percent in friendly hands. Hambros, for example, is receiving a growing volume of corporate advisory work from its Continental partners. Cross-border mergers and acquisitions work is mushrooming, albeit from a small base.

The corporate maneuverings may all seem remote to the ordinary current account customer. But already personal financial services are beginning to cross borders. In January, Abbey National, a large British former mutual that recently converted into a public company, acquired the midsize French mortgage company Ficofrance. More radically, however, it also announced plans to sell endowment mortgages—home loans linked to life insurance policies—products currently unknown to the French.

The pioneering step taken by Abbey National raises the entire question of how well financial services travel across cultures and nationalities. Mortgages, credit cards, and mutual funds look to be the most fruitful areas because they can be sold by telephone or mail. Services, like current accounts, that require a bricks-and-mortar branch network are less exportable. But even this view is being questioned by Midland Bank, which is plowing millions of pounds into a banking-by-telephone service called FirstDirect.

Banking analysts at the U.S. investment bank Salomon Brothers believe the opportunities for growth are strongest in the credit card market. "The potential market is huge—perhaps 250 million to 400 million credit cards—of which only 84 million are currently outstanding."

Even the high end of their estimate is based on the assumption of two cards per working adult (or 1.2 cards per capita). That estimate seems fairly conservative compared with the U.S. average of four cards per person. The Salomon team estimates that 400 million cards would provide issuers with "a potential profit in excess of $10 billion."

The market is mature in the United Kingdom, where credit card companies are experiencing deep cuts in profitability. But elsewhere in the E.C. the credit card market is still in its infancy. Salomon's most cautious estimates of market saturation place the Netherlands at 4.3 percent; West Germany at 5.3 percent; Italy at 7 percent; and Spain at 30.6 percent. Those figures compare with a market saturation of 96.2 percent in the United Kingdom.

Sir Nicholas Goodison, chairman of TSB Group, a U.K. financial services group undergoing painful restructuring, believes the future holds opportunities for multicultural products. He predicts that large companies, not necessarily of European origin, will emerge with pan-European brands, multicultural managements, and strong distribution networks backed by advanced technology.

"I think we will see some companies successfully exploit the advantages of the single market of 320 million customers. [We] will see the emergence of companies readily recognized throughout Europe for the strength of their brands. [They will] develop Europroducts that will overcome regional and cultural resistance."

The timing is less clear. "It may take 10 years," says Sir Nicholas, who was previously the chairman of the London Stock Exchange. "Having said that, experience tells me that in a deregulated market, things have a habit of happening faster than expected."

Poldermans is more cautious. "Bankers have not forgotten sovereign debt, California banking, or Britain's Big Bang," he says. "It is possible to lose unprecedentedly large sums of money by being ahead of the pack in any new race. A restrained atmosphere pervades the corridors of banking power in Europe. New world it may be, but the message is clear: Look carefully before you leap." €

Patrick Hosking is banking correspondent for *The Independent* in London.

VIEW FROM THE E.C.: SIR LEON BRITTAN

'THE PURPOSE OF THE SECOND BANKING DIRECTIVE IS TO CREATE A GENUINE SINGLE MARKET IN THE EUROPEAN COMMUNITY.'

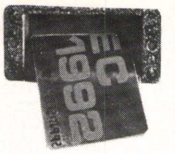
Sir LEON BRITTAN, Vice President of the Commission of the European Communities responsible for Competition Policy and Financial Institutions, spoke with Europe*'s Editor-in-Chief Robert Guttman last month in Brussels about the Second Banking Directive, Banking 1992, American banks entering the European market, and many other financial and banking issues in this exclusive* Europe *magazine interview.*

Sir Leon was appointed to his current position in 1989 after a distinguished career with the British Government. The Right Honorable Sir Leon was educated at Cambridge and Yale. He entered Parliament in 1972. Following the general election in 1979, Sir Leon was appointed Minister of State at the Home Office. In 1981 he joined the Cabinet as Chief Secretary to the Treasury, became Home Secretary in 1983, and Secretary of State for Trade and Industry in 1985.

In 1983, following boundary changes, Sir Leon was elected a Member of Parliament for Richmond, North Yorkshire, where he remained until he took up his present post in Brussels.

Sir Leon, who served as chairman of the Society of Conservative Lawyers from 1986 through 1989, is a popular and dynamic speaker whose interests include hill walking, cricket, and opera.

Sir Leon, born on September 25, 1939, was knighted in 1989. He is married with two stepdaughters.



Could you briefly explain how the Second Banking Directive will work?

The purpose of the Second Banking Directive is to create a genuine single market in the European Community. That means that a bank that is licensed in one country will be able to carry on business in any shape or form throughout the E.C. whether by setting up branches or subsidiaries or by offering services across national frontiers in any other way. For that to be possible, there obviously have to be common minimum standards of regulation, solvency, and matters of that kind, and those have been agreed upon in ancillary directives.

On the basis of such agreed minimum standards, the regulatory authorities in each of the member states will apply those same new principles. The common market in banking has now been agreed upon. That will make the E.C. the largest and most liberal area for banking activities in the world because, of course, we have universal banks that will be allowed to operate as such and carry on business not only in traditional banking, but also in securities. We do not have Glass-Steagall laws in the E.C., and any countries that may have such internal barriers will have to remove them.

For American banks to participate in the European market would they have to do away with Glass-Steagall in the United States?

An American bank that has a license in any one country will have the same right to carry on business of all kinds right across the Community as a bank from within the Community.

But if we still have Glass-Steagall in effect in the United States, would that prohibit U.S. banks from going into business in Europe?

No. This is a question of reciprocity, and we have changed our position. The initial position was one that caused some anxiety in the United States. We have now clarified our position by changing the text of the directive, and that change has now gone through all its legislative stages.

What we are now saying is that as far as countries outside the Community are concerned, the only circumstances in which we would even consider not granting licenses to banks that are otherwise qualified would be if the country from which they came discriminated on national grounds against European banks (i.e., did not allow them to do things that their own banks were doing, or did not give them access to their market). That is the test that we would apply.

We are not going to refuse licenses to banks that are outside the Community just because the countries they come from have internal regimes that are more compartmentalized and less liberal than our own, so long as that regime applies to the banks of that country and not just to the European banks. That does not mean that we regard the restrictions operated by Glass-Steagall as being desirable or acceptable.

We reserve the right to argue against these restrictions in all international forums, to seek to persuade the United States to remove those barriers, and to create a market as open and liberal as our own. But there is a distinction between seeking to get the country to become more liberal itself vis-à-vis its own citizens as much as outsiders and absolutely insisting that there must be no discrimination against outsiders.

How do you respond to American bankers who are still worried about "Fortress Europe"?

The answer that I have given makes it quite clear that there will be no such fortress. Whereas the E.C. will be absolutely open to all who do not discriminate against European banks, we find in the United States a much less liberal regime. The United States is not a fortress, but it's a mansion in which the doors between different rooms are often closed.

If you were talking to American bankers, what would you say they should do to prepare for 1992?

I think that they will have to look at their own business and decide what the opportunities are. But, of course, there are hundreds of American banks that are already based in the Community. They will now be able to expand their activities in a much freer way than they have been able to up until now. So they can look at what are the genuine business opportunities and not worry about administrative obstacles limiting the exploitation of those opportunities.

Where there is economic activity, there is opportunity for the banks and financial services generally both to benefit from it and to stimulate further activity because banking is a catalyst type of activity. The opportunities are there. Exactly what they are for each individual bank can only be a matter for a bank to decide. But it would be very wise for each bank to have a very good look to see what is available and prepare itself to take up the opportunities that will exist.

Do you think the Second Banking Directive will prevent one bank from dominating Europe? Is that a fear?

I don't think there is any question of one bank dominating Europe. I don't believe there's anybody in Europe who is afraid of that. But if we are talking about monopolistic enterprises arising, we can deal with those under the new merger regulation (which has been passed into law) that enables the Community in the form of the E.C. Commission to decide in the case of the largest mergers whether they are so damaging to competition that they should not be permitted.

I personally would be very surprised if we were to see a degree of concentration in the banking sector that could lead to many such unacceptable mergers. There may be some concentration, but not concentration to that extent. But if I'm wrong, we will have ample powers to stop the concentration of banks if it damages competition.

> A U.S. BANK THAT HAS A LICENSE IN ANY COUNTRY WILL HAVE THE RIGHT TO CARRY ON BUSINESS ACROSS THE COMMUNITY.

Do you see a shakeout in the banking industry? Will there be winners and losers, with some banks failing to survive?

With any major economic changes, there are bound to be winners and losers. You can't introduce even the most beneficial changes (if they change the landscape) without some people benefiting and others losing, even if it's only because those who benefit are those who find out about the opportunities and use them, and those who lose are those who sit on their backsides. So you can't avoid that happening. But the scale of it is impossible to foretell.

How do you see the proposed European Bank for Reconstruction and Development progressing?

There's a very strong desire to create such a bank that, of course, is not just an E.C. institution, but quite the reverse. We are hoping that many countries, including the United States, will participate in it.

It is desirable that such a bank be created because plainly when the immediate phase of the introduction of democracy in the countries of Eastern Europe has been completed, and even before then, the need for economic development, as opposed to simple economic assistance, will be very great.

The United States doesn't seem to have the financial capabilities these

days to propose a new Marshall Plan. Does the E.C. see itself as a kind of overall coordinator of aid to Eastern Europe?

The United States has behaved in a very mature, responsible way in this respect. It has encouraged the E.C. Commission to act as the coordinator and executive arm of the assistance that is being given to the countries of Eastern Europe, not only by the E.C. but by countries going beyond it.

That's a quite natural development. The United States need feel no nostalgia or regret that it isn't taking on the full burden itself. It is contributing and it will contribute. It's quite right to look to Europe to organize the assistance for you.

> THE UNITED STATES NEED FEEL NO NOSTALGIA OR REGRET THAT IT ISN'T TAKING ON THE FULL BURDEN ITSELF [FOR EASTERN EUROPE].

Jacques Delors was quoted as saying it's time to "bust the bank," that is, to go beyond the E.C.'s budget to help East European countries.

If we are going to help these East European countries, there has got to be money to do so. It's for the member states to decide how much money to provide, to what extent to provide it through their own budgets, and to what extent to provide it through the E.C. budget.

What is happening with the European Monetary Union? Will we see a central bank for Europe?

There will be a conference starting in December of this year in which the shape and pace of the European Monetary Union will be determined.

Before the conference starts, all are welcome to throw their contributions into the ring, and then the governments will have to decide which form of a monetary union they want.

There are questions that have to be considered, like whether there should be a central bank or a federation of central banks. We already have a foundation on which to build, we call it a "first phase." This phase has been approved. What form the next stage takes is what will be decided at this conference.

What is the future of the European Currency Unit (ECU)?

The Delors Report was right to say that we could not expect a European currency to develop simply through the growth in the use of the ECU. That's what I'm perfectly prepared to suggest. I think that's right. I think that the ECU will have a role, but I don't think it can play the part of being a substitute for a European currency. It will arise simply through the increased commercial use of it.

Many German banks seem to be leading the way into moving into insurance very rapidly. Do you see this as a growing trend?

I'm not surprised that that should be happening because I think the distinctions between the various products in the various financial services industries are getting more and more blurred. Many products offered by insurance companies today are not insurances. They may be such in form and sometimes hardly even that, but they are much more investment products.

Have there been any new directives or anything about insurance?

As far as insurance is concerned, we have the same objective in the case of insurance and investment services as we have in the case of banking, which is to create a single market. The enterprise is concerned with being able to do business in whatever way businesses want right across the European Community.

That's the next question. Where does the Investment Services Directive stand?

The directive is under discussion. We have to put forward a companion directive on capital adequacy, which we had hoped to complete in a couple of months, but there are substantial problems that I'm sure we will resolve.

Could you explain the reciprocity policies with regard to third-country markets?

I think they will be fully comparable to that which applies in the case of banks.

Could you explain the solvency ratio directive?

That is simply the ancillary directive to the banking directive that lays down the capital requirements that all national regulators will have to see or observe in order to infer that banks are solvent.

People are talking about Eastern Europe as a brand new market. Do you see this as a reality or a myth?

We've got to make it a reality. It's not guaranteed. There is still considerable turbulence in Eastern Europe, and we've got to try and help these countries to secure democracy and stability and to assist them to bring about the economic changes—particularly the structural changes—that will create this kind of market that you're describing.

You've taken the lead in helping Poland and Hungary. Do you think Czechoslovakia and Romania will be the next nations to be given assistance?

Certainly the other countries of Eastern Europe can reasonably expect similar assistance so long as they proceed on the path toward democracy and they have a market-oriented economy at home.

The United Kingdom appears to be at odds with the rest of the E.C. members on many issues. Do you see that changing?

That is not an accurate representation of the position as a whole because the whole of the 1992 program, which created the single market—not in an adversary sense but in a much wider sense across the Community—is one that in many ways parallels events in Britain in the last 10 years and is a program that Britain has been at the forefront of supporting. There are, of course, differences in view as to how to progress toward an Economic Monetary Union and the form that it should take. That is correct.

Could you explain about how any American bank that opens up in England is considered a European bank?

If an American bank gets a license from British banking authorities on the basis of the minimum standard agreed across Europe, that bank will be able to carry out business not only in Britain but throughout the E.C., in any way it wishes to do so.

And it will just be one standard for the whole?

Minimum standard. It's open to individual nations to set standards higher. But obviously there are limits to this discretion because otherwise banks can just shop around and set up in the country that has the standards they think they can comply with and do business from there. So, that's why it's put in terms of minimum standards. Once you've got your license, you can go all over Europe. That's what we mean by single market. Just as if you got a license in any state in the United States you can go back and carry on your business in every county in that state.

Are you optimistic about all the directives and laws coming into place by January 1, 1993?

Well, I think we've made good progress so far, better progress than many had expected, and I think we'll complete the job.

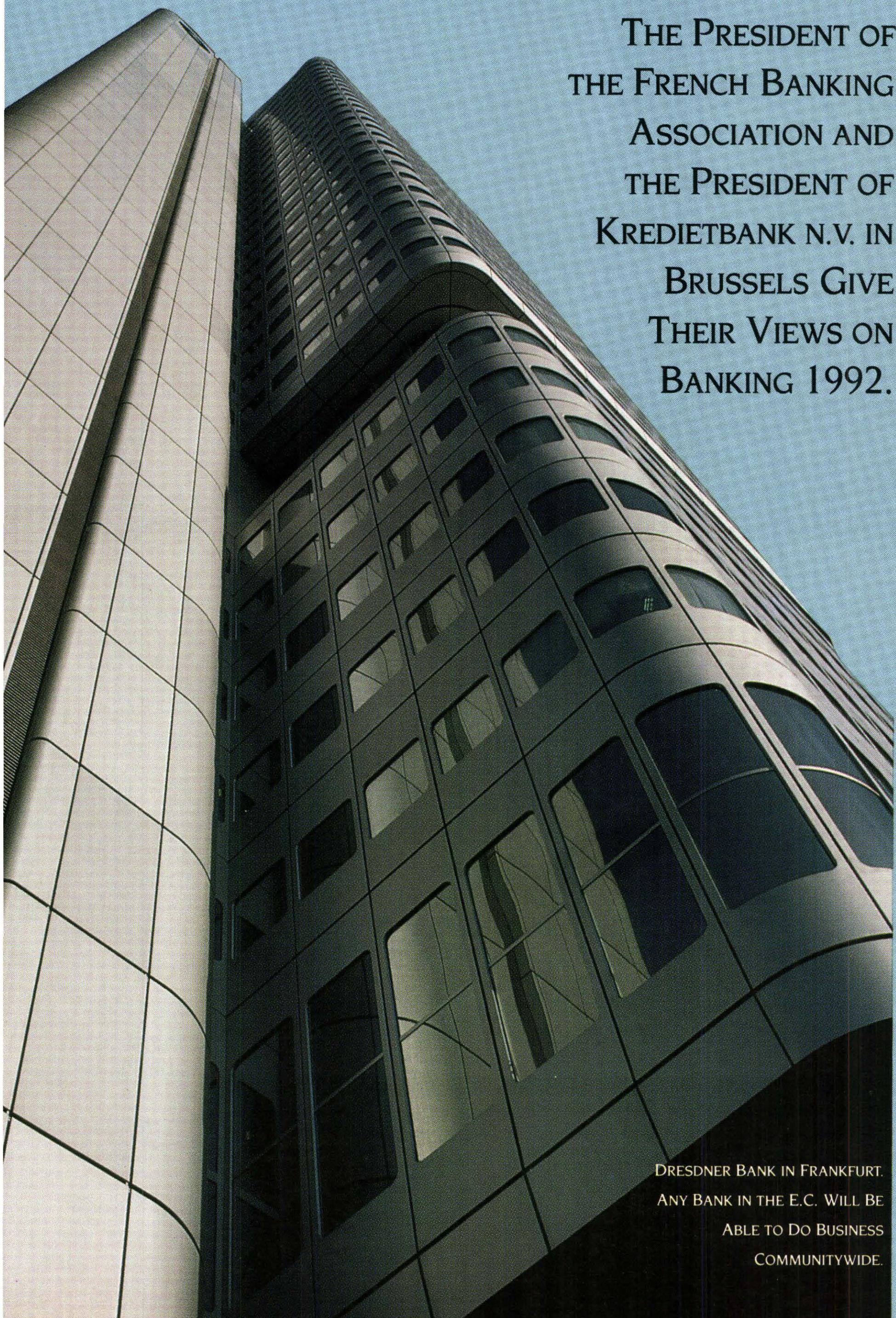
On time?

I think we'll complete the job on time. €

VIEW FROM EUROPEAN BANKERS

BANKING 1992

THE PRESIDENT OF THE FRENCH BANKING ASSOCIATION AND THE PRESIDENT OF KREDIETBANK N.V. IN BRUSSELS GIVE THEIR VIEWS ON BANKING 1992.



DRESDNER BANK IN FRANKFURT. ANY BANK IN THE E.C. WILL BE ABLE TO DO BUSINESS COMMUNITYWIDE.

Interview with Dominique Chatillon, president of the Association Française des Banques (the French Banking Association) in Paris.

Could you explain how the E.C.'s Capital Liberalization Directive, which will go into place on July 1, 1990, will affect European banks and French banks in particular?

CHATILLON: July 1, 1990, will be a very important date. We will have unique capital markets. All banks on July 1, 1990, will be able to sell all their products everywhere in Europe under the same conditions as in their own country.

It means that everybody in Europe will be able to buy any product of any bank settled in Europe. This situation supposes a completely free exchange market between European countries and other nations.

Basically, you are saying that, by the time 1992 comes around, the banks in Europe will already have a single market.

CHATILLON: That's right.

How do you think 1992 will play out in the banking community? Will there be winners and losers, with some banks not succeeding and others gaining more market shares?

CHATILLON: Of course. Of course. The market is expanding very rapidly with the competition among the banks. Before, the competition was rather limited to each particular country. Now, French banks can very well sell some of their products in other countries even if they have no establishment in these other countries.

French banks have a vast and important network of branches and subsidiaries in other European nations. But most of those branches and subsidiaries are

FPG INTERNATIONAL/K. REINHARD

mainly devoted to corporate business and not to individual business in those markets.

They are not well equipped for managing individual accounts or individual business. And what is true for French banks is already true for foreign banks. For instance, we have already in France approximately 170 foreign banks, which is almost two-fifths of the banks doing business in our country. Out of these 170, very few, I should say, less than five, are related to markets for individuals.

Do you see banks going after individual business instead of mainly corporate business after the single market goes into effect?

CHATILLON: I am sure that they will try, but it is a market where getting shares is very expensive. And since all the European countries have a very tight banking network, it is very difficult for a foreign bank to come to France and start a business from scratch in order to get significant market shares. That is the reason you do not see foreign banks coming to France and starting from nothing, hoping to get individual business. On the contrary, you see some acquisition of French banks by foreign banks and vice versa. You see foreign banks buying French banks because it's less expensive to buy banks than to start from scratch.

Are you worried about increased competition as a result of the Second Banking Directive?

CHATILLON: We think we are in a position to afford competition within the European market. The E.C., by creating new competition, has given French banks a very good reason to make progress in terms of better services. We accept this competition with enthusiasm. [Banking] is one of the sectors in France where we are the most well prepared for competition.

Do you favor the European Monetary Union? Will it become a reality?

CHATILLON: Yes, we are very much in favor of that. We think it will take a long time before arriving at a real European monetary system. The path to the European monetary system is made up of many barriers and difficulties. We consider that to be the cream at the top of the cake.

And the question of the central bank is exactly the same. The European central bank must be independent, and it must have simple objectives to pursue, which in my view must be to keep up the value of the European currency on a permanent basis. We must keep the value of the money.

The European central bank will have to follow the unique objective of keeping the value of the European currency on a common basis without any interference of any national government of Europe. Every government must have the same objective. It is not yet the case in Europe. There has, however, been progress. The harmonization of the policies are getting better.

> "Everybody in Europe Will Be Able to Sell Their Products Everywhere in Europe Under the Same Conditions as in Their Own Country."

What has to happen for the European Currency Unit (ECU) to have a future in Europe?

