EUROPE

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Bullish on Europe

American Firms Crossing the Atlantic in Record Numbers

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