CHATILLON: There has to be a complete harmonization of policies and an acceptance of an independent European bank.

Do you favor the creation of the European Bank for Reconstruction and Development to help Eastern European nations?

CHATILLON: Certainly. It might be a very important institution. Among its first tasks will be to make loans for increasing the productivity of those economies. They need loans for better distribution and infrastructure. There are so many things to do in those countries that it is very difficult to know where to start. Most of them are not so far from the situation in France just after World War II, when many of our infrastructures were completely obsolete.

Jan Huyghebaert, president of Kredietbank N.V. in Brussels, presents his views on Banking 1992 to Europe.

Is the 1992 single market on track?

HUYGHEBAERT: There are always problems, but I think we are now out of the crisis of the late 1970s and mid-1980s when people saw problems as complete obstacles. There will be problems. Unification of Germany may be a geopolitical item of great importance. We already live with the dominance of the German market, so it is not the 17 million people who are joining together that will make a great difference in this respect. It will probably make Germany's leading role more external than it was, but that's the way it goes.

I see things going in the right direction. Of course there will be disturbances. It's always so, but the benefit globally will certainly be there. The negative consequences for the short term, for some areas, will also be there. That's always the case when a market is opening up.

More and more, the younger generation is becoming enthusiastic now that Europe is becoming a player. That's a positive thing. People around the world are speaking more and more about Europe. They are beginning to see Europe as a whole and as a global player.

Do you see the European Currency Unit (ECU) market being a large one in the future?

HUYGHEBAERT: It will take some time, but certainly the new element of Eastern Europe opening up will speed things along in Europe.

Is the East European market a myth or a reality?

HUYGHEBAERT: If political stability is provided, Eastern Europe is certainly a market. The problem is that the stability will not come at once, and that secondly, a starting market is always a risk. If you do not have the guarantee of the [country's] ministry, you have to [depend on] the intrinsic value of the project.

Will some banks have advantages over others in 1992?

HUYGHEBAERT: Some banks enjoy state backing, and, in my opinion, this will be one of the major questions within the European scene. Banks that have weak ratios and weak profitability have other ratings, other possibilities for expansion, and so on when people know that the state is behind them. [Having state support does not give these banks] equal position in competition, which is the objective of the Community.

Do you see large retail banking chains with large networks throughout Europe as a result of 1992?

HUYGHEBAERT: Some are working on the retail area. Apparently very few institutions believe that it will be possible to have a complete network in Europe in all countries for the retail market. I feel this is too big an expansion. It takes too much money, even for the bigger institutions, probably even for the Japanese banks.

Some banks apparently are thinking about [such an expansion]. Not about doing it on their own, but doing it in general agreements, making my clients yours in your country and your clients mine in my country. Nobody knows if that can work, but some banks take that line. Some banks apparently believe that they can be globally active in the corporate market. You see, for instance, Deutsche Bank going rather far in that and having a network that is not designed just for the major players, but also for medium-sized companies that are already moving toward retail. At least these banks want to have some investment managers for the more wealthy clients. But, again, it takes a tremendous amount of capital, so probably only banks the size of Deutsche Bank, Barclays, and some major French banks are working in that respect.

All other banks, I think, are working on three possibilities. Some are thinking they can stay independent in their own markets, perhaps growing a little bit through the whole market with cross-border activities. Others are thinking they can specialize, and some are combining these two situations with additional agreements with major partners—partners of the same size or bigger.

The major American, Japanese, and European banks clearly seem to work on a global approach and on the European scale. All other players must know if they are strong enough to stay in, let's say, the medium category. I think a lot of banks are doing that [evaluating their status]. If you cannot join the upper class, it's sometimes better to go a step back for profitability. I think that is apparently what some American banks found in Belgium, that the market was so competitive that they needed to withdraw some of their activities. Trying to do everything that all the Belgian banks are doing has not been profitable. Some banks have withdrawn completely.

Are there going to be winners and losers?

HUYGHEBAERT: Yes, and there will be a shakeout. That's what we think: We have to be strong to play in that market. The goal of our bank is to be medium sized but strong. Some banks that are not yet strong—in the sense of capitalization, profitabilty, and manpower—are trying to move [across Europe] without having the means to do it. That's dangerous.

Could Deutsche Bank or even the Japanese banks take over in different countries? For example, could a Japanese bank become the dominant bank in Belgium?

HUYGHEBAERT: I think you have to reckon that, certainly in most of the countries, an aggressive takeover is counterproductive. €

Dominique Chatillon and Jan Huyghebaert were interviewed last month by Robert Guttman in Paris and Brussels, respectively.

BANK NOTES

DM Dresdner Bank brought its entire executive board to the East German city of Dresden to celebrate the return of Dresdner to its "hometown." The bank was joyously welcomed by the town. Dresdner's quick decision to begin operations follows an astonishing 20 million German mark ($11.93 million) cultural fund for the city that the bank has created.

DM The first shareholding by a West German bank of a counterpart across the border will occur when Berliner Volksbank (West Berlin) takes a 10 percent stake in its East Berlin counterpart of the same name.

DM Deutsche Genossenschaftsbank (DG Bank), in addition to its desire to open an East Berlin office, is seeking ways to modernize East Germany's cooperative banking system.

DM Bank Für Gemeinwirtschaft, Commerzbank, and Bayerische Hypotheken-und Wechelsbank plan to establish offices in East Berlin (Bayerische Hypotheken is also planning Leipzig and Dresden offices).

DM DG Bank and Berliner Handels- und Frankfurter Bank, in cooperation with the Bank of Hungary and Hungary's Foreign Trade Bank, have created Deutsch-Ungarische Bank.

Y Fuji Bank will become the first Japanese bank to establish itself in the newly opened East European market. Heller Group, a U.S. subsidiary of Fuji, was invited by Oesterreiche Volks Banken (Austria) to participate in a Hungarian joint venture. The two banks will open a finance institution in cooperation with Hungary's Credit Bank.

ECU The European Investment Bank (EIB) is expected to lead the way in floating loans to East European nations. The EIB was authorized to provide loans of 1 billion European Currency Unit (ECU) ($1.2 billion) over three years to finance investment projects to Poland (in the transportation sector) and Hungary (for telecommunications programs). The EIB requires E.C. Finance Ministers to authorize East European loans directly; however, it has implied its support for such actions. It is also interesting to note that German reunification would automatically qualify East Germany for EIB loans.

ECU Speculation continues as to where the European Bank for Reconstruction and Development will be located. Possible sites include London, Paris, Brussels, and Berlin.

DM Berliner Bank and Dunabank RT (Budapest) have formed a joint venture to provide computer services for banks in Hungary. This endeavor will undoubtedly improve the financial services sector in the country, and it will lay the groundwork for the creation of a stable financial infrastructure.

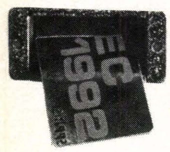
£ The Bank of England has published recommendations that the average level of provisions British banks ought to make for their third world loan exposure (approximately $27 billion in total) should be increased to 50 percent (from 35 percent). In fact, most large British banks are already higher than that figure: Barclays and Standard Chartered—50 percent; Midland—58 percent; Lloyds—85 percent; and NatWest—65 percent.

ECU Use of the ECU is on the rise. Some studies have shown that up to 15 percent of small and medium-sized European businesses use the ECU on a regular basis. Furthermore, many joint ventures between West and East European firms are conducted in ECU's. In fact, there have been proposals for using the ECU to ease German reunification. The move to a single European currency may be drawing nearer.

MUTUAL FUND FEVER

AMERICANS ARE SNAPPING UP SHARES OF EUROPEAN MUTUAL FUNDS IN RECORD NUMBERS.

STEVE DRYDEN



Late in 1928, Paul Nitze was asked by the Chicago brokerage firm of Bacon, Whipple and Company to go to Germany and report back on the investment value of German securities. American stocks and bonds had become overpriced as a result of the bull market on Wall Street in the Roaring Twenties.

Nitze, who many years later would become one of the most powerful U.S. nuclear arms negotiators, wrote in his recently published memoirs that he found the German economy in a terribly weak state, mainly because of the reparation payments the country was forced to pay as a result of losing World War I. "My conclusion was that anyone contemplating investing money in Germany ought to have his head examined," Nitze wrote.

That no doubt was a wise analysis of the situation, and a lucky one, given the market crash a year later. And, for the next two decades, there were other compelling reasons not to get involved in the German—or any other European—stock market. But lack of American interest in Europe persisted even through the Continent's boom years of the 1950s and 1960s as well. It has only been in the past several years that U.S. investors finally have taken the plunge on the Continent.

Even the investments by Americans in the late 1980s, however, pale by comparison with the stampede for European stocks—particularly through mutual funds—as communism collapsed in Eastern Europe last fall. Consider the following investment pattern:

In January 1989, the GT Europe Growth Fund, which invests in West German, French, and a number of other European stocks, held $8 million in assets. On November 1, the total was $110 million. On December 31, it was $380 million. As of February 1, it was $757 million.

The return on the Europe Growth Fund in 1989 was up 40 percent, a gain that, while not at the top of the U.S. mutual fund scoreboard, was still impressive.

Commenting on this phenomenon, Bill Guilfoyle, a vice president with GT Global Financial Services in San Francisco, says: "It's [because of] the tremendous interest in what's going on in Europe, triggered by the dismantling of the Berlin Wall. That was the most graphic image for the U.S. investor. We had been talking about E.C. 1992, but what happened with the Wall proved it's more than something bureaucrats are discussing."

Kathryn Morrison, spokeswoman for the Investment Company Institute, the Washington, D.C.-based trade association for the fund industry, sees a number of reasons behind the European investment surge. She thinks that, besides the obvious motive of financial gain from the expanding European economy, the interest in investing is spurred by the increasing sophistication of Americans about the world and their desire to shore up fledgling democracies.

"It's very middle class," Morrison says. "My friends are saying, 'Instead of going to Florida, let's go to London.' Things foreign are no longer strange and unpredictable—they are safe and exciting.

"And lots of Americans think, 'I want to invest in democracy, I want to invest in [Lech] Walesa.' A lot of people identify with these [new] democratic movements."

GT's Guilfoyle concurs that it is the most modest American investor who is powering much of the European mutual fund explosion. Exact figures are not available, but he believes that investors with accounts averaging around $10,000 are the mainstay of the GT Europe Growth Fund.

"Things are very hectic here," Guilfoyle adds. His company's offices are getting about 3,000 calls daily from individual and other interested investors, up from about 450 six months ago.

In the opinion of some fund managers, underlying the excitement about Europe in recent months has been the promise of the E.C.'s 1992 project. "When you get down to the nuts and bolts of the situation, [the Wall] is the gloss," says George Endres, regional marketing manager for Merrill Lynch Asset Management in Princeton, N.J. "What really drives the investment is 1992—easier communication links and the ability to manufacture in one country for sales in another. That's the big deal over there [in Europe]."

Actually, the growing interest in mutual fund investment overseas didn't start in Europe. Earlier in the 1980s, much of the money went into the Pacific Rim stock markets as more information became available on foreign economic activity, and money managers created new opportunities. The stock market crash of October 1987 convinced more Americans to follow their brokers' advice to diversify their portfolios with international stocks (the Tokyo stock market had recovered from the crash by January 1988, but it took the U.S. market until August 1989 to recover).

Mutual funds themselves are popular with individuals seeking overseas opportunities because of the ease of having a professional manage the money for them, fund managers say.

For whatever reason, the numbers on overseas mutual funds are impressive. At the end of 1988, American assets in foreign mutual funds already stood at $3.10 billion. By December 1989, this sum had increased to $4.09 billion.

In Europe, the stock market of West Germany, the Continent's economic powerhouse, has attracted a great deal of the investment attention. The first Germany Fund, created in July 1986, really took off last September—resulting in stock prices far above their underlying value—and since then, two more Germany funds have been created by Deutsche Bank Capital Corporation. The third fund, riding the latest political wave, is known as the United Germany Fund.

(The attraction of West German mutual funds is part of a larger phenomenon of German-mania. In the last quarter of 1989, there was a net inflow of $20 billion in goods, services, and investment funds to West Germany, which reversed a net capital and current account outflow over the past three quarters.)

Where will American investors go next?

Steve Norwitz, a vice president at T. Rowe Price Associates, Inc. in Baltimore, says of the mutual fund fever: "It's something that has been growing, but we think that it's still in its infancy in the United States. Only 4 percent of [U.S.] pension funds are invested overseas, even less for individuals."

Much of the interest in Western Europe is based on the expectation that companies there will do booming business as the main providers of goods and services needed to rebuild the East. But what about more direct investment, through mutual funds, behind what was once the Iron Curtain?

The action there is just getting under way. Bear Stearns and Company, based in New York, raised $80 million from wealthy individuals and institutions (minimum investment, $500,000) in a private placement for the First Hungary Fund last fall. Because the fund is not publicly traded, the values of the shares cannot be measured. The fund's managers, though, are betting that the Hungarian companies whose shares are in the fund will enjoy impressive productivity gains now that they can compete in a freer market. A spokeswoman for Bear Stearns says the fund's investments will include joint ventures, equity, and real estate.

The excitement over Hungary's potential manifested itself in late January when a consortium of American and Canadian financiers, joined by the former U.S. Ambassador in Budapest, Mark Palmer, purchased 50 percent of the country's General Banking and Trust Company. "The gold rush is on in Hungary. Budapest is a boom town," Palmer told the *New York Times.*

Alliance Capital Management, which enjoyed great success with its Spain Fund, has registered a Poland Fund with the Securities and Exchange Commission, but no launch date for the fund has been set.

For now, however, most American investors are sticking to the more familiar (and usually profitable) terrain of Western Europe, lured by the pitches of mutual fund managers like Chip Wendler, a vice president at T. Rowe Price-Fleming International, Inc., in Baltimore: "We say, 'Would you mind if we put some high octane in with your regular?' " €

Steve Dryden is a Washington, D.C.-based journalist who has written for *Business Week*, the *International Herald Tribune*, and the *Washington Post*. His most recent article for *Europe* covered investing in Eastern Europe.

PHOTOGRAPH BY JOSEPH PALMIERI

THE EUROPEAN INVESTMENT BANK IN 1990

1990: Only a few years away from the internal market and the free movement of goods, persons, services and capital within the Community; negotiations have been concluded for Lomé IV, a new encompassing cooperation agreement between the EC and 68 African, Caribbean and Pacific nations; and Community financial support to Eastern European countries is already under way. Exciting times and high hopes for the years ahead and the European Investment Bank play an active role in all these developments.

The bank, owned by the EC's Member States, has a history of more than three decades of serving Community objectives. Its business is project financing, providing loans for capital investment projects contributing towards the realization of a number of goals, in particular: regional development, improved transport and telecommunications links throughout the EC, product and process innovation to increase the competitiveness of the Community's industry in a global market, more rational use of energy resources, and safeguarding and improving the environment. Different times have asked for different emphases, but the basic objective of the EIB as given in the Treaty of Rome, remains the balanced and steady development of the European Community.

What the European Investment Bank brings to bear is finance raised on the capital markets where its AAA credit rating enables it to obtain the best possible conditions of the moment, passed on to project promoters with a minimal surcharge as the EIB does not have a profit motive. Specializing in medium to long-term lending and working with some 15 European and non-European currencies, the EIB provided loans totalling ECU 11.6 billion in the European Community in 1989 and over 600 million outside in the context of the EC's development policy. All in all, these figures represent a growth of over 20% compared to lending the year before in which the bank registered a similar increase.

No doubt, an important part of the recent rapid growth can be explained by the impetus of the future internal market, the magic date of 31 December, 1992 being on the horizon. The leap forward towards further economic and social integration in the EC dates back to July 1987 when the Single Act came into force. Since then the Community has seen a surge in investment and demand for EIB finance has grown proportionally.

A considerable part of the funding helped to put the necessary infrastructure into place: extending airports, airfleet renewal, the Train à Grande Vitesse, the Channel tunnel, harbor development and the construction of numerous sections of European road links. The Community's industry is busy preparing for the internal market as well. Take-overs and mergers are everyday occurrences while cross-border cooperation between industries is a growing phenomenon. Those enterprises investing to develop economies of scale, intensified industrial cooperation and efficient specialization are increasingly turning to the European Investment Bank.

It is worth noting that, notwithstanding all new developments, the EIB has not abandoned its historical vocation. Funding for projects contributing to regional development is still the core of the bank's activities.

Reaching ECU 7 billion in 1989, the financing of such projects even recorded a 43% increase last year and two thirds of the funds were focussed on regions faced with the most acute structural problems: Portugal, Greece, Ireland, parts of Spain, the Mezzogiorno and Northern Ireland.

The EIB's financing of projects outside the European Community started on a small scale in the early sixties. In the meantime, the bank has become active in almost all countries bordering on the Mediterranean, in the ACP countries signatory to the Lomé Conventions and in Overseas Countries and Territories with special historical links to Member States.

The most recent development in this area is the agreement reached on the terms of Lomé IV. The EIB has been called upon to lend up to ECU 1.2 billion plus, under mandate, another ECU 825 million from European Development Fund resources in the first five years of the ten covered by the convention. Given the difficult financial and economic position that the developing countries are finding themselves in, interest rates are to be softened by interest subsidies to an even greater extent than in the preceding conventions. The EDF resources will be risk capital, used for equity participations and loans with an interest rate in no case exceeding 3%.

As political change in Eastern Europe accelerated last year, the Community's readiness to provide financial support for the troubled economies of the countries concerned followed step. In this context, the European Investment Bank will provide up to ECU 1 billion in loans for investment projects in Poland and Hungary. The first projects are being identified in close cooperation with the World Bank. The appraisal of a railways project in Poland and a telecommunications scheme in Hungary are under way and it seems likely that not before long loans will be announced.

In a related but separate development, negotiations are continuing about the creation of a European Bank for Development and Reconstruction, involving the 24 OECD members, 8 Eastern European nations as well as Cyprus and Malta. The European Investment Bank is among the potential shareholders of this new bank and once it will become operational the two will work together closely. Although there are many issues still needing clarification, the EIB's President, Ernst-Günther Bröder, has expressed the Bank's willingness to provide technical and logistic support and to delegate personnel in the start-up phase of the EBRD.

NOTES ON 1992

TEAM '92 TELLS AMERICANS ABOUT 1992

If your organization is interested in the 1992 single market and would like to hear more from experts on 1992, you may wish to invite a Team '92 member to address your group.

Team '92 is a group of approximately 50 professionals from across the United States who address various platforms around the country that are interested in learning more about the E.C. and the emerging single market in 1992.

Team '92 speakers are located throughout the country. When a group in one of the 50 states wants to have a speaker on the E.C. and 1992, the E.C. office in Washington, D.C., will give that particular civic, school, or business group the name of the Team '92 member in that state or region.

Representatives from the private and academic sectors will explain the E.C. as outside, "unofficial" speakers to these various groups. Team '92 participants speak entirely on their own and are not official representatives of the E.C. Commission.

Team '92 has worked successfully in all the E.C. countries and Japan. The initial enthusiasm for Team '92 in the United States has been high.

If you would like to find out more about Team '92, please write to Elizabeth Winters, Outreach Coordinator, E.C. Commission Delegation, Office of Press and Public Affairs, 2100 M Street, N.W., Suite 707, Washington, D.C. 20037.

E.C. CAMPAIGN AGAINST CANCER

Starting January 1, 1992, all tobacco products throughout the E.C. countries must carry the general warning label: "Tobacco seriously damages your health." Not only will packages have to carry this compulsory message, but the packages must also carry two additional health warnings of the member state's choice, such as "Smoking causes cancer" or "Smoking harms unborn children." Also, all packages will have to give tar and nicotine information.

E.C. ministers also established a common position on tar levels in cigarettes that will require companies to cut the maximum amount to 15 milligrams per cigarette by 1992.

These proposals are part of the Commission's "Europe Against Cancer" campaign that hopes to reduce by 15 percent the number of cancer mortalities by the year 2000.

BRITISH BUSINESSES URGED TO PREPARE

Britain's Department of Trade and Industry has started a large advertising campaign aimed at informing more than half a million small and medium-sized business owners how to meet European competition when the single market becomes effective after 1992.

The campaign is entitled "Europe, Open for Business."

MANY U.S. FIRMS UNPREPARED FOR 1992

According to Lord Chalfont, who serves in the British House of Lords and is a former Minister of State for Foreign Affairs, American businesspeople do not appreciate the opportunities available in Europe's 1992 single market. Lord Chalfont, who helped lead Britain into the E.C., says American firms must act now or lose out to aggressive companies from Japan and other nations.

Chalfont says, "I found it fairly evident from various visits to the United States that quite a number of companies just simply haven't begun to appreciate the size of the potential market growing up in Europe.

"What we are looking at is a market not of 320 million people, which is what 1992 will bring about, but a market of something more like 500 million toward the end of the century."

Chalfont said American businesses should think in terms of establishing footholds on the Continent through equity participation, mergers, acquisitions, joint projects, and partnerships with European companies.

MARKETING WITH 'EURO-CLASSIFICATIONS'

The diversity of people within the E.C. may present problems to those planning marketing strategies for the post-1992 era, but not if the strategists are plugged into a new data base developed from the theories of Professor Bernard Cathelat. Cathelat, a doctor of psychosociology at the Sorbonne in Paris, has devised a system of categories that all Europeans fall into. These labels range from Euro-Romantic to Euro-Dandy to Euro-Vigilante.

A team of European marketing firms has standardized Cathelat's theory, coming up

NOTES ON 1992

with 16 different "sociostyles," each with a different set of purchasing values.

Euro-Vigilantes, for example, are described as suffering "severe economic frustration" and are sensible shoppers, while the Euro-Strict see Europe 1992 as "a united community in the struggle against communism" and prefer shopping in specialty shops.

"When the national barriers come down between the 12 European countries, old-fashioned ways of marketing goods will no longer apply," Cathelat says. "Companies that try to venture abroad on the assumption that people of the same class, age, and wealth will have similar wants are bound to fail."

Twenty companies in different fields have already purchased the data base, so its effectiveness will undoubtedly begin to be tested.

E.C. CORPORATE TAXES MAY BE SIMPLIFIED

Christiane Scrivener, E.C. Commissioner for Taxation Matters, is trying to simplify a corporate tax jungle that experts believe could undermine the creation of a single European market after 1992.

Scrivener intends to put pressure on governments with a report later this month giving priority to three draft laws that form part of the Community's 1992 blueprint.

The first directive aims to abolish a 5 percent withholding tax imposed by West Germany on the profits made by affiliates of foreign firms.

The second would encourage cross-border deals by removing capital gains tax on acquisitions in some E.C. countries.

The third proposal would set up an arbitration procedure for tax disputes between countries over pricing.

Corporate taxes in the E.C. range from a low of about 35 percent in Britain, the Netherlands, and Spain, to 50 percent in Denmark and on some company profits in West Germany.

SAFETY IN THE WORKPLACE

The first European health and safety standards for workers will come into force on December 31, 1992. These standards will be a milestone on the road to greater safety at work. The standards, aimed at "ensuring workers a reasonable level of protection in the single European market," have been adopted by the E.C. Council of Ministers.

Martin Bangemann, E.C. Internal Affairs Commissioner, says 1992 can especially benefit medium-sized companies that cannot afford to maintain branches or sales forces in the Community.

AMERICAN FIRMS SHOULD 'DISCOVER THE OLD WORLD'

Martin Bangemann, the E.C. Internal Market Commissioner sometimes referred to as "Mr. 1992," urged American businesspeople to get involved with the European 1992 single market.

In a recent speaking trip to the United States, he emphasized that the internal market is open to all, especially for medium-sized companies outside the E.C. that cannot afford to maintain branches or have their own sales forces in the Community.

His message to American middle-sized firms is to "Discover the Old World! Never before has it been so easy to establish a foothold there."

TIME TO CHANGE

Greenwich mean time may soon become a thing of the past for the United Kingdom. Legislation is ticking along that would move British clocks forward one hour to make business hours consistent throughout the European Community. Most Scottish MP's and many Labor MP's from Wales and England are chiming in against the switch, but it appears the overwhelming majority will ring in the change.

SETTING UP BUSINESS IN THE COMMUNITY

Each E.C. country has its legal categories, procedures, and fiscal and social programs to help the up-and-coming entrepreneur. These details are clearly explained in a handbook recently put out by France's agency for the creation of business. For all budding entrepreneurs hoping to start a business in any E.C. nation, the handbook, which is available now, should be very helpful.

CAR AND MOTORCYCLE INSURANCE

In the single European market, motorists and motorcyclists will enjoy increased insurance coverage for civil liability, thanks to a decision of the E.C. Council of Ministers that will harmonize national laws. To begin with, all who are properly insured will receive a green card, which certifies they have civil liability coverage throughout the 12 Community nations. In addition, the new coverage will include all passengers traveling in a car involved in an accident.

LENDING A HELPING HAND

THE E.C. TAKES THE LEADING ROLE IN ASSISTING EASTERN EUROPE.

REUTERS/BETTMANN NEWSPHOTOS

"Delors urges E.C. to break budget," ran the headline in London's *Financial Times* after E.C. Commission President Jacques Delors's address to the European Parliament in mid-January calling for stepped up aid to the new reformist regimes in Eastern Europe. Last year the Community promised 300 million European Currency Units (ECU) ($363 million) of its 1990 budget for the program known as PHARE (Poland, Hungary Aid for Restructuring of Economies) to help the two countries in the vanguard of political and economic change in the region. But with Czechoslovakia having since joined the democratic club, and given the likelihood of Romania and Bulgaria doing the same soon, Brussels is facing up to the fact that deeper pockets will be required.

The realization is also dawning in E.C. capitals that a broader vision is needed. The new governments in Eastern Europe have asked not only for Western help with making the potentially disruptive transition from communism to a market-based economy, but they have also sought closer cooperation with the E.C.—some even looking for eventual E.C. membership. As a result, the challenge presented to the Twelve by the evolution in Eastern Europe has undergone a dramatic transformation. Once a case of providing a few million dollars of emergency food aid to Poland, the pressure is now on the Community to play the leading role in securing the economic welfare of 120 million people and devising new institutional links to tie them to the West.

The E.C.'s role in Eastern Europe did not start with the changes launched in the already famous year of 1989. The Community first offered to conclude bilateral agreements with each country in the re-

P E T E R S . R A S H I S H

gion in 1974. In 1986, working relations were established on an organization-to-organization basis between the E.C. and COMECON, the East bloc economic cooperation group led by Moscow. Since that date, Brussels has signed individual trade agreements with all the East bloc countries except Bulgaria, and negotiations are under way with that country as well.

East Germany is a special case. The Community does have a trade pact in force with the East Berlin Government, but the GDR has always benefited from free access to the West German market, from where its goods can circulate unhindered within the rest of the Community. This arrangement has given East Germany virtually the same privileges as a member state on the commercial level.

With the almost certain prospect of the two Germanys beginning talks on reunification after the East German elections on March 18, the lead role in aiding the East German economy may lie more with the West German Government than with Brussels. Just last month, Bonn approved an extra $4.1 billion for the GDR, specifically earmarked to smooth the reunification process.

The PHARE program for Poland and Hungary provides for measures to restructure agriculture, improve market access, create favorable terms for foreign investment, set up vocational training programs, and protect the environment. Since its debut last October under E.C. auspices, PHARE has extended its list of financiers to include the other industrialized countries as well; collectively, they now go under the name of the "Group of 24" (G-24). Beyond the PHARE program, the G-24 has approved a $1 billion stabilization for the zloty, the Polish currency, and is expected to authorize a loan of $1 billion to Hungary for structural adjustment. Both will be administered in cooperation with the International Monetary Fund (IMF).

Not only has the number of donors to Eastern Europe increased, but the number of recipients has as well. While Czechoslovakia, a country with a small foreign debt and reasonably healthy economic fundamentals, is seeking better trade access to the E.C. rather than financial largess, Romania and Bulgaria have asked for treatment similar to that accorded to Poland and Hungary. Bulgaria is looking for a loan to help its agricultural sector, while Romania has already received 40 million ECU in emergency food aid. Both countries are likely to benefit from coordinated efforts by the G-24

EASTERN EUROPE: A LOOK AT THE NEW LEADERS

BULGARIA
Prime Minister: Andrei Lukanov
Defense Minister: Dobri Dzhurov
Chief of State: Petar Mladenov
Party Leader: Alexander Lilov
Opposition Political Parties: Podkrepa, an independent trade union led by Konstantin Trenchev; and Eco-Glasnost, an independent environmental movement
Elections: Free elections are planned for May 20, 1990.

CZECHOSLOVAKIA
President: Vaclav Havel. A dissident playwright, he was born of Prague entrepreneurs, a birthright that denied him access to higher education under Communist rule. His plays (which were banned in Czechoslovakia for more than 10 years) demonstrated the decadence and brutality of Communist rule. A signatory of Czechoslovakia's "Charter 77," Havel spent much of his time in and out of prison. During Czechoslovakia's "revolution," he headed the opposition group Civic Forum until elected President.
Prime Minister: Marian Calfa, a Communist and a lawyer specializing in business law
First Deputy Prime Minister: Valtr Komarek
First Deputy Prime Minister: Jan Carnogursky
Minister of Finance: Vaclav Klaus
Foreign Minister: Jiri Dienstbier, a dissident journalist
Speaker of National Legislature: Alexander Dubcek, leader of the "Prague Spring" reform movement in 1968
Main Political Parties:
• *Old:* Czechoslovakian Communist Party, Czechoslovakian Socialist Party, Czechoslovakian People's Party, Freedom Party, Slovak Regeneration Party
• *New:* Christian Democratic Party, Party of Democratic Socialists, Greens, Czechoslovakian Agrarian Party, Third Millennium Trend, Czechoslovakian Social Democratic Party, Democratic Forum of Communists, Green Circle, Czechoslovakian Democratic Initiative
• Civic Forum and Public Against Violence are two opposition umbrella organizations
Elections: Free elections are tentatively scheduled for June 8, 1990.

EAST GERMANY
Prime Minister: Hans Modrow. A reformist member of the Socialist Unity Party of Germany (SED), which was formerly called the Communist Party.
Political Parties: The Social Democratic Party (SPD) headed by Ibrahim Boehme is expected to win the March 18 elections. Boehme, a historian who has never been elected to any political office, will most likely be the last prime minister of the country since unification seems a foregone conclusion in the near future. Most likely East Germans will vote for reunification.

Other parties are the East German Christian Democratic Union; Democratic Awakening; New Forum; Party of Democratic Socialism (Communist Party); Liberal Democratic Party of Germany; Liberal Democratic Party; National Democrats; Party of Germany; United Left; Democracy Now; and Peace and Human Rights Initiative.
Elections: Scheduled for March 18, 1990.

HUNGARY
Interim President: Matyas Szuros. Formerly Speaker of the Communist-dominated Parliament, he was a member of the Communist Party until it became the Socialist Party.
Prime Minister: Miklos Nemeth. A member of the Socialist Party, he leads a government of independents and Socialists.
Political Parties: The former Communist Party (the Hungarian Socialist Workers' Party), which is now called the Socialist Party, is still in power. However, the Hungarians, by defeating a referendum on holding presidential elections before parliamentary ones, signaled that they wanted the new, possibly non-Communist parliament to choose the country's president after elections scheduled

once they have made greater strides toward a market economy and democratic principles.

Progress has been made toward setting up a new European Bank for Reconstruction and Development (EBRD) devoted to aiding Eastern Europe on a long-term basis. First proposed by French President François Mitterrand at the Community's December summit in Strasbourg, EBRD members will include all G-24 states as well as the East European countries themselves.

In contrast to the World Bank or IMF, where the United States is the dominant contributor, the E.C. states have claimed a majority share of the bank's capitalization. This contribution will give the E.C. the leadership role in devising lending policy toward the East.

As the situation in Eastern Europe has

The G-24 has approved a $1 billion stabilization for the zloty, the Polish currency.

REUTERS/BETTMANN NEWSPHOTOS

for March 25, 1990. The elections will vote for a new Parliament, which will in turn elect a new president.

Other parties are the Hungarian Democratic Forum and the Alliance of Free Democrats

Elections: Scheduled for March 25, 1990.

POLAND

President: Gen. Wojciech Jaruzelski.

Prime Minister: Tadeusz Mazowiecki. Born in 1927, he has been an adviser to Solidarity since 1981, and editor-in-chief of *Tygodnik Solidarnosc,* Solidarity's newspaper until martial law was introduced in December 1981, a position he resumed after the magazine's reappearance in 1989. Between 1981-1982, Mazowiecki was held in internment camps. He helped initiate and coordinate the Round Table talks in February 1989 that resulted in the legalization of Solidarity.

Minister for Foreign Affairs: Krzysztof Skubiszewski. An expert in international law, he was a researcher, associate professor, and deputy dean of Poznań University between 1948 and 1973. He studied in Nancy, France; at Harvard; and at Columbia University, He has taught in Geneva and at the Institute of the State and Law at the Polish Academy of Sciences. He joined Solidarity in 1980.

Finance Minister: Leszek Balcerowicz. He is affiliated with no party. An expert in international economic relations, he has been a researcher in Poland's Main School of Planning and Statistics since 1970.

Minister of National Defense: Florian Siwicki. He has served both as the Polish Army's General Staff First Deputy and General Staff Chief and was appointed Vice Minister in 1973. In 1983, he became Minister of National Defense.

• The current government, composed of four Communists and 20 non-Communists, took power in September 1989.

• Solidarity, which is not a party but a trade union movement, exerts its influence in the Polish Parliament (*Sejm*) through the Citizen's Parliamentary Floor Group. Solidarity's leader is Lech Walesa.

• On December 31, 1989, a Bill of Amendments changed the country's name from the People's Republic of Poland to the Republic of Poland. The bill also included a law allowing the establishment of political parties.

Elections: Usually, presidential elections occur every six years. Because there was one last June, the government hasn't planned another one until 1995. Local elections will be held in April or May 1990. An election may be held before that time depending on events.

ROMANIA

Acting President: Ion Iliescu. He has served as Chairman of the Romanian Students' Association, Secretary of the Central Committee of Romanian Working Youth Central, First Secretary of the Young Communist League, and Minister of Youth. In 1971, he became Central Committee Secretary for Propaganda and Education, in 1974 a nonvoting member of the Political Executive Committee, and in 1979 a member of the State Council. His progress through the party ranks was reversed several years later, when he was demoted to Chairman of the National Water Council for criticizing Romania's environmental policy. In 1987, he published a harsh critique of then-President Nicolae Ceausescu's economic and social policies.

Prime Minister: Petre Roman. He is a professor of fluid mechanics at Bucharest Polytechnic Institute, who studied in Moscow and France.

Vice Prime Minister: Gelu Voican Voiculescu

Main Political Parties: The National Salvation Front, composed of both Communists and non-Communists, was formed on December 21, 1989.

Other parties are the National Christian Peasant Party; the National Liberal Party; and the Social Democratic Party.

Elections: Scheduled for May 20, 1990.

YUGOSLAVIA

Yugoslavia, a federal state, is divided into six republics and two autonomous provinces, each of which sends a representative to the Presidency, the country's highest executive body. The president of this body rotates each year to a member of a different republic or province. The current President is Janez Drnovsek of Slovinia, an economist and specialist in international financial relations. When his term ends on May 15, the current Vice President Borislav Jovic, of Serbia, will take his place.

Elections: Free elections will occur in April in the republics of Slovenia and Croatia. *—Jeannine Johnson*

Jeannine Johnson is a freelance writer based in Washington, D.C.

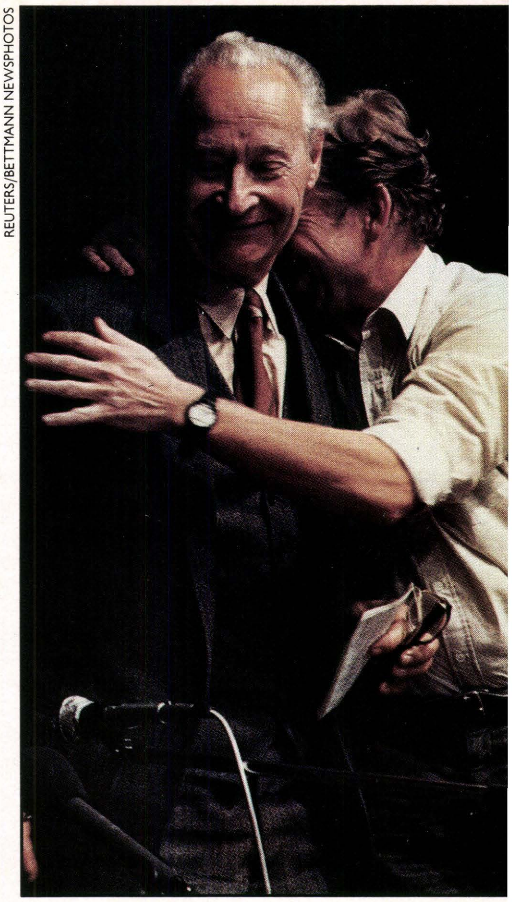
changed over the past months, so has the nature of the Community's response. At first Brussels—and other Western capitals—was concerned with providing an immediate injection of cash to the reformist governments in the East to prop up their ailing economies. The fear was that without such aid, the new regimes in the East would fall, leading either to a return of hard-line communism or to pre-communist authoritarian rule.

Now, with Moscow granting more foreign policy leeway to its allies than originally expected, the Eastern European states have been entertaining the idea of applying to join the E.C. itself. The Twelve have suddenly been presented with the daunting task of completing their own plans to forge a unified internal market by 1992 and simultaneously devising ways to satisfy Eastern Europe's desire for closer relations. The question of the moment is this: Does Brussels have the time and resources to pursue a policy both "deepening" and "widening" the Community at the same time?

Many at E.C. Commission headquarters would say that full membership is not in the cards, at least not until after 1992. Rather, External Relations Commissioner Frans Andriessen has suggested negotiating association agreements with Eastern Europe under Article 238 of the Treaty of Rome. The E.C. maintains agreements of this sort with a number of countries, including Switzerland, Finland, Turkey, and Israel, which benefit from the most advantageous trade and cooperation ties that the Community has to offer, short of full membership. So, while it may be premature to speak of Eastern Europe joining the E.C., ties between the Community states and their Eastern cousins are nonetheless certain to grow closer. €

Peter S. Rashish, a writer and consultant based in Washington, D.C., is a frequent contributer to *Europe*. His most recent piece, in the December 1989 issue, looked at the prospects for U.S.-E.C. high-technology cooperation.

REUTERS/BETTMANN NEWSPHOTOS



New Eastern European leaders are looking to the E.C. for support.

THE DEATH OF COMMUNISM

WHAT 'ISM' WILL FILL THE VOID IN EASTERN EUROPE?

ZBIGNIEW BRZEZINSKI, who served as National Security Adviser to former President Jimmy Carter and is the author of the recent book The Grand Failure: The Birth and Death of Communism in the Twentieth Century, *spoke with* Europe*'s Editor-in-Chief, Robert Guttman, last month about the disintegration of communism in the Soviet Union and Eastern Europe.*

Was there one single catalyst for the momentous events of Eastern Europe? Was there one single factor, or did everything just come to a head in the later stages of 1989?
There was not a single factor. The thread that ties the different factors together is "the grand failure of communism." That is the common thread to what has happened in the last several years.

Was there anything inherent in communism that lead to its failure? Is there any way that communism could have succeeded?
No. First, communism was doomed to fail because it was based on wrong assumptions regarding human conduct and human motivation. Second, it was premised on a very oversimplified view of social economic change, which posited the notion that the complexity of the social condition can be reduced to some centrally controlled, politically dominated grand scheme involving, simultaneously, the concentration of power in the hands of a narrow elite and the execution of a plan imposed on the society from the top down by that elite.

Is Mikhail Gorbachev responding mainly to the economic failures of the Soviet Union or is he actually a revolutionary individual who is trying to change communism?
He is first of all reacting not only to massive economic failure, but he is also responding to massive political failure. Clearly he is intelligent enough to recognize the Soviet system politically was not only a failure, but ultimately criminal and lethal. This has been devastating for those who have had to live under it and Gorbachev senses that. However, it's fair to say that his own views evolved over time. He seems to have started with a narrower concept of what kind of changes were needed, and his views have, over time, evolved to an increasingly comprehensive and far-reaching notion of the required changes.

If you had to define Gorbachev in several sentences, how would you define him?
He's a Communist who became a reformer, who became a revisionist, and is in the process of becoming a Menshevik.

In the year 2000, what is your picture of the Soviet Union? Will there be a Soviet Union?
I think the Soviet Union as we know it is doomed. I don't think there is going to be a Soviet Union a few years from now. What will be after that is much less clear. Most likely, the Soviets will still be in a major crisis. It will be either the crisis of a country groping toward a much more voluntary configuration with some severance of a breaking away, or it will be a crisis within a reasserted great Russian nationalist empire, with that empire being resisted by the non-Russians.

Ten years from now will Lithuania and some of these other countries have broken away from the Soviet Union?
If things move in the first direction, yes. If things move in the opposite direction, the answer is no.

In your scenario, what do you think will happen?
I think Russia will be groping. I'm not a prophet. I can be an analyst. You can tell me what the market will be 10 years from now. I'll tell you exactly what Lithuania will be 10 years from now. But we'll both be making guesses, rather than judgments. I think the Soviet Union as we now know it is coming to an end, and it will either become a great Russian dictatorship or it will become a confederation. If it becomes a federation, Lithuania will secede.

It seems that for the last 40 years the United States has been working on the assumption that the Soviet Union is a strong military power and that the Soviet Union is a superpower. Now it turns out that the Soviet Union, as you've mentioned in your book, is like a developing nation. Can it be both?
The paradox of the Soviet Union is that it *can* be both. The Soviet Union, with some exaggeration, is a Uganda with a magnificent atomic arsenal. The Soviet Union is a Third World country. But it's not even a developing Third World country. It's a stagnant Third World country. But it is a major military power. This is the paradox of the Soviet situation. This is also why I have for years called the Soviet Union a one-dimensional global power. It is one-dimensional in that it is a global power militarily, but not in any other dimension.

"I think the Communists are going to be booted out everywhere before too long."

Do you think we've been responding accurately to the Soviet Union, or do you think we've been overreacting because we thought it was a more developed nation?
I've always felt that we were overestimating Soviet strength, which is another reason why I thought we should respond strongly to the Soviets. And I was not fearful of advocating such a strong response because I was convinced that the Soviets were much weaker than they were perceived. Hence, I did not think it was very dangerous to respond to them strongly. Moreover, I felt if we responded to them strongly, we would drive home to them sooner that they really can't compete with us. As things turned out, it has more or less worked out that way anyway.

Under President Carter, we raised the standards of human rights, and that galvanized that issue within the Soviet world. Under Ronald Reagan, we showed them they cannot outspend us or outmatch us in military muscle. And I think the combination of the two was the better of the two sides of the coin.

You said the East European nations have always had a disdain for the Soviet Union. They feel culturally superior. Has there been anything positive during the Communist domination of Eastern Europe since the end of the war?
For the East Europeans or for whom?

For the East Europeans.
Well, that's a question of taste. I don't think you'll find any East Europeans who think there was, except within the party élite.

What's going to be the next "ism" in Eastern Europe?
I'm not sure I know the answer to that. I think for a while everybody will be so fed up with these "ism's" that there won't be any clear "ism." But if I have to identify one that is more likely to surface than others, it's nationalism.

Is there any way to quell this growing nationalism?
In East Central Europe, the West has a chance to promote much more regional cooperation or international cooperation as a way of diluting nationalism. For the Soviet Union, I don't think we in the West can do much. If Gorbachev and his people have the farsightedness to move toward a general confederation, perhaps they can somewhat dilute it, but I'm pessimistic.

Do you think Hungary, Czechoslovakia, or any of the other East European countries will be ready for inclusion in the E.C. any time soon?
Not as full members for quite some time. But some special associate status under Article 238, yes.

And how long do you see that taking? Would it occur in two or three years?
I think in the case of Poland, which is right now in the forefront of both political and economic changes, it could take place before 1995.

Do you foresee a similar type E.C. organization for Eastern European countries or is nationalism too strong to bring that about?
I don't think Eastern Europe on its own could organize something like the European Community. But I think some links between the E.C. and that part of Europe, or between EFTA [European Free Trade Association] and that part of Europe, are feasible.

How could the E.C. work with the East European nations?
By negotiating with them in the way it always happens. Negotiating, engaging, developing, showing initiatives, etc.

In Europe, people are talking about the "New Atlanticism." Do you see the United States becoming a key player with the E.C. as its main ally in Europe?
I think we should, and that would be my view. I'm not sure we will. It is conceivable that we might slide into a kind of new isolationist passivity on this issue which I would regret, and I think would be a mistake. But we might.

Do you think the E.C. has the ability to be the key actor in Europe?
I think it still needs strong backing by national governments and very much backing by the U.S. national government.

And how would that strong backing take place for the United States? What would be our role, let's say, in the development bank being discussed now.
Well, for example, to be an active participant in it.

Do you feel that the Soviet Union should be a member of the new East European development bank?
If the Soviet Union could contribute a substantial amount of hard currency to it, it could; otherwise, what would be the purpose of having the Soviets in it?

Do you think the Soviet Union should be able to be a recipient of aid from the new development bank?
You really can't have it both ways. If the bank is designed to aid people, let's say in Hungary or Czechoslovakia, then you can hardly seriously suggest that the Soviet Union be a member of it. The bank is not designed, for example, to give aid to the United States. And yet the idea is that the United States should be a member of it. So you can't have it both ways.

There have been proposals that the Soviet Union should be a member and be able to receive aid.
I'm saying you can't have both. You have to have one or the other. If the Soviet Union is going to be a member, it has to contribute a substantial amount of hard currency. I think it's unlikely that it can do that. So I don't think that's a very likely possibility.

Poland is attempting a unique experiment to change from a controlled economy to a market economy. Will this work? Will the Polish people wait long enough to move to a free-market economy?
They were right to try to do it fast. And therefore it is more likely the people will be prepared to sustain the very, very painful sacrifices they have to make. If it were dragged out, support would wane. So on balance, with my fingers crossed, I'm cautiously optimistic. Especially since the West is going to try to help them.

Hungary seems to be getting more Western investment than the other East European nations. Is there any reason for this?
I don't think you can compare Hungary to the other countries because the other countries are behind it in political and economic change.

Do you see the development bank as a positive idea? Do you favor the American and British idea of aid only going to private enterprise, while some of the other European nations want it to go to the East European governments?
I think the idea is a good one, and I would be somewhat flexible. I don't think we should turn the bank into an instrument of some new ideological orthodoxy. There is going to be a mixed economy in these countries for quite some time. The state sector is going to be important because there is no other way right now. Until there is massive privatization, the state sector still has to be nurtured to make it more productive economically.

In Czechoslovakia a former playwright is running the country, and former dissidents are running governments. Do they have the capabilities to run a government successfully?
I'm sure they do individually. The problem in Czechoslovakia is that, unlike in Poland, there isn't a comprehensive political movement in control of the government. There is this remarkable individual serving as president, but much of the rest of the government is still in the hands of Communists. Beyond that, the role of the state and the national economy is far larger in Czechoslovakia than, for example, in Poland. Yet there's much less of a government program designed to promote privatization than is the case in Poland. So, in fact, the Czechs have a much longer way to go.

Do you see Communists being so discredited that they won't be able to hold joint power with new governments in Eastern Europe?
I think Communists are going to be booted out everywhere before too long.

You said "booted out everywhere." What about places like Albania?
Albania will go before too long, too. Albania will fall.

Will the two Germanys be reunited within the next five years?
Yes.

Politically and economically?
Yes.

Do you think the people leading the way to a reunified Germany will be the larger companies? Will the reunification be done economically, or will it be done first politically?
It is being done economically right now. The politics will follow.

Will reunification be a good thing for Europe?
That depends on the consequences and on how it is done. I think we have, within our means, to try to structure German unification in such a way that its consequences are beneficial, but it would fail by default or excessive caution. Then it will happen, in spite of us, and it could have negative consequences.

Do you feel the Bush Administration has been too cautious in its reaction to events in Eastern Europe?
I think that, until the first half of 1989, the Bush Administration was leading the way very imaginatively. It was on top of events. I think the events of the second half of 1989 leapfrogged it, and now the Administration has to catch up.

Would you like to see the United States propose a Marshall Plan for Eastern Europe if it were financially able?
I am troubled by the Marshall Plan analogy. It is a somewhat misleading one. But I certainly would like to see the United States play a more active role because the United States is a very major source of security, confidence, and stability in Europe.

Do you see the E.C. taking over some of the roles of the United States in Europe?
Yes, I do.

Is that a positive development?
Under the circumstances, it's better than the equal degree of passivity of a divided Europe.

Do you think Europe will unite and become a single market in 1992?
Yes, but not by 1992.

When will it occur?
Several years later.

Do you think it's on the right track?
Yes. €

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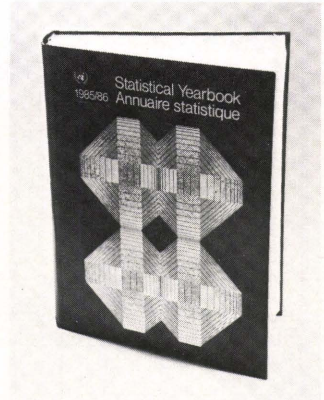

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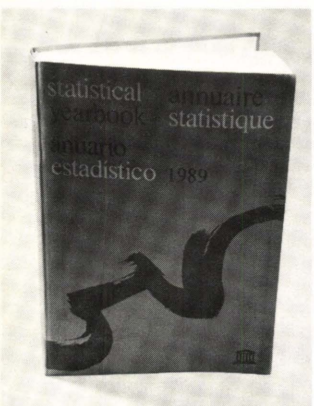

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Profile

NEW AMBASSADOR ON BOARD

Former Dutch Prime Minister van Agt Takes the Helm of the E.C. Delegation to the United States.

EUROPEAN COMMUNITY COMMISSION's representative Andreas Antonius Maria van Agt was Prime Minister of the Netherlands in the summer of 1982, the year the United States and the Netherlands celebrated 200 years of diplomatic relations. He agreed to participate in one event: the American Youth Hostel's annual New York City Five-Boro Bicycle Tour. He arrived at La Guardia Airport in a jersey, black shorts, and spiked, heelless cycling shoes.

"Don't worry," the taller Secret Service agent assured a nervous Dutch Embassy man, "even if he wants to skydive or scuba dive, we can stick with him and protect him." The restless Prime Minister wasn't looking for protection at the starting line; he wanted action.

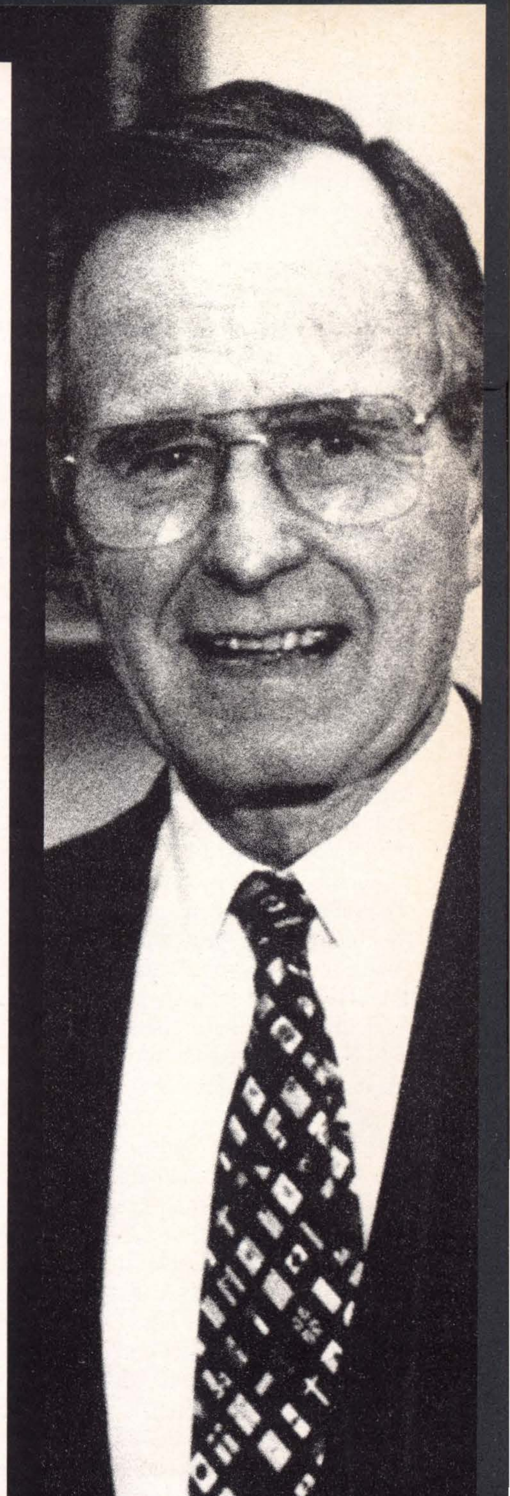
For a moment he stood motionless on his pedals. Then two sudden thrusts broke him free: 100 yards down course and pulling away. The agents were left with the memory of van Agt's grin suspended between them like the Cheshire Cat's.

This is a side of the man Dutch cartoonists and cabaretiers didn't see. They lampooned his prim expression and precise diction. For them he embodied calculation over spontaneity, smoothness over sincerity. For van Agt, however, "everything in my life has been chance. There has not been one calculated decision. Not one."

Van Agt was born in 1931 in Geldrop, "below the rivers" in the Netherlands' North Brabant province. The Rhine and Baas rivers mark the northern limits of Roman conquest, Spanish Burgundian culture, and Catholic predominance. Those who live "above the rivers" are wistful about the easygoing south. The region then still had a homogeneous culture made of the Roman Catholic Church, the Catholic Peoples Party, a Catholic soccer club and trade union, Catholic radio, and a Catholic newspaper.

That started to change for van Agt in his childhood when he saw World War II come to his village. After liberation, when van Agt was an adolescent, he attended an Augustinian high school that expanded his world. "They certainly 'educated'

ROBERT D. HASLACH



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Ambassador van Agt presents his credentials to President Bush.

me," van Agt recalls with a chuckle. "It was a strict regimen, but mild, focused more on the heart than the mind. Perhaps that is partly the reason why I am so strongly oriented on people rather than organization."

In 1949, van Agt enrolled in the Catholic University in Nijmegen. This river town had guarded Roman civilization against obstreperously unconquered tribes of the soggy north. In many respects, it remains a border town. "I became a law student because I didn't know what else to do. As so often with law students, it was a last choice. But it was a magnificent time, magnificent, in a small provincial city with a wonderful ambience. If I had it to do over, I would take the same course of study, but this time consciously. It was a good choice: if intuitively, by chance."

VAN AGT ENTERED THE WORLD OF LAW in 1955. Two years later his colleagues were unanimous in their opinion of him: he knew his law, but not the business of law. "I couldn't write a bill," he says with a chuckle. "I always billed too low! That created some tension with the partners." He resolved the problem by becoming a government lawyer north of the rivers in The Hague, first with the Ministry of Agriculture and later the Ministry of Justice. Safely lodged in the tiny stables of the civil service, for 10 years he drafted legislation.

This orderly life, indeed that of postwar Europe, was changed in 1968 by massive student demonstrations; fear of revolution touched even provincial Nijmegen's Catholic University, even van Agt. He accepted its call to become a professor of criminal law. Other institutions were also challenged to find new people with fresh ideas. His old college friend, Fons van der Stee, was then chairman of the Catholic Peoples Party, the KVP. Van der Stee persuaded the former drafter of legislation to become secretary-editor of a committee asked to write a new party platform for the elections of 1971.

"I was curious what the political world looked like from the inside. Drafting a party platform had the same curiosity value for me as taking a trip to the Antarctic or Tibet. I didn't have the least political ambition," van Agt explains. And just as well: The election fell well short of revolution. Months of closed-door negotiations produced a five-party coalition. At the last moment a new minister backed out. The coalition would hold together if the KVP supplied a minister of justice. Unfortunately, they had no candidates and no ideas.

As van Agt tells the tale, "Someone finally remembered there was a Catholic University in Nijmegen with a law school, probably solid KVP. They called the dean and ran their finger down the faculty roster. The name van Agt rang a bell: hadn't he worked on the new platform? 'Well,' said the dean, 'why not take van Agt? We can do without him.' And that was my entry into national politics: pure chance."

Only half a year in office, the neophyte Justice Minister was called before Parliament. His maiden debate became trial by fire. "It was the most dramatic parliamentary debate the Netherlands had experienced since World War II and probably ever in its history: whether to release the last three German war criminals held in Dutch prison. I wanted to release them," van Agt explains. "You cannot imagine the emotions this set loose in the country."

The three war criminals lost their bid for freedom, and the coalition government the confidence of Parliament. Labor won early elections in the spring of 1973, but needed the KVP in its coalition. Justice Minister van Agt gained the additional rank of Vice Prime Minister.

His second term saw some of postwar Dutch history's most dramatic and violent events. Nineteen sixty-eight and 1972 had resolved neither issue of institutional change nor war guilt, as witnessed by five separate hijacking and hostage actions by South Moluccan extremists, a plot against the Queen, cabinet crises involving the royal family, another war criminal affair, abortion, and the judicial response to drug use.

In the midst of political conflict, van Agt rediscovered the sport of cycling. "I get impassioned when I get on a bike, very energetic. But once I left Nijmegen, I stopped. For 25 years I didn't even touch a bicycle. Then in the mid-1970s, during this difficult time, I began again. And not, as many said, for political advantage. Why? You can as well ask why I am in love today and not yesterday. All at once: there it was again. I must say, the electoral benefit *was* evident. That wasn't the reason *why* I did it, but we noticed that *when* I did it, it brought in votes, a lot of them."

Six years after entering national politics on a fluke, van Agt gained leadership of a wholly new party, the Christian Democratic Appeal (CDA). This merger of Protestant and Catholic parties was a response to far-reaching ecumenicism reshaping Dutch public life and these parties' loss of support. The CDA lost the 1977 election (31.9 percent to Labor's 33.8 percent), but van Agt's political management won it the right to form a coalition government with the Conservatives. Still, the CDA's support slipped. His second government in 1981 needed the middle-of-the-road Democrats 66 and the Labor Party. When Labor walked out, he was left leading a minority government in 1982.

IN NOVEMBER 1982, HE QUIT POLITICS. "The September elections showed we could continue in coalition with the Conservatives, which we did under my successor, Ruud Lubbers. But I was worn out: squeezed like a melon. Looking back over my public life, I would say that it was rougher than normal, far rougher than one could expect—physically and mentally. I couldn't come up with any more ideas. I needed some sabbatical time, something politics doesn't offer."

But the job of Queen's Commissioner did offer the time. It was then open in the province of North Brabant. Van Agt welcomed it with open arms. "Purely an emotional decision: to return to the land of my youth, to give something back." But four years of recharging was enough. The provincial pace and its limited executive power felt stifling. Then while leading a provincial investment promotion delegation to Tokyo, van Agt learned that the office of Head of the E.C. Delegation to Japan would come open.

"In a moment I fell in love again! Japan! But I was afraid my wife would not go for the idea of a move. So when the plane landed in Holland I buttonholed the Dutch Foreign Minister, Hans van der Broek. Once he was able to make it happen, I went to Eugenie and told her that it was a fait accompli: We had to go to Japan." He laughs. Typically, van Agt embraced this new world with a passion.

Tokyo lasted for two and a half years and left indelible impressions of how the present works and the future will look. Now he is in Washington.

Van Agt's hair remains trim as a choirboy's, albeit grayer. His ties are neatly and correctly knotted; his suits, shirts, and demeanor unrumpled. Netherlanders are still struck by his measured, leisurely manner of speech, rich vocabulary, and correct pronunciation.

"If I didn't know he was a politician," one Dutch man told me, "he could be a bishop or a cardinal." Perhaps that would please the Augustinian brothers who oversaw his high school education. In several ways his life reflects that experience: a strict outward regimen but an emphasis on the heart. €

International business consultant and author Robert D. Haslach has followed the careers of Netherlands public figures since 1973.

UNITED KINGDOM

A Weak Opposition and Thatcher's Capability to Command Respect Are Propping Up Her Government in Spite of Negative Opinion Polls.

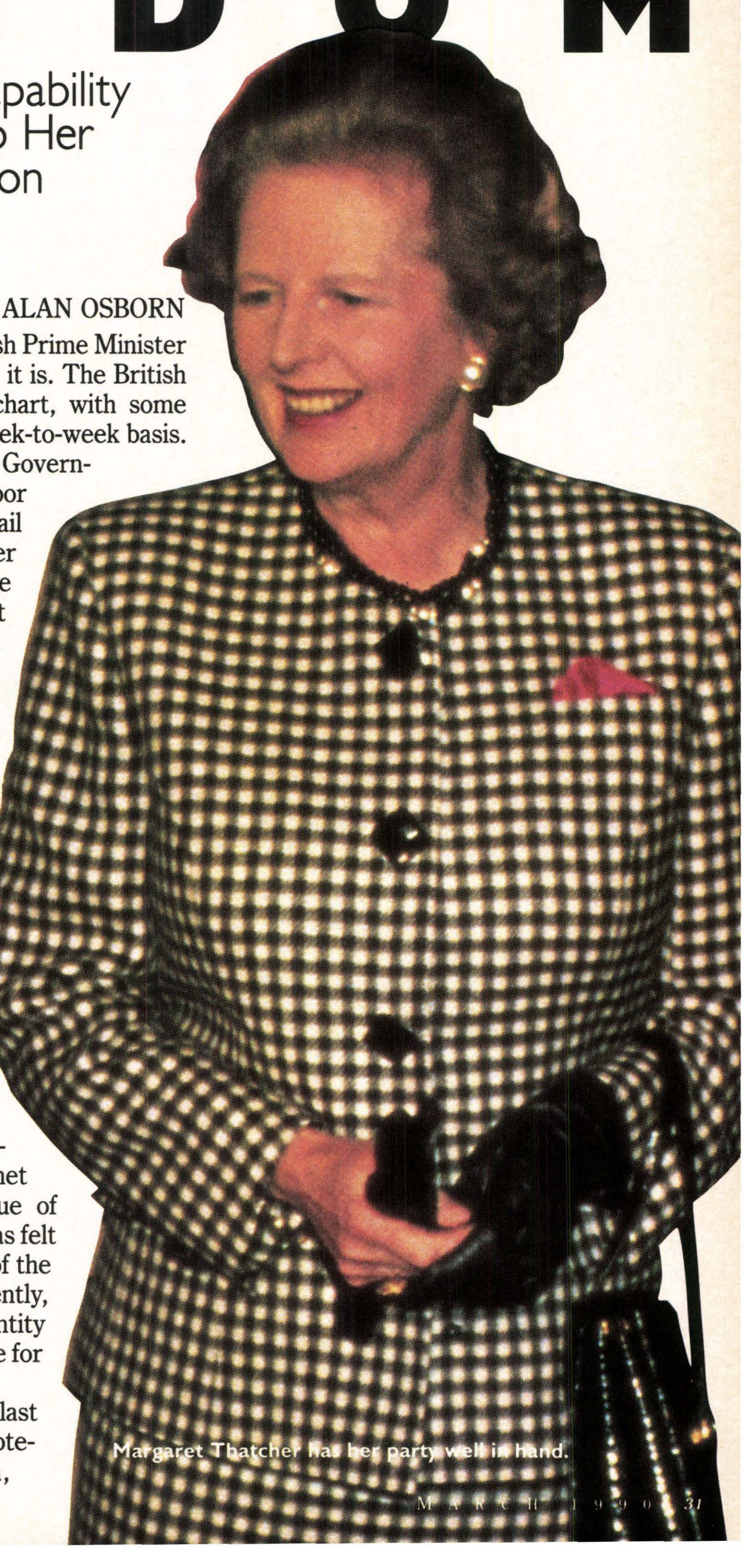
ALAN OSBORN

The major curiosity of British politics at the moment is why British Prime Minister Margaret Thatcher's Government is not more unpopular than it is. The British are addicted to public opinion polls, and it is possible to chart, with some accuracy, their feelings toward the people in power on an almost week-to-week basis. Since last June, the polls have consistently shown support for the Government at between 35 percent and 40 percent and that for the Labor Party at between 45 percent and 50 percent. For a government to trail the opposition by 10 points halfway through its probable term of power is neither unprecedented nor particularly alarming. What is odd is the contrast between its standing and the scale of public discontent at virtually all the Government's major policies when measured on a case-by-case basis. Here the polls show hearty dislike for most of the things that Thatcher and her Ministers have done or are proposing. It is as though the voter is telling the Government, "I do not care at all for what you are doing, but you may go on doing it."

The polls throw up an additional oddity. The policies most disliked by the public—high interest rates, the poll tax for financing local government, reforms of the National Health Service, and coolness toward the E.C.—all bear Thatcher's personal imprint. In many cases, the Prime Minister is said to have persevered with them in the face of objections from within her own Cabinet. Yet Thatcher consistently outscores the Labor leader, Neil Kinnock, when voters are invited to assess their leadership qualities.

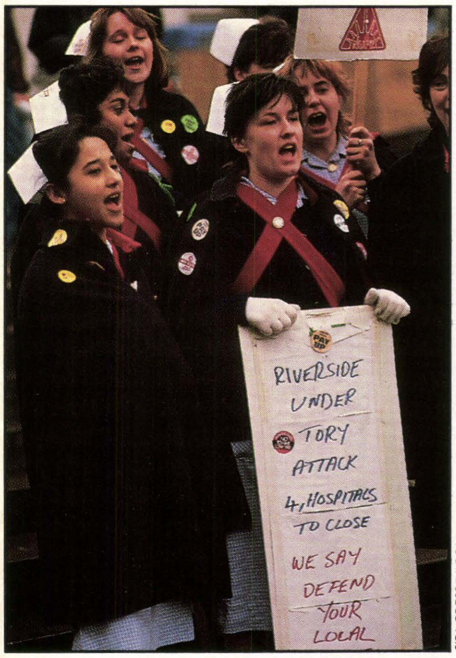
This situation is all the more remarkable when you consider the number of uncharacteristic misjudgments the Prime Minister has made since last summer. The negative campaign operated by the Conservatives, by her order, in the European Parliament elections last June took a savage toll of Tory seats. The midsummer Cabinet reshuffle, seen generally as mishandled, left a dangerous residue of disaffection among senior members of the Government. Thatcher was felt to have suffered from the developments that led to the resignation of the Chancellor of the Exchequer, Nigel Lawson, in October. More recently, the Government has been forced to abandon a plan for issuing identity cards to soccer supporters and to introduce, against its will, a scheme for the pensions of World War II widows.

These events led to growing suspicion within the Tory Party late last year that Thatcher was losing her touch as the most successful vote-winner the party has ever known, and this suspicion, in turn,



Margaret Thatcher has her party well in hand.

Top: Thatcher's suggestions for the National Health Service are not popular, as shown by these protesting hospital workers. Bottom: Trafalgar Square is a popular tourist spot.



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prompted an unprecedented challenge to her for the leadership. The threat was seen off without difficulty, though nearly one-fifth of the Tory Members of Parliament (MP's) failed to vote for Thatcher, and as many again were reported to have voted for her only after heavy pressure from the Prime Minister's office.

In the wake of the strains and reverses of the past six months, the fact that the Government is not trailing far more badly in the polls may be put down to two factors. The more obvious factor is the failure of the Labor opposition, and in particular Kinnock, to come across convincingly as an alternative government. The Labor shadow ministers are broadly held in high esteem, and the overall cast of the party's policies has found widespread favor. But these programs are new, the product of a sweeping reform completed less than two years ago.

In its attempt to abandon its association with outmoded trade union rights, unilateral disarmament, nationalization, and other policies that, whatever their intrinsic merits, proved catastrophic election liabilities, Labor has turned to more moderate, centrist programs. But for all their appeal on the surface, the new policies have not been fully tested in practice, and this uncertainty has opened the party to damaging charges of muddled thinking and even naivete.

The second factor is the remarkable capacity of Thatcher herself to ride roughshod over her critics and purge her Cabinet team of significant dissent. Since the televising of Parliament began last October, the country has been able to watch a leader fully in command of her Government, her party and, usually, the House of Commons. The cameras seem to have renewed and even strengthened the stereotypes of Thatcher—that she is unbending, strongly principled, and supremely self-confident—while adding a newer public perception of her as quick-thinking, well-informed, and even, on occasion, disarmingly courteous. A surprisingly high proportion of Labor supporters say they "respect" the Prime Minister—a factor that may help explain why, apart from the ritual denunciations in Parliament, Thatcher is seldom personally ridiculed by opposition members.

Whether for Thatcher's capabilities or other reasons, the Government seems to have recovered its morale after a shaky six months. Its legislative program has not been significantly trimmed, still less abandoned, in the face of fierce and widespread protest. The poll tax will come into effect in Britain on April 1, in spite of being almost universally detested and in spite of warnings from countless Conservative Party workers that it is a massive vote-loser.

In Parliament, the Government is showing no willingness to compromise over its plans to reform the health service in the face of opposition from the medical profession and the public, nor does it seem prepared to moderate its equally contentious broadcasting bill that critics say will destroy Britain's reputation for high-class television.

To the fury of right-wingers in Thatcher's own Conservative Party, the Government is pressing ahead with plans to admit up to 250,000 people from Hong Kong when the colony is turned over to China in 1997.

Most spectacular of all has been the Government's flat refusal to grant the pay demands of ambulance drivers and end the most rancorous and divisive labor dispute in Britain since the mid-1980s.

Thatcher may call a general election at any time up to five years after her victory in 1987, and there is now little doubt that she will put off the moment until early 1992. From the Conservative standpoint, two years is ample time to engineer a major turnaround in the Government's fortunes. By early 1992, it will expect the ambulance drivers' strike to be forgotten, the health and broadcasting reforms to have been accepted, however grudgingly, and the poll tax to be a diminishing electoral liability. But above all else, it will expect to have put behind it the grim mix of high interest rates, high inflation, and low economic growth that is by any measure its biggest current problem and the single greatest cause of its unpopularity.

The present annual rate of inflation of around 7.75 percent in Britain is a source of massive embarrassment to a Government that has put control of prices at the head of every list of priorities since it came to office more than 10 years ago. For several years, up until 1988, Britain appeared to have achieved something of an economic miracle. While it never matched West German inflation rates, it did manage to hold its own down to a respectable 3 percent to 4 percent, and its real economic growth, of about the same magnitude, was the healthiest in the European Community. With no obvious external factor to account for the sharp reversal in the British economic performance in the past two years, the suggestion that the Treasury under Lawson badly misread the signals from the time of the stock market crash in 1987 onward is difficult to challenge.

From early 1988, the U.K. authorities pursued a relaxed monetary and exchange rate policy that kept interest rates down and money plentiful, apparently in the belief that consumer confidence needed a stimulus after the stock market collapse. The misjudgment was compounded by Lawson's budget in the spring of that year. The budget was highly acclaimed for its innovations in taxation policy, but in economic terms it

A LACK OF COMMUNITY VISION?

Seventeen years after it joined the E.C., the United Kingdom is still having serious problems adjusting to it. In many important respects the United Kingdom is an impeccable member. It obeys the rules, leads the way in the deregulation of industry and in market-opening initiatives, and has pressed successfully for significant changes in E.C. policies. British Prime Minister Margaret Thatcher's claim that the Community's finances are in better shape and its agricultural policies less infamous as a result of British pressure is a legitimate one.

Yet Britain conspicuously fails to share its partners' vision of an increasingly unified Community, moving toward a common central bank and single currency with full monetary and economic integration at the end of the road. In a now famous speech at Bruges in 1988, Thatcher rejected the idea of European union and called instead for "an association of independent sovereign states."

Thatcher's approach has created little stir among the British public, where the common reaction to questions of European union is indifference. Nor has it generated much political heat in Parliament. The Labor opposition party favors a more positive approach to the E.C. on some specific issues, notably the Community's Social Charter for workers' rights, but on the longer-term questions of economic and monetary union, its language is strikingly similar to that of the Government.

In sharp contrast, a spirited row has broken out within the Conservative Party itself, where recent calls from Brussels for speeded-up moves toward a close political union of the Twelve have exposed Thatcher to charges from her own supporters that her caution could dangerously weaken Britain's influence in shaping the future of Europe. This fear lay behind the unprecedented challenge to Thatcher's leadership by a pro-Europe backbencher MP last year, but it is most forcefully held by the 32 Tory members of the European Parliament whose relations with the Government have become increasingly fragile as a result.

A meeting between the Euro-MP's and the Prime Minister in January concluded that the two sides "agree on much more than they differ" but nevertheless left the clear impression that the differences remain fundamental. The Euro-Tories in turn have been fiercely denounced by important figures in the party, including its former chairman, Norman Tebbit, for straying from the party line and supporting moves that could—in the latter's view—destroy Britain's right to manage its own affairs.

There is a suspicion that Tebbit, a right-wing populist with considerable influence among Tories, may be exploiting the issue of Europe to pave the way for a candidate of the right, perhaps himself, to take over the Conservative leadership after Thatcher. It also has to be said that while most Tories probably do not agree with his views on Europe, a significantly lower proportion seem disposed to back the pro-European union line taken by the Euro-MP's. Most Conservatives hold opinions between the two extremes, accepting that Britain is irrevocably locked into the Community and welcoming the economic opportunities flowing from the 1992 single European market, but skeptical about early moves toward a European central bank and currency.

The problem for the Tories, however, as it is for the Government, is that events in Europe may soon demand a much more clear-cut commitment for or against the long-term political union of the Community. The intergovernmental conference of E.C. states at the end of the year will consider a potentially dramatic acceleration toward union that could leave Britain seriously isolated within the Community and leave Thatcher facing open revolt by her Euro-MP's. This crisis could be avoided by a radical change of heart toward European union on her part. But such a change in heart would in turn run the risk of a major clash with Tebbit and his allies and a possibly ruinous split in the Conservative Party.

—Alan Osborn

injected considerable spending power into an economy already heating up at a worrisome rate.

By the end of 1988, inflation had begun to gather speed and the balance of trade had started to deteriorate as the consumer spending boom sucked in imports. Within a year, Britain had soared to the top of the inflation league for major industrialized countries, interest rates had more than doubled to 15 percent, and rocketing imports had brought about a massive £20 billion ($32 billion) balance-of-payments deficit for 1989. For Britain's millions of homeowners the year proved grimly memorable as the first for two decades in which housing prices failed to rise—indeed in parts of London and the southeast they fell by as much as 20 percent.

Having rejected, like his predecessor, any increases in taxes to cool the economy, the new Chancellor, John Major, made clear in January that interest rates would stay high for some time to come. At the same time he said that economic growth would fall to 1 percent in 1990—perilously close to recession—inflation would remain at 7 percent until at least the middle of the year, unemployment would rise, and the balance-of-payments deficit would still be as much as £15 billion this year. Accepting that "mistakes have been made," Major presented as somber a picture of the economy in 1990 as any that had appeared under Thatcher's Government.

Major has been given high marks for plain speaking, but skeptics argue that the true position is even worse. The particular worry at the moment is the level of pay settlements in private industry where, following Ford Motor's deal to award a 10.2 percent increase, the going rate is now firmly into double figures.

Such deals are rapidly eroding the gains in productivity the British industry achieved in the early and mid-1980s. Britain's unit labor costs are now rising 5.6 percent annually, twice as much as in 1988, while the growth in manufacturing output has dropped from 7 percent a year ago to about 2 percent in the early part of 1990.

In relying solely on a policy of high interest rates to curb demand and eventually bring wage settlements and prices down, the Government runs the risk of continued and even rising unpopularity. But with more than two years before an election need be called, Thatcher may believe the gamble is worth taking. Conservative Party strategists argue that there may be no lasting revival in the Government's fortunes until 1991, but then, given success on the inflation front, the way could be open for a rapid and dramatic cut in mortgage rates. In 1982, rates were cut from 15 percent to 10 percent, and there was a commensurate rise in Conservative support in the polls.

This script may be open to challenge in several ways. It may be, for instance, that high interest rates (which could go higher still) will merely encourage increased pay demands as the costs of home-buying rise. A new run on the pound sterling could undo the Chancellor's balance-of-payments forecasts and make its own input into the inflation front. The Government could find itself exposed to charges of cynicism and political opportunism if it moves with unseemly haste to relax the squeeze in 1991.

But having said that, it should be added that the link between an expanding economy fueled by low interest rates and the Government's rising popularity in the polls is well established, if not inevitable. The Government may well find itself in such disfavor during 1990 that its hopes of re-election go up in smoke, but it is nowhere near that situation at the moment. €

Alan Osborn is a political writer for *The Daily Telegraph* of London.

FACTS AND FIGURES

GOVERNMENT

• Form of Government: Constitutional monarchy, with a multiparty, bicameral parliament consisting of the House of Lords and the House of Commons
• The House of Commons is made up of elected members, while the House of Lords consists of titled nobility whose seats have been passed down from generation to generation. However, some Lords are commoners who have been ennobled by the Queen and cannot pass on their seats.
• Sovereign: Queen Elizabeth II
• Prime Minister: Margaret Thatcher
• Major Political Parties: The ruling Conservative Party, led by Margaret Thatcher; the Labor Party (the official opposition party), led by Neil Kinnock; and the Liberal and Social Democratic parties.
• Longest Serving Prime Minister: William E. Gladstone, 14 years. Margaret Thatcher is now in her 11th year as Prime Minister.
• British Ambassador to the United States: Antony Acland
• U.S. Ambassador to Britain: Henry Catto

DEMOGRAPHICS

• Population: 57 million
• GNP: $812 billion
• GNP Per Capita: $14,000
• Currency: Pound Sterling. $1 = £0.595
• Languages Spoken: English, Welsh, and Gaelic

BUSINESS

• Leading British Industries: British Petroleum Company; Shell Transport & Trading; B.A.T. Industries; Imperial Chemical Industries; Electricity Council; British Telecommunications; British Gas; Hanson; Shell U.K.; Grand Metropolitan
• At the end of 1987, total U.S. investment in Britain was valued at $45 billion, representing 36 percent of U.S. investment in the European Community.
• Britain is the largest investor in the United States with total investments of $102 billion. Britain's investments in the United States are twice those of Japan.
• The average daily turnover of London's foreign exchange market was about £110 billion ($185 billion) in 1989, making it the largest such market in the world.

GEOGRAPHY

• The United Kingdom is made up of England, Wales to the west, Scotland to the north, and Northern Ireland.
• London is the capital of England; Edinburgh is the capital of Scotland; Belfast is the capital of Northern Ireland; and the largest city in Wales is Cardiff.
• Land Area: 92,247 square miles
• Climate: Average temperature in the winter is 40 degrees, and the average summer temperature is 60 degrees. Average annual rainfall is between 30 and 40 inches.
• Natural Resources: Coal, oil, and gas

SPORTS

• The most popular participatory sports in Britain are walking, billiards, swimming, darts, and golf.
• The most popular spectator sports are greyhound racing, horse racing, motorcycle sports, and soccer.

MISCELLANEOUS

• Religions: Church of England, Church of Scotland, Roman Catholicism
• Most Popular Tourist Attraction: Madame Tussaud's wax museum, London
• Most Popular Free Tourist Attraction: Blackpool Pleasure beach
• Most Popular Theater Show: *Phantom of the Opera*
• Most Popular Toy: Thundercats
• There are 114 distilleries in Scotland that export 84 percent of their produce. One-fifth of the whisky produced in Britain is drunk in the United States. Britain has 75,000 pubs.
• Britain has 400 professional arts festivals, 300 theaters, 1,300 cinema screens, and 2,400 museums or galleries.
• An estimated five million people (mainly women) play bingo in commercial bingo halls.
• Prince Charles recently published a book outlining his 10 principles of architecture.

USEFUL BUSINESS INFORMATION

• Commercial Office
British Embassy
3100 Massachussetts Avenue, N.W.
Washington, D.C. 20008
Tel.: (202) 462-1340

• British Information Service
845 3rd Avenue
New York, N.Y. 10022
Tel.: (800) 223-5339

• British Trade Development Office
845 3rd Avenue
New York, N.Y. 10022
Tel.: (212) 593-2258

• British Tourist Authority
40 West 57th Street
New York, N.Y. 10019-4001
Tel.: (212) 581-4700

Other British Tourist Authority offices in the United States are located in
• Chicago: (312) 787-0490
• Dallas: (214) 720-4040
• Los Angeles: (213) 628-3525

• For information regarding trade fairs in Britain, contact any of the above offices for a pamphlet outlining the main expositions in the coming year.

GLASGOW'S ·NEW· IMAGE

One much-quoted Glasgow cynic has observed that the only tangible effect of the city becoming the European capital of culture has been an increase in the price of a glass of beer.

The joke is significant, not for its originality or humor, both of which are minimal, but because it perpetuates the perception of Glasgow throughout the rest of the United Kingdom as a city where drunks outnumber aesthetes.

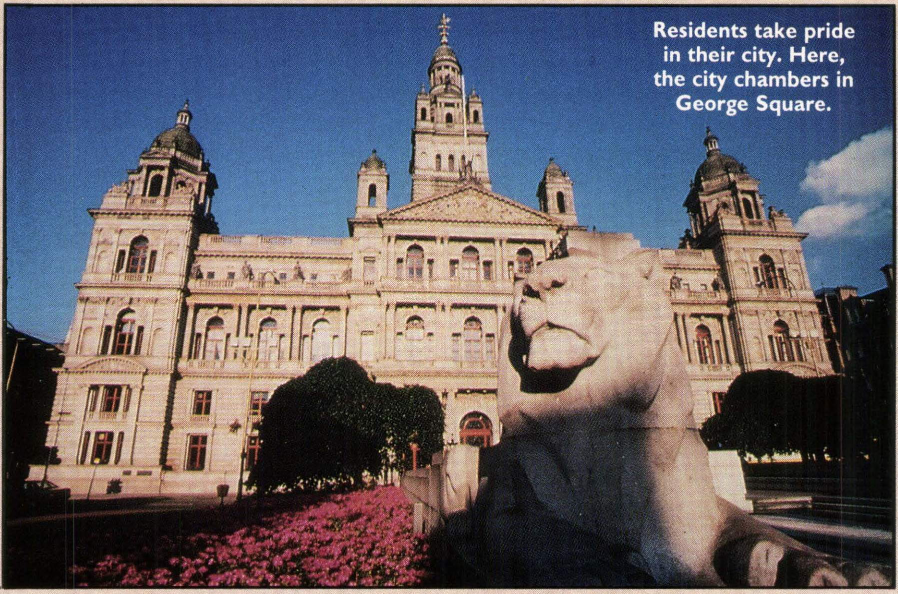
The image of Glasgow, still rooted in the 1960s, is of a highly industrialized shipbuilding city, famous largely for inner-city dereliction (The Gorbals, now much changed, remains a synonym for slum housing) and the rivalry and religious bigotry of its two football teams, the Protestant Rangers and Catholic Celtics.

The only slim association with the arts was the legendary and now deceased Glasgow Empire, the theater known as the graveyard of English comedians because of the hostile reception audiences invariably gave to acts from south of the border.

So when Glasgow successfully bid to become the European capital of culture for 1990, the decision was greeted with some amazement outside the city and no little fury in nearby Edinburgh, the capital of Scotland, which mounts the internationally famous three-week-long arts festival each summer and which felt that the honor should more naturally have been its, as did other U.K. competitors with more of an arts heritage, Bath and Cambridge.

But the arts community in Britain was not surprised. It had followed with enthusiasm and congratulation Glasgow's 10-year transformation from an industrial casualty (with the demise of the shipbuilding industry) to one of the United Kingdom's first postindustrial cities, basing its economy around the service industries and most notably around the arts.

The gross turnover of what Glasgow now terms the "arts industry" was more than £204 million ($343 million) in 1988 when the city received two million tourists, more than twice what it was in 1983.



Residents take pride in their city. Here, the city chambers in George Square.

GREATER GLASGOW TOURIST BOARD

'THERE'S A LOT GLASGOWING ON' IN THE 1990 EUROPEAN CULTURAL CAPITAL.

DAVID LISTER

The arts employ 8,000 people directly and give further employment to 6,000 people in the leisure and recreation industries. The city is now one of Europe's leading investment centers with £2 billion ($3.43 billion) of current investments and potential developments in planning.

Attendance at arts events during this year of culture is projected to be nearly six million, providing an additional 3,900 jobs.

Edward J. Priel, head of the Greater Glasgow Tourist Board, admits that two years ago "the definition of a tourist in Glasgow was probably someone who was lost," but now he says, "I don't see why anybody has to apologize for Glasgow as a cultural center.

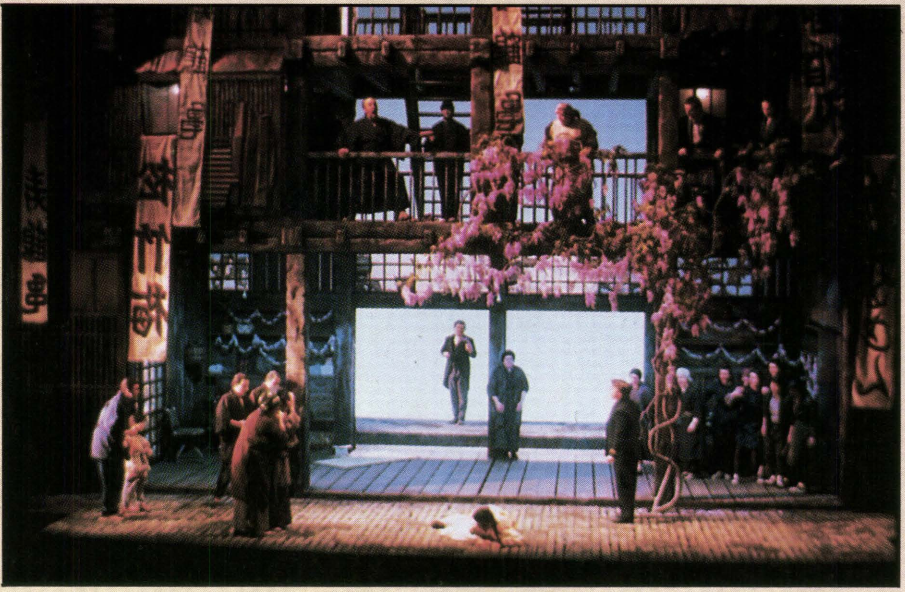
"We are home to all of the performing arts organizations in Scotland: the Scottish Opera, the Scottish Ballet, the Scottish National Orchestra, the Citizens Theater, the B.B.C. Scottish Symphony Orchestra; and in the visual arts we are home to Charles Rennie Macintosh (whose art deco cafés and buildings can still be seen), the Glasgow School of Art (responsible for a much-acclaimed wave of modern art in the last 20 years or so), and the Burrell Collection" (which along with the city art galleries are among the most visited attractions in the United Kingdom).

He could also have mentioned radical new venues like the Tramway Theater, converted from an old streetcar terminal, in which theater director Peter Brook chose to stage his epic version of the Mahabarata, snubbing not only Edinburgh but also London two years ago.

With credentials largely proven, the question was how to celebrate the accolade of the cultural capital of Europe. There was no set formula. Since the E.C. Commission invented the idea in 1985, Athens mounted an orthodox three-week arts festival, Florence chose not to have a theater program at all, and last year Paris found itself with higher priorities, such as commemorating a revolution, and contented itself with designing a logo to go on shopping bags.

Glasgow has decided to go whole hog: a 365-day festival of culture, with some event to take in every day of the year. These events range from major international blockbusters like Pavarotti, the Bolshoi Opera, and exhibitions of Degas and Van Gogh to more ethnic celebrations, such as a 1,000-year history of the city in 22 massive brick vaulted arches underneath the main railway station, and a new play, *The Ship*, in which actors will perform alongside shipyard workers, with the evening culminating in the launch of a ship on the River Clyde.

More than 2,000 projects, many of them from local communities, will take place over the year, and the city will inherit a permanent legacy, a £26 million ($43.7 million) concert hall. There is even a 1990 tartan.



SCOTTISH OPERA/ERIC THORBURN

Glasgow is home to all the performing arts organizations in Scotland including the Scottish Opera, shown here performing *Madama Butterfly*.

The whole jamboree will cost at least £40 million ($67.2 million). Sponsorship is still being raised for individual events, and the Government and local councils have set aside money, but half the money will have to come from ticket sales. So the festival office and tourist board are working at a frenzied pace to entice tourists from the the United States and elsewhere to visit Glasgow.

The first step has been to hire the international advertising agency Saatchi and Saatchi, which for many years was responsible for publicizing the Conservative Party and British Prime Minister Margaret Thatcher. Saatchi has come up with the slogan, "There's A Lot Glasgowing On."

Andrew Horbury, account executive, says, "People are put off by the word culture so we're presenting it as entertainment, featuring pop groups and Russian pole vaulters on the posters." Indeed, sports seem to be taking on an increasingly large role in the yearlong festival, with volleyball, soccer, and even kite flying among the "cultural events."

One million brochures have been printed (including the largest-ever Braille printing in the world), and travel agents are being urged to recommend weekend breaks to Glasgow to all visitors to the United Kingdom.

The first weeks of the year of culture have seen a massive New Year's Eve party followed by the first art exhibitions and theatrical presentations, which have received warm but not glowing reviews. Snow, gales, and generally very cold weather do not make for the best atmosphere in which to mount arts events. The real test will be in the spring when the city will come under the national and international microscope.

To succeed, the year of culture will not only have to pay its bill. It will also have to counter criticisms that local people will not benefit as much as tourists.

But there is already evidence of civic pleasure in talking to local people, a pleasure enhanced by the cleaned and floodlit city center buildings.

Jim Waugh, who started Glasgow's first jazz club and now works for the festival office, says, "People are beginning to have pride in their city once again. Twenty years ago they took pride in the wrong things, the squalor and the macho image. But now they look at the illuminated buildings and say, 'I'd never really seen that before.' " €

David Lister is arts correspondent of *The Independent*.

AROUND THE CAPITALS

ROME

A Fistful of Lire

Civitella Alfedena is a small village in the mountains of Abruzzo, a central region in Italy from which many people emigrated for the Americas because of past economic straits.

Today, however, Civitella's riches have made it the focus of the Italian media. The daily newspaper, *Il Corriere della Sera,* did a check of the savings accounts at the tiny local bank and found that the 309 native-born *civitellesi,* mainly old farmers and retired senior citizens living on state and regional pensions (there is only one school with no more than eight pupils), have deposited almost $32 million. This means that, on average, each of them has saved some $103,000, a very remarkable accomplishment given the fact that it is three times the average savings in Milan, considered Italy's economic capital.

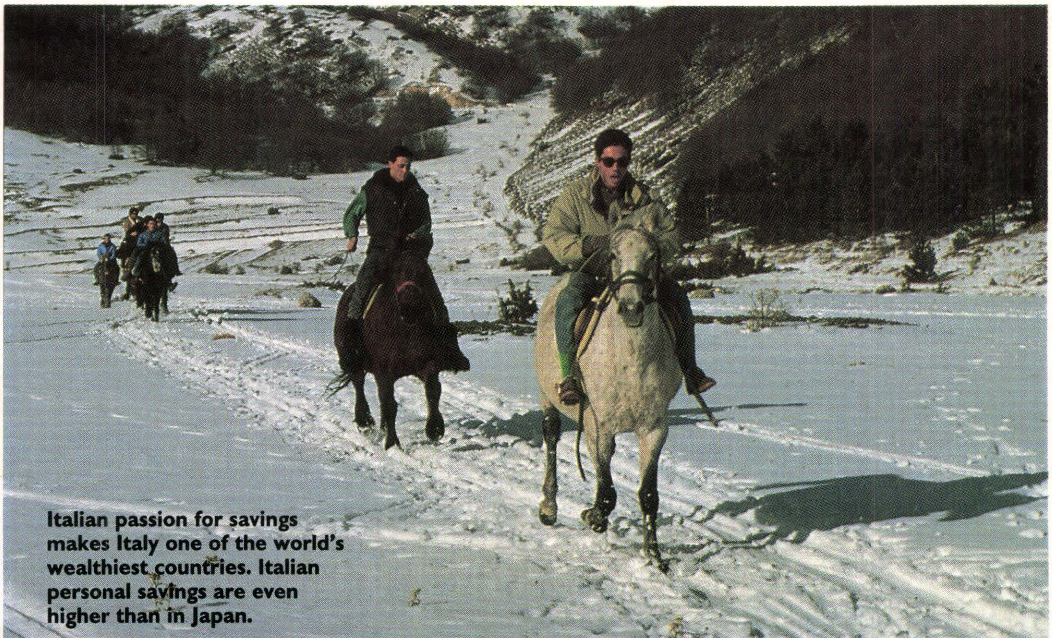
The story created quite a stir: Was there something "fishy" about the activities of this town? Absolutely not. In fact, what seems exceptional is not unique. "Just look into the savings accounts of our neighbors in the nearby towns of Villetta Barrea, San Donato, et cetera," say the *civitellesi,* irritated by the intrusion into their privacy.

But Civitella's situation is not even unique when compared to the savings habits in the rest of Italy, especially the small towns and villages. The spotlight on Civitella has brought to the forefront a typical Italian phenomenon little known abroad: a passion for savings that outdoes even that for soccer.

This passion actually makes Italy one of the world's wealthiest countries, even if international statistics do not bear this out completely. For while the official numbers speak of the global national wealth, in Italy, personal savings are very high. These are higher even than in Japan, the record holder of so-called institutional savings (that is, those of the public and private financial groups, such as banks, insurance companies, and investment funds).

This phenomenon is caused by several factors. Above all, there is the so-called non-regulated ("black") and therefore not taxable third economy. A large role is also played by the concept of family, whose members, especially the young, share expenses and the burden of newly formed families.

One reason the citizens of Civitella cite for their wealth is that the town that once lived poorly on agriculture and dairy products today has converted to tourism. But the main reason, widespread throughout Italy, remains the traditional desire to be financially prepared for what the future may bring. Bank accounts, post office savings accounts (which work along the same lines as bank accounts), and other "piggy" banks, where some money is deposited each month ("for old age, because one never knows") make Italy a very affluent country, even though the *civitellesi* and the rest of Italians may not like to spread the news.—Niccolò D'Aquino



Italian passion for savings makes Italy one of the world's wealthiest countries. Italian personal savings are even higher than in Japan.

ITALIAN GOVERNMENT TRAVEL OFFICE

COPENHAGEN

Legislating Change

A proposed law is giving trade unions their first serious challenge to their hitherto almost undisputed power to maintain closed shops. And Denmark's largest political party, the Social Democratic Party, faces a sharp drop in income in the wake of a law that will prohibit trade unions from subsidizing political parties without the explicit consent of its members.

Trade unions all over the world, including the United States, have experienced a sharp decline in membership and political influence throughout the 1980s. But not so in Denmark. Membership has actually risen in absolute and relative terms until it is now more than 90 percent of the work force, the highest proportion in the E.C., and probably in the non-socialist world. Close to two-thirds of all employers are members of the various manufacturing and trade associations, and the proportion has grown in response to the growing union membership. Unlike the practice in the United States and many European countries, the unions negotiate national collective wage agreements that are implemented locally with only minor changes.

Now the very basis of each union's strength, the membership base, may be eroded by a proposed law that forbids anyone from being fired on account of union affiliation. Several cases of workers who were fired—not for being unionized, but for leaving the union affiliated with the Social Democratic Party and joining another union—received a lot of publicity early this year.

Parliament is expected to pass the law before the summer recess, together with two other laws. One of these permits any union member to refuse to pay that part of his union dues that will be passed on to any political party—in practice, the Social Democratic Party. The other law will require all political parties to publish their accounts, so any contributions will be revealed.

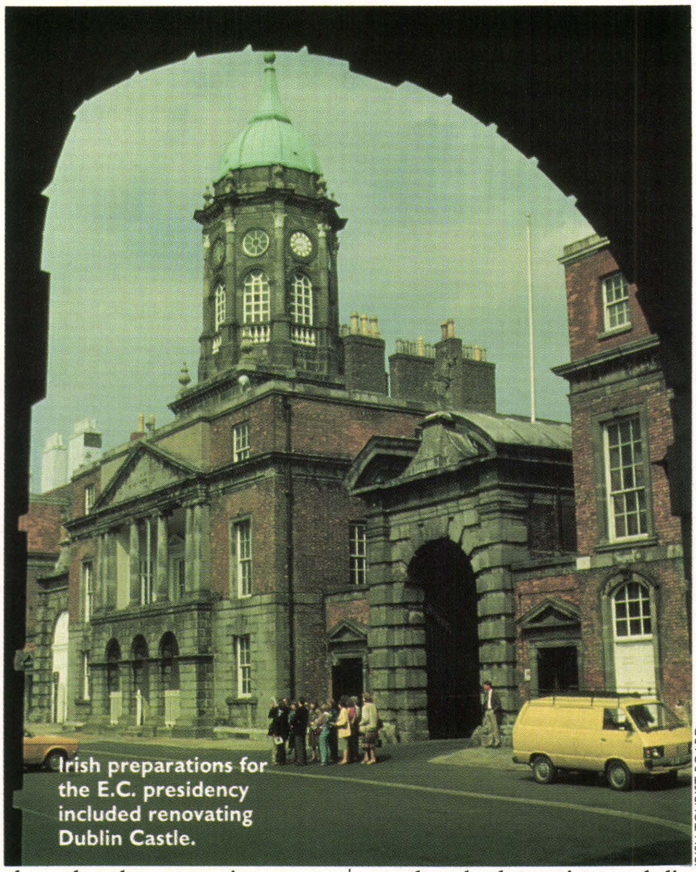
The present partners in the nonsocialist government have always been happy about the first two laws, but both the Conservative and Liberal parties have felt it convenient not to disclose how much financial support they have received from individual corporations and trade associations. Now the laws have been linked by a majority in parliament. One union, the Office Workers' Union, has already pre-empted the new law, introducing an annual coupon in the union magazine allowing members to refuse to support any political party. By counting the number of coupons, the union can reduce its political contributions proportionally. Some people want a more individualized approach to the problem, with a reduction of union dues.

The bottom line is certain to be a reduction of political contributions from unions, organizations, and individual corporations to all parties. Such a reduction in funds is troubling news to the political parties, because almost all the parties have lost members, which would serve as alternative sources of revenue.—LEIF BECK FALLESEN

DUBLIN

Running the Community

Although this is already the fourth time that Ireland has taken over the rotating E.C. presidency since joining the Community in 1973, it has attracted much more public interest and media attention than the three previous occasions. The same can be said of the Irish Government. Indeed, for three months prior to taking over the E.C. reins, the Taoiseach—or Prime Minister—Charles Haughey, held regular Sunday meetings of the senior government ministers and officials in his own residence outside Dublin to ensure maximum preparation.


Irish preparations for the E.C. presidency included renovating Dublin Castle.

IRISH TOURIST BOARD

Opposition politicians have complained that Haughey is "personalizing" the E.C. presidency, although they do acknowledge that it is important for Ireland to be seen to do a good job during a challenging—and critical—period in the E.C.'s relations with the rest of Europe and the United States.

The fact is that the role of the presidency has grown enormously since Ireland first held it in 1975. For a start, the then nine member states have since increased to 12. Moreover, since the Single European Act (SEA) came into force in 1987, the European Council of Heads of State and Government has become part of the basic Rome Treaties and is no longer just an "appeal forum" to solve the latest internal disputes over budget contributions or agricultural surpluses. The SEA also made European Political Cooperation (EPC) part of those Treaties. This is the process whereby the E.C. Governments try to coordinate foreign policy and discuss the political and economic aspects of security. EPC is thus the principal means for the Twelve to draw up their common position on items as diverse as Cambodia, emergency aid for Poland and Hungary, and the uprising on the West Bank.

For a small country like Ireland, the task of coordinating the E.C. position on international developments is formidable. Ireland has no diplomatic representation in most countries outside the E.C. and has to rely on the information sources of the larger E.C. partners when necessary. In the case of Eastern Europe, for example, the only permanent Irish diplomatic mission is in Moscow. Such handicaps have not prevented previous Irish presidencies from winning praise for hard work and professionalism.

This time, however, the coordination task is even more daunting. On the internal front, the Irish presidency is giving priority to the preparations for the intergovernmental conference on the second and third stages of Economic and Monetary Union (EMU), the implementation of the Social Charter, and, of course, the further advance toward the single market of 1992. Haughey has also announced a special Irish interest in improving the environment and has even gone so far as to dub his six-month stint the "Green Presidency."

He has also emphasized the need for a good working relationship with the E.C. Commission. To this end, the 17-member Commission and government ministers from the Twelve came to Dublin in January for a series of plenary and bilateral meetings to draw up the agenda for the first half of 1990.

The Commissioners expressed their satisfaction with both the working sessions and the social functions that Haughey organized for them. The meetings were held both in luxury hotels in the more scenic regions in the West and the South and in historic Dublin Castle, which was completely refurbished for the presidency. (Thanks to the building work required, the foundations of a 16th-century tower and other artifacts were uncovered and will be on display to the public from the summer onward.)

Press facilities were regarded as technologically most advanced, for Ireland had taken full advantage to study those provided by the preceding Spanish and French presidencies. In addition, the government has appointed extra press and public relations officials in Brussels, Strasbourg, and Dublin, and a bigger executive jet has been hired to get ministers and officials to and from their meetings more quickly.

As a car rental slogan suggests, smaller countries who take over the E.C. presidency have to "try harder." But a job well done strengthens the links

between the smaller and larger E.C. members. When a country with a population of little more than three million can help run a Community—and world trading giant—of 320 million for six months, it can only increase legitimate national pride and dispel the suspicion that it might be only there for a free ride.
—JOE CARROLL

AMSTERDAM

Thinking Nuclear Again

"We must again begin thinking about the use of nuclear energy," Dutch Economic Minister, Koos Andriessen, told an audience at a Hague symposium celebrating the 25th anniversary of the Dutch energy board in January.

But several Members of Parliament present at the symposium claim it would be better to study greater use of the strong North Sea winds, build more windmills, and possibly construct storage facilities for solar energy.

Ever since the subject of nuclear fuel has come up, Dutch citizens, particularly the "Greens," have protested its use in the Netherlands. It remains an emotional issue.

In the 1970s, sometimes violent demonstrations against nuclear energy led the Government (then Labor) to postpone building three planned nuclear reactors.

The opposition pressed for outright cancellation of the nuclear reactors. The churches also condemned nuclear energy. A government-staged "broad social discussion" resulted in general condemnation of nuclear energy. The 1979 near-accident in Harrisburg, Penn., stiffened Dutch opposition, and the 1986 Chernobyl accident dealt the final blow to nuclear energy in the Netherlands.

The lack of more nuclear energy has not been a problem for the Netherlands, however, which gets 51.5 percent of its energy from gas, 36.3 percent from oil, 10.4 percent from coal, and 0.3 percent from nuclear energy. (A small boiling water reactor in Doodewaar and a pressurized water reactor in Borsselen together represent no more than 500 megawatts.)

The Netherlands has been blessed with a vast quantity of natural gas. It is the world's fourth largest producer of natural gas after the Soviet Union, the United States, and Canada. Recent figures show that proven gas reserves will last well into the 21st century.

Natural gas represents an important slice of Dutch national income and is also an important export to surrounding countries. The Netherlands is now eyeing possible supplies to the Soviet Union and East European countries. The Netherlands counts on economic growth in Eastern Europe, as those countries become more environmentally aware and turn to gas that burns cleaner than coal and oil.

But increased nuclear power would help the Dutch Government's conservation goals. The Government is emphasizing energy conservation, not only because conservation helps abate environmental pollution, but also because the Netherlands depends on oil imports from abroad. Although 20 percent of the Netherlands' own oil requirements are met from small fields in the North Sea and onshore, oil and oil products are imported for the transport sector and as feedstock for the petrochemical industry. Oil is imported mainly from the Organization of Petroleum Exporting Countries. Also, gas revenues run into billions of guilders, but gas prices are linked to oil prices. Gas revenues reached an all-time high of $13.0 billion in 1985, but partly owing to the large fall in the dollar exchange rate and the oil price in dollars, this link in prices made gas revenues fall to just a little more than $4.8 billion in 1987.

In January, Minister Andriessen told his audience at the symposium that, in addition to energy conservation, diversification into nuclear energy is important to safeguard supplies.

He noted that safety risks and problems concerning radioactive waste could be strongly limited. "We have advanced a great deal over the past few years," he assured his audience. "In Sweden and other countries new, safer nuclear energy centers are being constructed that will be built early next century. For example, the Pius reactor—the Swedish design for a new generation of nuclear reactors—will be one hundred times safer than existing ones.

"Physicists believe that problems of radioactive waste can be solved within 10 to 15 years," Andriessen said.

One Member of Parliament supported him. Dr. Ad Lansink, an expert in nuclear matters, told the audience, "the Dutch don't live on an island and we must have courage."

But environmental groups in the country are still wary. They claim the Netherlands is too small a country to take risks, saying that the Netherlands could be wiped off the map by an accident like Chernobyl.—NEL SLIS

LISBON

Stubbornly Stalinist

At least one European is watching the turbulent and historic changes in the East bloc with a decided lack of enthusiasm. He is 76-year-old Alvaro Cunhal—the unreformable boss of Portugal's Communist Party (PCP), which in the country's revolutionary heyday 15 years ago was both a powerful and pivotal force in domestic politics. Cunhal recently told an Italian magazine that Portugal would never have West European-style parliamentary democracy even if the alternative risked a return to fascism.

Circumstances have forced the PCP into a tactical retreat from this position, but there are few signs that the PCP's hard-line and unapologetically Stalinist central committee will cede to growing grass-roots demands to revamp its message and take on board the seminal events now sweeping Europe.

Cunhal is as likely to change political direction as he is to be nominated to the papacy. Perhaps Portugal's most astute politician, he has been secretary general of the PCP, which he joined at age 18, since 1961. A fervent defender of the working-class origins of the party, Cunhal himself was born into a comfortably bourgeois family and read for a law degree. A leading opponent of the Portuguese dictatorship, he suffered many harsh years of imprisonment and torture. To crown his career in the party, on November 9, 1988, he was awarded the Kremlin's Order of Lenin in recognition of his party's distinguished role as pre-*perestroika* Moscow's most loyal ally in Western Europe.

Today, however, Cunhal finds himself increasingly attacked by new generations who are demanding party reform, modernization, and recognition of the new direction of European communism on the threshold of the 21st century. Recently he admitted he might stand down during the coming year but made clear that his successor would have to be a mirror image of himself.

This position so exasperated his critics that they formed an opposition group that could well be the incubator of a splinter party embracing Mikhail Gorbachev's policies.

Indeed, this challenge comes at a time when the PCP is digesting a run of electoral reverses and dwindling support. In 1979, party membership officially stood at 195,000, and its share of the vote had risen from 14.6 percent in 1976 to nearly 20 percent. Today, this figure has fallen to 12 percent.

The party officially claims its current membership stands at around 200,000, although observers suggest the true paid-up membership is considerably less, perhaps as low as 100,000 (in a country with seven million voters).

The PCP has reluctantly acknowledged *perestroika* as right for the Soviet Union, but the party fiercely defends the old orthodoxy wherever it survives. PCP party theorists scorned the Eurocommunist wave that washed briefly over other major Western parties in the late 1970s. Its subsequent disappearance served to vindicate them and enhance reluctance to embrace Gorbachev's ideas of *perestroika* and *glasnost.*

Indeed, Cunhal himself has progressively distanced his party from its once closely allied Soviet counterpart. Now that his last East European old-style ally—and source of generous financial support—Erich Honecker has been swept from his pedestal in East Germany, Cunhal has become closer to Cuba, China, and Vietnam holdouts and such Third World conservatives as Angola's ruling Communist Party, the Liberation of Angola-Workers Party, and the South African Communist Party and its allies in the African National Congress than to any European force.

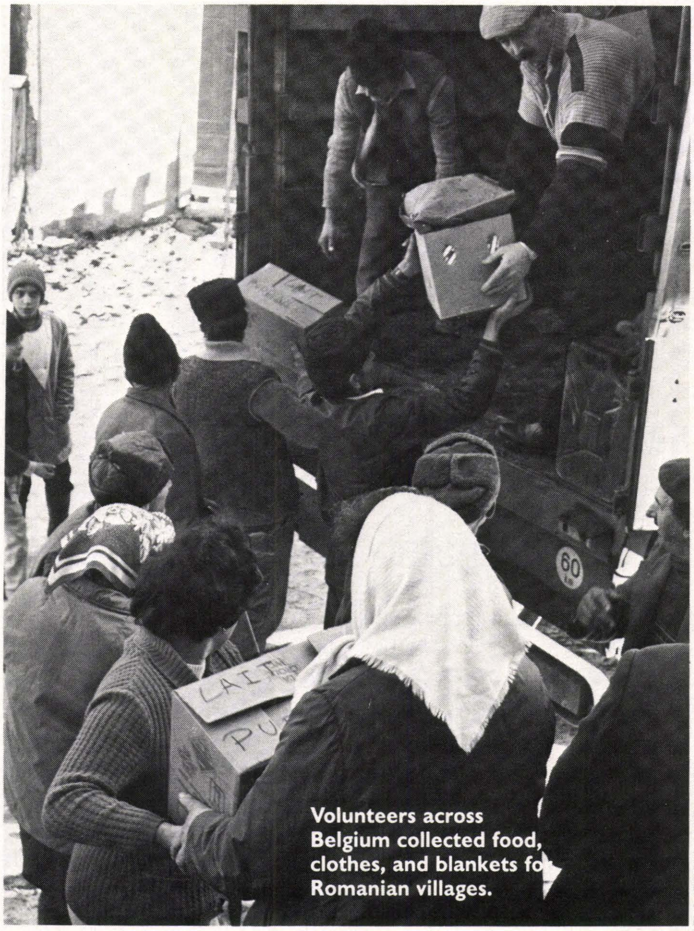
As a recent show of strength, he expelled leading PCP dissident Zita Seabra, a senior parliamentary deputy and former party central committee member, from the party late last year for keeping up a public barrage of demands for internal renewal and democratization. She had published a book, *Calling a Spade a Spade,* in which she attacked the Stalinist orthodoxy of the party hierarchy. Seabra's riling against the party's narrow pseudoscientific analytical base was summed up with the following words: "This scientific determination of events is one of the worst Stalinist legacies left to many Communist parties. It encourages a wide gulf between propaganda and reality and feeds myths."

Despite the vitriol, Cunhal has not wavered. He and his central committee comrades face a stiff test at the party's extraordinary congress scheduled for later this year, in which the party will debate the current crisis in socialism. And although it will be tough to keep the lid on dissidence and criticism, there are signs that the wily Cunhal is preparing to hand over the reins after ensuring that his successor will deliver more of the same.

—KEN POTTINGER

BRUSSELS

From Belgium With Love


Volunteers across Belgium collected food, clothes, and blankets for Romanian villages.

CHRISTOPHE LAMFALUSSY

The story of Villages Roumains began in a small Brussels basement in December 1988, where 12 Belgians, struck by press reports about the dismal situation in Romania, decided to take action. Now, more than one year later, in the aftermath of that country's revolution, hundreds of Belgians have brought food, books, and medicines to small villages located in places overlooked by international humanitarian organizations. (Belgium, in fact, was so involved in the Romanian rescue efforts that the first foreign minister to land in Bucharest, France's Bernard Kouchner, was taken to be a Belgian official. While Kouchner was apparently angry at the mistake, Belgians took pride in it.)

Operation Villages Roumains was born in the Belgian capital when it became clear that Romania's then dictator, Nicolae Ceausescu, intended to pursue his "systematization" plan to level about half of the country's 13,000 villages and to move the peasants into "modern" flats. Reports on what had already taken place in 1988 were scarce, but Belgian television broadcast an inside view that made the headlines. Particularly moving was an interview with dissident Doina Cornea who launched an appeal to halt Ceausescu's plans for systematization.

Moved by her appeal, the 12 Belgians decided to launch an operation against such destruction, under which each Romanian village would be adopted by a Belgian town. The plan worked: By the end of 1989, more than 400 villages were twinned—although only on the Belgian side. For while most Belgian mayors tried to reach their counterparts in Romania with letters, only a handful got a reply from the terrorized population.

Despite the 1,200 miles that separate Belgium and Romania, the first pictures to be published from the East European country of its revolution narrowed that distance drastically. Volunteers across Belgium collected food, clothes, and blankets in an unprecedented move of solidarity. In less than a week, more than 2,500 tons of goods were dispatched to civic centers, churches, and homes, and just before New Year's Eve, the first volunteers embarked in truck convoys for the 60-hour trip to their adopted villages.

Thanks to its door-to-door concept, Villages Roumains has been the only organization allowed to operate directly in remote villages. Some convoys were stopped by soldiers, but most succeeded in reaching their destination. When truck driver Mathieu Lejeune, for example, arrived in Atia, a small hamlet in the Carpathian mountains, its inhabitants had not seen oranges for years. With tears in their eyes, they unloaded the 15 tons of donations from the Belgian town of Verviers. "Never before had I seen such a sight," said Lejeune. "When one old lady started crying, I had trouble controlling myself. I will come back. I've promised myself that."

This special human contact is part of the philosophy of Villages Roumains' creators. Says Paul Hermant, a co-founder of the group: "We want to set up channels of solidarity in Europe. We believe that a Europe without frontiers must be established through such links. The volunteers who went to Romania sought no government approval. They sent no food through established international organizations. They were independent."

Indeed, the idea has spread throughout Europe. Whether by truck or by train, such humanitarian help has made its way to Romania from France, Switzerland, the Netherlands, and Denmark.—CHRISTOPHE LAMFALUSSY

ATHENS

Still Watching Albania

In the interval between the toppling of the Ceausescu dictatorship in Romania and the violence in Azerbaijan, the eyes of the world turned briefly to Albania. Was the last stronghold of Stalinism in Europe about to fall as well? Reports emanating from Yugoslavia of demonstrations and shootings in Albania turned out to be exaggerated, if not invented. Visiting journalists found no sign of unrest, and attention switched elsewhere. But for Greece the situation in Albania remains a constant preoccupation.

Concern focuses on the human rights of the Greek minority of "Northern Epirus" (south Albania), estimated by Athens to number some 300,000 out of a total population of three million. The human rights concern was dramatically highlighted by the conservative Foreign Minister in Greece's all-party coalition government, Antonis Samaras, when in December he expressed the hope that "the Greek Christian minority in Albania will soon be able to celebrate Christmas freely, as the Romanians are doing today."

Samaras's remarks were spurred by allegations that a young Greek Albanian, Odysseus Prassos, had been tortured to death late last year after he and his three brothers were caught trying to cross the border into Greece. On January 5, the Albanian Embassy in Athens played a videocassette to select foreign correspondents purporting to show the Prassos brothers happily celebrating the New Year, but Greek officials were not convinced of its authenticity. Their skepticism deepened when a request for consular access to the family was refused by Tirana on the grounds that it would undermine confidence between the two countries.

Angry demonstrations in Athens ensued, led by representatives of the Orthodox Church and the strong Northern Epirot lobby in the United States and culminating in a march on the Albanian Embassy, where the Albanian flag was burned. Cries of *"enosis"* (union with Greece) were heard in the streets for the first time since Cyprus's anticolonial struggle 35 years ago, and Bishop Sevastianos of Konitsa, an elderly firebrand and scourge of the Albanians, proclaimed, a trifle prematurely: "Christ is risen, brothers, and Northern Epirus is risen too." Not surprisingly, the Albanians counterattacked, denouncing this "campaign of lies and slanders" by "rightist circles and chieftains of the Orthodox Church."

But Greek exiles from Albania claim that the picture is indeed grim for the minority. "Greek schools are few and far between," says Jim Papas, chairman of the U.S.-based Northern Epirus Action Group, "and with religion completely outlawed you can be imprisoned for 10 years or more for making the sign of the cross." Tens of thousands of Albanians, many of them Greek, are believed to be held in labor camps.

In an effort to reduce tension, Albania's Foreign Under Secretary Sokrat Plaka visited Athens at the end of January. In addition to a hail of eggs and slogans from demonstrators, he was welcomed by some tough talking from Samaras, who told him that "the key to improved relations lies in Tirana and not in Athens." The rights of the minority dominated their discussion, and afterward Samaras said he believed the Greek ambassador in Tirana would soon be allowed to see the Prassos family.

For his part, Plaka, speaking to the press, accepted that the Greek minority (which Albania claims to number only 58,000) was "a factor in bilateral relations," but described it as "a factor of friendship and rapprochement." He maintained that the Greeks enjoy the same rights as all Albanians (which may well be true but is hardly reassuring) and that "nobody in Albania is penalized for his religious beliefs"—failing to mention the ban on expression of those beliefs.

Greece's socialist party, PASOK—which has criticized Samaras's more aggressive stand as likely to be counterproductive—sought to strengthen links with Albania when in office before last June, hoping the lot of the minority would be improved as a result. In 1987, a 47-year technical state of war between the two countries was lifted, and subsequently trade, cross-border contacts, and family visits increased significantly.

In 1988, too, Albania at last ventured into the mainstream of inter-Balkan cooperation, a project energetically promoted by Greece. This month, officials from the six countries involved meet in Athens to begin preparations for a Balkan foreign ministers' conference, to be hosted by Tirana in October. Further evidence that Albania is not immune to all change came in late January, when the country's leader, Ramiz Alia, announced limited reforms to Albania's monolithic system, including some decentralization in management and elections within the ruling Communist Party. Better days for the Albanians may lie ahead, after all.—PETER THOMPSON

The Schengen negotiations, in the Moselle River Valley, demonstrate how precarious political agreements can be.

LUXEMBOURG NATIONAL TOURIST OFFICE

LUXEMBOURG

Schengen 'Yardstick'

Along the banks of Luxembourg's Moselle River, where the borders of Luxembourg, France, and Germany meet, lies the sleepy little village of Schengen. This spot is where, in June 1985, the Governments of Luxembourg, Belgium, the Netherlands, France, and Germany signed a historic agreement pledging to remove all controls on their common borders that hindered the free movement of people, goods, and services. Civil servants from the five Schengen nations subsequently were set to work out the fine details, including common policies on visas, immigration, asylum, taxation, and the transit of goods.

These efforts coincided with the E.C.'s own efforts to eliminate all border controls by 1992. Thus the Schengen negotiations were seen as a yardstick against which to gauge potential progress toward the barrier-free Europe.

The Schengen agreement was scheduled to be signed in December 1989 and to go into effect in January 1990. But a last-minute hitch has meant that it will be at least another six months before the goal is achieved.

West Germany threw a spanner into the works at the last moment by insisting that a provision be added to the agreement to give the 18 million East German citizens the right to free circulation throughout Schengenland. The other four countries balked at the idea of impoverished East Germans being given full rights to live and work in their territory. The agreement has therefore fallen through for now, until a new solution can be found.

While recent developments in Eastern Europe could not possibly have been foreseen in 1985, the Schengen experience shows how precarious political agreements can be when trying to keep pace with evolving world events. Considerable efforts are therefore now being made by the E.C. to ensure that its 1992 program is not knocked off course for precisely the same reason.

The disagreement over the East German question helped to mask a deeper, more long-standing dispute, namely Luxembourg's disagreement with its four Schengen colleagues concerning financial cooperation. The fact that these countries have labored unsuccessfully toward a solution to this issue for more than four years has serious implications for the creation of a single market.

At the core of the problem lie Luxembourg's claims that questions of personal income tax should play no role in the Schengen agreement, while the other countries, led by the Netherlands, think there should be closer cooperation by national fiscal authorities to curb increasing tax fraud. Luxembourg insists that it will agree to lift bank secrecy and give details to national authorities in other countries only in cases where suspected tax evaders have been hauled before a national court. It has made clear that it would not sanction the practice of simply increasing administrative contacts to exchange personal financial information (although it has agreed to try to find some solution in the context of the E.C.'s 1992 plan).

Despite these setbacks, some far-reaching proposals have emerged in the Schengen discussions on lifting controls on the free movement of people between sovereign nations. These have included drawing up a list of non-E.C. countries whose citizens would require visas in order to enter Schengenland, pooling police data, cooperating in the fight against drugs, and making rules governing the hot pursuit of criminals across national boundaries.

So, even if the Schengen agreement never sees the light of day, the principles hammered out so far will continue to serve as a useful model for the E.C. as it strives to create its single market.—DENISE CLAVELOUX

MADRID

Blind Business

By the end of March, three new private television stations should be on the air in Madrid with programs that will eventually be beamed across the country to supplement the one regional and two national channels that most Spaniards see.

But one of the new stations, Gestevisión-Telecinco, began grabbing headlines long before it began broadcasting. The cause was a boardroom drama that starred an improbable duo: Italian media magnate Silvio Berlusconi and Miguel Durán Campos, the head of the National Organization of Blind Spaniards (ONCE—pronounced ON-thay).

Berlusconi and Durán, whose companies hold 25 percent each of Telecinco, teamed up with a third shareholder to vote out former chairman Germán Sánchez Ruipérez, a publishing executive at Anaya S.S., another 25-percent owner. When the smoke temporarily cleared, Sánchez Ruipérez was threatening to sue and Durán, who is himself blind, was chairman.

That a charity for the blind would buy a sizable stake in a risky television venture, take an active role in a high-profile boardroom *putsch,* then put its own man in charge of the entire operation, may appear unusual. But, then again, so is the

ONCE, as it is called here.

Under the direction of young, blind professionals like Durán, who was recently elected to a second four-year term as director general, the ONCE has converted its once-modest lottery into the base of an economic powerhouse.

Last year, its 21,000 blind and otherwise handicapped vendors sold an estimated $2.6 billion in tickets for daily and weekly drawings, up from $361 million when Durán's team took over in 1982.

The 1989 sales figure does not include the earnings on billions of pesetas invested since January 13, when the ONCE began to diversify with stakes in banks, construction companies, real estate, and radio stations.

The decision to move from fixed-income investments to variable-income ones drew a variety of criticisms.

Some of Durán's political opponents inside the 51-year-old ONCE said the policy was risking hard-earned pension money and playing speculatory games with the salaries of ticket-sellers, who now average more than double the minimum wage.

Opponents on the outside argued it was unseemly for the ONCE, which is the only nongovernmental agency licensed to run a lottery, to expose itself to corporate mudslinging.

The latter's worst fears were confirmed last year, when the ONCE briefly became involved in the mess surrounding the failed merger of Banco Español de Credito and Banco Central, where ONCE owns a 0.8-percent stake that originally cost $32.4 million.

The ONCE also has a large shareholding in Grupo Construcciones and Contratas, a leading construction company that is another party in the Banesto-Central power struggle, a knock-down, drag-out affair (with a whiff of extramarital sex) that was played out in the nation's newspapers and magazines.

When the Telecinco episode came up, the ONCE was already embroiled in a dispute over the 70-station Cadena Rato radio network. The ONCE says it had worked out a deal to buy 51 percent of the family-owned network (it already owns 17 other FM stations), a claim some family members dispute.

Since both the ONCE and Berlusconi are partners with Anaya in a venture to publish a daily newspaper in Madrid, there is sure to be another free-for-all later this year.

Durán points out that the government puts a ceiling on the ONCE's lottery sales, which compete with its own, and says he has no intention of changing course when there are ways to keep expanding. What's more, he scoffs at those who seek to set special conditions for the ONCE.

"Our society is still overly compartmentalized," he wrote in a newspaper commentary. "The bullfighting business must be reserved for bullfighting impresarios; finance for the financiers....

"The blind should remain blind, the crippled crippled, and all these should stick to the economic activities that society, in a gesture of supreme charity, allows them to develop."

What nobody disputes is that the ONCE, which was formed during the Spanish Civil War to give work to the mostly indigent blind population, now provides job security, educational opportunities, and a sense of well-being to the country's sightless at no cost to the public.—RICHARD LORANT

BONN

Co-determining Success

West Germany has been number one in world exports for the past four consecutive years. In 1989, West Germany's gross national product surged 4 percent in real terms. It was the country's largest growth rate in 10 years. "The main factors that have positively influenced the economic developments were foreign demand and lively investment," said Egon Holder, the President of the Federal Statistical Office.

The country's low inflation rate, its low unemployment, and its social stability are widely admired. But what makes the West German economic system so successful? One of the reasons, economists agree, is good labor relations or what is known in West Germany as *mitbestimmung* (codetermination).

Mitbestimmung has a taming effect on German workers: The low strike rate is the envy of many European countries. Germans can make long-term production commitments without having to worry about strike-induced delivery delays. In fact, according to the latest statistics, only 28,000 days were lost in 1986 in West Germany, compared with 1.9 million days in Great Britain and 12.2 million days in the United States. "In the last 10 years," says the spokesperson for the Trade Union's Federation, "only 17 minutes were lost per employed person."

The idea of worker codetermination has at least 140 years of intellectual history behind it, going back to Bismarck. But practically speaking, West Germany's concepts for industrial democracy were developed by German trade unionists and British occupation authorities after World War II. The Works Constitution Act has played a major role in Germany's transformation into a world economic power following the war. The German Trade Union's worker participation is a "third way" between capitalism and communism.

Since 1951, a radical system of parity worker cooperation has operated in the West German coal and steel industries, a policy that gives equal say to owners and workers on the supervisory board. Each group elects six directors—in the workers' case the choice is made by the works council in consultation with the unions—and together the directors elect a 13th, "neutral" board member who provides a tie-breaking vote in the case of a deadlock.

In 1969, West German Chancellor Willy Brandt, a Social Democrat, announced the Social Democratic Party/Free Democratic Party coalition's intention to widen *mitbestimmung*. The first concrete fulfillment of this goal was the Works Constitution Act of January 1972 that granted more powers to works councils. The new act replaced all parts of the 1952 Works Constitution Act, except for the section on board-level worker representation, which it left unchanged.

The Works Constitution Act of 1952 had provided for a one-third representation of workers in the supervisory boards of large- and medium-sized undertakings. By contrast, the new Works Constitution Act of 1972 provides that the works councils are elected for three-year terms of office in any establishment of private industry that has at least five employees with voting rights. Employers and managerial employees are not represented on the works councils.

The works councils safeguard employee interests in all dealings with employers. Together with the employer, these councils have the right to codetermine working hours, introduce reduced working hours and new technology, fix job and bonus rates, and determine working environment, manpower planning, and personnel management.

The political task of strengthening workers' power at the board level was far more difficult than that of enlarging labor rights in the office and on the shop floor. The main obstacles to quick action were the differing concepts of *mitbestimmung* among the Social Democrats and the Free Democrats. It was not until 1975 that the Social Democrats and Free Democrats came up with a mutually acceptable compromise that passed parliament in

March 1976 and went into effect on July 1, 1976—a very important milestone for *mitbestimmung.*

In almost any other Western nation, this legislation would have caused a sensation. Yet the German public showed little reaction; the Germans saw in it just the legislative expression of what was already in practice. The fundamental tenet of *mitbestimmung* is that democracy cannot be limited to the political sphere but must be extended to economic life as well. Ex-Chancellor Helmut Schmidt, a Social Democrat, said that the worker must be converted from an "economic vassal" into an "economic citizen." On many subjects, employers and the trade unions do not see eye to eye, but where *mitbestimmung* is concerned they agree completely.

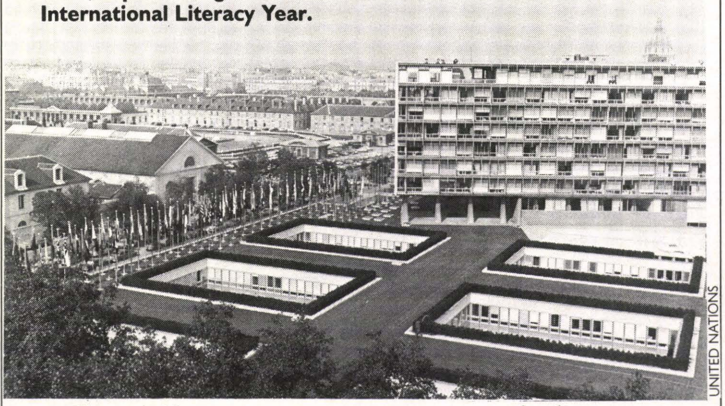
—WANDA MENKE-GLÜCKERT

PARIS

Teaching Jean to Read

The United Nations Educational, Scientific, and Cultural Organization (UNESCO), headquartered in Paris, plans to start the new decade by raising global awareness of just how universal a problem illiteracy is, not only for developing countries but for industrialized nations as well. The United Nations agency is promoting 1990 as International Literacy Year.

UNESCO, headquartered in Paris, is promoting 1990 as International Literacy Year.



UNITED NATIONS

For France, the campaign is a timely one. The French are doing some serious soul-searching about their educational system in general, and their methods of teaching reading and writing in particular. A national survey of third and sixth graders carried out last fall by the French Ministry of Education came up with some eyebrow-raising results. Approximately 20 percent of French third graders cannot read, and by the time they reach grade 6, up to two-thirds of French schoolchildren have a reading problem.

These statistics prove at least one thing. Even the French, who pride themselves on being an intellectual nation, have not been able to sidestep the problem of illiteracy. Alongside such countries as Britain and the United States, France is now facing up to the fact that some of its children need special help in learning the basics, and that the present school system is not always able to provide it.

Traditionally, illiteracy in France was thought to be confined to its large immigrant worker population. Out of the political turmoil of *"mai 1968"* dozens of groups sprang up to teach French as a second language to workers from North Africa, Spain, Portugal, Italy, and Turkey.

Illiteracy among *native* French speakers was discovered in the early 1970s, when many people had to be retrained for emerging industries. Previously "invisible" illiterates suddenly came to light because they could not read or write well enough to keep up with job training programs. Young military recruits also yielded an embarrassing number of people unable to read or write properly. In 1984, a government report officially recognized the existence of illiteracy among native French speakers. Estimates on numbers vary widely, depending on how illiteracy is defined and measured, but the figure most often quoted is two million.

Measured on a global scale, the French problem is a small one. UNESCO's latest survey from last year puts the number of adult illiterates in the world at 962 million, which represents more than a quarter of the planet's entire population. The overwhelming majority of these illiterates live in Asia or Africa. Among developed countries like France, the percentages drop to anywhere from 5 percent to 15 percent, again depending on how illiteracy is evaluated.

Since officially diagnosing the problem, France is tackling it from a somewhat different angle than other countries. Instead of looking on illiteracy as a purely educational malady, to be cured by its Ministry of Education, France has set up a permanent interministerial committee, *le groupe permanent de lutte contre l'illétrisme,* within its Ministry of Social Affairs and Employment. The French Government takes the view that illiteracy grows out of a complex variety of reasons—poverty, unemployment, trouble within the family—and must be dealt with not just within schools, but outside of them as well.

The French Ministry of Education, for its part, is launching a reading program in its primary schools that aims to identify children with reading problems and to give them special help. The Ministry has realized that the timeworn remedy of repeating a grade—more than half the children in France do it at least once during their schooling—can be more demoralizing than helpful and that new, more positive solutions have to be found.

France's present efforts to reform its educational system dovetail neatly into UNESCO's broader campaign to make literacy a global priority over the next decade. Through International Literacy Year, UNESCO hopes to develop a worldwide network of government agencies and private organizations that can work together toward stamping out illiteracy by the year 2000. Even if that goal is overly ambitious, countries like France can play an important part in ensuring that for more children and adults than ever before the mythical "right to read" will become a reality.

—ESTER LAUSHWAY

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NEWS OF THE E.C.

FOREIGN AFFAIRS

SANCTIONS SHOULD CONTINUE

Even after Nelson Mandela's release, the E.C. remains wary about easing pressure on South Africa to continue its reforms while apartheid still exists. Even though E.C. Development Commissioner Manuel Marin believes U.S. sanctions have been more decisive in bringing South Africa to the negotiating table than E.C. embargoes, he said, "I am completely in favor of maintaining sanctions."

As a whole, the Commission sees Mandela's release as a sign of President F.W. de Klerk's desire to deal with the realities of his country and regards the release as an important step toward the necessary dialogue among different sectors of the South African population, even if the state of emergency remains an obstacle.

Standing alone, British Prime Minister Margaret Thatcher announced that she would be pressing for some sanctions to be lifted.—*Reuters*

SOVIETS VISIT NATO AND EUROPEAN PARLIAMENT

A 10-member Supreme Soviet delegation visited NATO and the European Parliament in February, marking the first such trip by an official delegation from the Soviet Union. The group discussed events in the Soviet Union, bilateral ties with the E.C., and such issues as German reunification.

The 12 E.C. Commission ministers voiced their support for President Mikhail Gorbachev's difficult decisions in Azerbaijan in February. As British Foreign Secretary Douglas Hurd put it, "There's a clear distinction between military action taken to prevent one group of citizens in a country killing another group and military action taken to suppress a people struggling for its freedom."

At an informal dinner in January, the Ministers agreed that senior officials should start work immediately on an agenda and a common E.C. position for a summit this year of the 35-nation Conference on Security and Cooperation in Europe (CSCE). Such a meeting, sought by Gorbachev to forge a new European order, had not been due until 1992.—*Reuters*

SPORTS

GERMANY MAY FIELD A UNITED TEAM

In addition to political and economic ties, West and East Germans are developing plans to send a single set of sports teams to the 1996 Olympic Games. The East's efficiency at finding and nurturing talent and the West's big financial backing of sports would assuredly create a daunting combination. "Sport must send a strong social message to politics," says Jochen Gruenwald of the East German sports federation. "We sportsmen can be a model."
—*Reuters*

EASTERN EUROPE

TRAINING HUNGARIANS AND POLES

Poland and Hungary may soon receive E.C. help in training personnel and running their reforming economies. E.C. Social Affairs Commissioner Vasso Papandreou explained, "The idea is to put 2,000 to 3,000 students on courses in community member states for a start." Management skills, business administration, and language training would be priorities. Training would help the newly market-oriented economies link up with those of the West, as well as offering internal benefits, she said.—*Reuters*

THE FIRST STEP WITH EAST GERMANY?

The E.C. and East Germany have started negotiations on a 10-year trade and cooperation accord that could be a first step toward membership. According to Commission President Jacques Delors, East Germany has three long-term options for its relationship with the E.C.: association, membership as an independent state, or through reunification with West Germany. Under the currently negotiated treaty, restrictions on East German exports will be dismantled by 1995, and a framework will be provided for cooperation in the economy, environment, transportation, tourism, education, and research and development.

Although the E.C. Executive Commission said the E.C. should not promise full membership to reforming East European states as part of proposed agreements of association, excluding this commitment does not mean East European states cannot become eligible to join the Community. "Association agreements will be of special value in themselves and should be distinguished from any commitment concerning the question of accession," according to a Commission statement. These agreements should cover trade, technical assistance, financial support, joint infrastructure projects, cultural cooperation, and political dialogue.

The E.C. has negotiated agreements with Poland, Hungary, and the Soviet Union and hopes to complete agreements with East Germany, Czechoslovakia, Bulgaria, and Romania by the middle of this year.

RELIEF FOR POLAND

Emergency supplies of free E.C. wheat will help Poles through the winter as meat prices soar. Polish Prime Minister Tadeusz Mazowiecki explained, "Now that meat's available, people can't afford to buy." Out of $360 million of E.C. aid allocated for Poland and Hungary, $120 million will go toward supporting Polish agriculture.

The E.C. is asking the Poles not to use money from emergency food sales to promote products that would undercut E.C. farmers, such as lamb and strawberries. Poles have asked for E.C. help in setting up an agency that would buy up products coming onto the market gradually, as a way of preventing gluts and scarcity.

Last summer, Poland negotiated a trade and cooperation pact with the E.C., intended to create more opportunities for Poland and to encourage E.C. investment. Mazowiecki said Poland is taking steps toward a market-oriented economy and needs investment in agriculture, banking, telecommunications, and other sectors. He said, "It's important we get not just immediate relief, but new measures that would allow a substantial reduction [in the debt] itself." Mazowiecki says it is vital to let Poland off paying both capital and interest this year on its debts, now standing at about $40 billion.
—*Reuters*

INTERNAL MARKET

NEUTRAL STATUS NO OBSTACLE

West German Foreign Minister Hans Dietrich Genscher recently said that Austria's neutral status should not prevent it from joining the European Community. He added that the question of neutrality had become less significant since relations between East and West Europe had improved and that "Austria's way into the E.C. is open."

Austria, which pledged permanent neutrality in 1955, applied to join the 12-nation trading bloc last year. All E.C. members, with the exception of Ireland, are members of the NATO military alliance.

A number of East European states, including East Germany, have also shown interest in E.C. membership. Belgian Foreign Minister, Mark Eyskens, however, has said that Austria should have priority over any other country seeking to join the Community.—*Reuters*

ENVIRONMENT

E.C. SHOWS ROOM FOR IMPROVEMENT

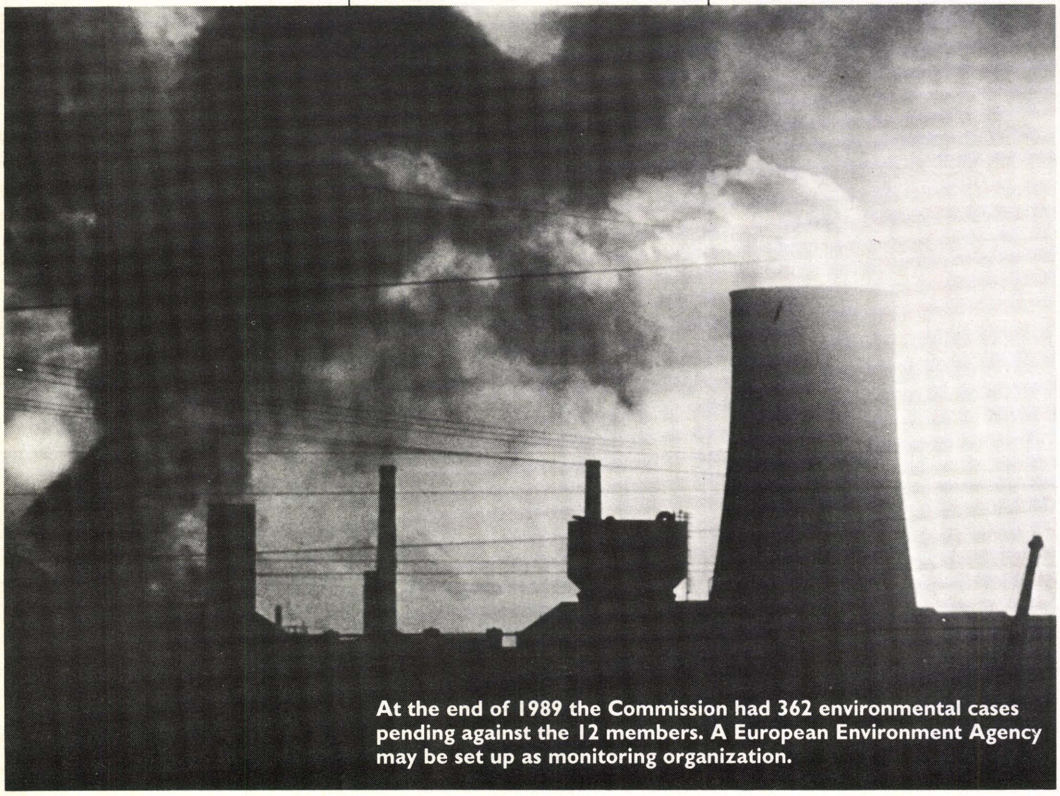
Most E.C. member states are failing to enforce ecological laws fully, according to the E.C.'s environment chief, Commissioner Carlo Ripa di Meana. All 12 member states, however, must clean up environmental problems and keep their air within acceptable pollution safety limits by April 1993.

The E.C.'s first environmental report shows that at the end of 1989 the Commission had 362 environmental cases pending against the 12 member states. Spain topped the list with 57 cases, while Denmark had just five. Belgium and Italy were singled out for not improving their laws even after being condemned on four counts by the European Court of Justice.

Cars and coal have caused the majority of pollution problems across the heavily industrialized and densely populated Continent (especially in Eastern Europe). The problem is finding enough money and political will to implement pollution controls. For example, although nine out of 10 British drivers favor making catalytic converters compulsory, only half said they would be willing to pay $160 extra for the device that converts toxic exhaust fumes into less harmful substances.

A European Environment Agency is proposed to monitor the implementation of Community standards, but details are vague. And Ripa di Meana suggests creating a special E.C. environmental fund to pay for expensive cleanup projects.

The E.C. has already set aside 40 million European Currency Units (ECU) ($49 million) of a 300 million ECU ($366 million) economic package for Poland and Hungary for environmental projects. Ripa di Meana says he will ask the Irish E.C. presidency, which has designated itself the "Green presidency," to discuss technical and financial aid to the Eastern bloc. Ripa di Meana said, "We're very much aware of the disastrous condition of the environment in Central and Eastern Europe and the Soviet Union." Cooperation to improve the environment is now becoming feasible, with the fledgling East European democracies viewing the environment as more of a priority than before.—*Reuters*



At the end of 1989 the Commission had 362 environmental cases pending against the 12 members. A European Environment Agency may be set up as monitoring organization.

TRADE

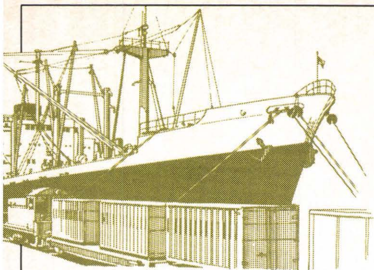
TARIFF CUTS NEGOTIATED

After more than six months of bargaining, international trade officials at the Uruguay Round of world trade talks have agreed on a procedure to negotiate tariff cuts. Progress had been blocked by deep disagreement between the United States and most other delegations over what negotiating procedure to follow. The agreed procedure allows countries either to use a formula approach in their offers or to table individual offers and requests. Although the new procedure is not ideal, it makes room for political and economic constraints.—*Reuters*

JAPAN CRITICIZED

E.C. officials continue to criticize Japan for investing heavily in other countries without offering reciprocal opportunities for foreign companies. E.C. External Affairs Commissioner Frans Andriessen said, "Japanese companies, as well as the Japanese Government, must see what can be done to get a better balance in the world." The E.C.'s Executive Commission wants to negotiate an informal arrangement with Tokyo to restrict Japanese exports to the E.C. as a whole during a transitional period to prepare E.C. manufacturers for competition.

France has received E.C. permission to block imports of Japanese and South Korean television sets through other E.C. countries until June 30 following complaints that the trade was hurting its home producers. Italy is allowed to stop imports of Japanese industrial sewing machines until September 30 because of similar complaints. Japanese television makers will not be significantly hurt, however, because they



have European manufacturing plants.

In addition, France has pledged an all-out fight to continue protecting its car market from Japanese imports even after 1992. Ministers are deeply divided over whether any restrictions should apply to Japanese cars manufactured within the E.C. or at plants in America or Eastern Europe. Under E.C. antidumping laws, manufacturers must use at least 40 percent of local content to qualify as European products.—*Reuters*

EFTA WANTS E.C. TRADE AGREEMENT

E.C. Commission President Jacques Delors has made it clear that the European Free Trade Association (EFTA) countries cannot take part in E.C. decision-making. EFTA businesspeople worry that this stand could make them passive satellites of Brussels and are therefore anxious to conclude terms for a trading relationship—a European Economic Space (EES)—proposed by Delors. The EES would extend to EFTA the free flow of goods, services, capital, and people that the 12 E.C. members are in the midst of organizing among themselves. If efforts fail, businesspeople in the EFTA countries fear it could be even harder to penetrate the single market after 1992.

Switzerland, as the richest nation in EFTA and the E.C.'s second largest trading partner, feels it is in a good position to bargain for favorable treatment. Swiss President Arnold Koller speculated, "We must negotiate constructively, but if, for example, EFTA states did not succeed in obtaining equal rights in the decision process, we would face the crucial question—is the price too high?"

The Swiss Government has decided that E.C. membership is incompatible with the country's neutrality, direct democracy, and the substantial independence of its 26 cantons. The E.C.'s Common Agricultural Policy, which would require Switzerland to cut its heavy farm subsidies, is another barrier to Swiss membership.

Ambassador Benedikt von Tscharner, head of the Swiss mission to the E.C., doubts the E.C.'s agricultural policy could be imposed on the EES, since it is unacceptable to all EFTA countries in varying degrees.
—*Reuters*

AID AND DEVELOPMENT

AID RECIPIENTS

As relations between the E.C. and Eastern Europe increase, peripheral border countries and developing nations are growing nervous that they will lose out on their share of E.C. aid. Spanish Prime Minister Felipe González and Portuguese Prime Minister Anibal Cavaco Silva say they will study how diversion of aid to Eastern Europe could affect their countries.

In January, the E.C. signed agreements to provide $66.8 million in aid for rural developments in Thailand, and a $20 million grant to develop southern agricultural areas in the Philippines, but underdeveloped countries are worried. Ali Alatas, Indonesia's Foreign Minister, summed up these fears when he acknowledged that changes in Europe could expand export markets, but said "there is also real concern that financial, investment, and trade flows of considerable magnitude from the industrial North might be diverted to Eastern Europe." He explained that the old days of rhetoric from the poor and charity from the rich have gone, and the problem needs a realistic approach from both sides.

E.C. Commissioner Abel Matutes told Philippine businesspeople, "Let me affirm here with great clarity: The responsibilities of the E.C. on its own Continent will not be fulfilled at the expense of its responsibilities elsewhere in the world."—*Reuters*

U.S.-E.C. RELATIONS

E.C. VISITORS TO THE U.S.

In February, E.C. Vice President Frans Andriessen, Commissioner Antonio Cardoso e Cunha, Commissioner Jean Dondelinger, and Vice President Manuel Marin visited the United States.

In March, Vice President Filippo Maria Pandolfi, Commissioner Karel Van Miert, Commissioner Christiane Scrivener, and Vice President Sir Leon Brittan are scheduled to visit the United States.
—*Reuters*

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March-April

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☐ **Biotechnology in Future Society.** *European Foundation for the Improvement of Living and Working, Dublin, 1989, 147 pages.* Discusses the role biotechnology plays in Europe. Historical perspectives on biotechnology practice in Europe are presented. The future of pharmaceutical markets, human health care, and the social dimensions of biotechnology such as vaccines are also discussed. The problems and developments of biotechnology in human genetics is one of the chapters in this book. Biotechnology in Europe includes the food and agriculture. **$47.00**

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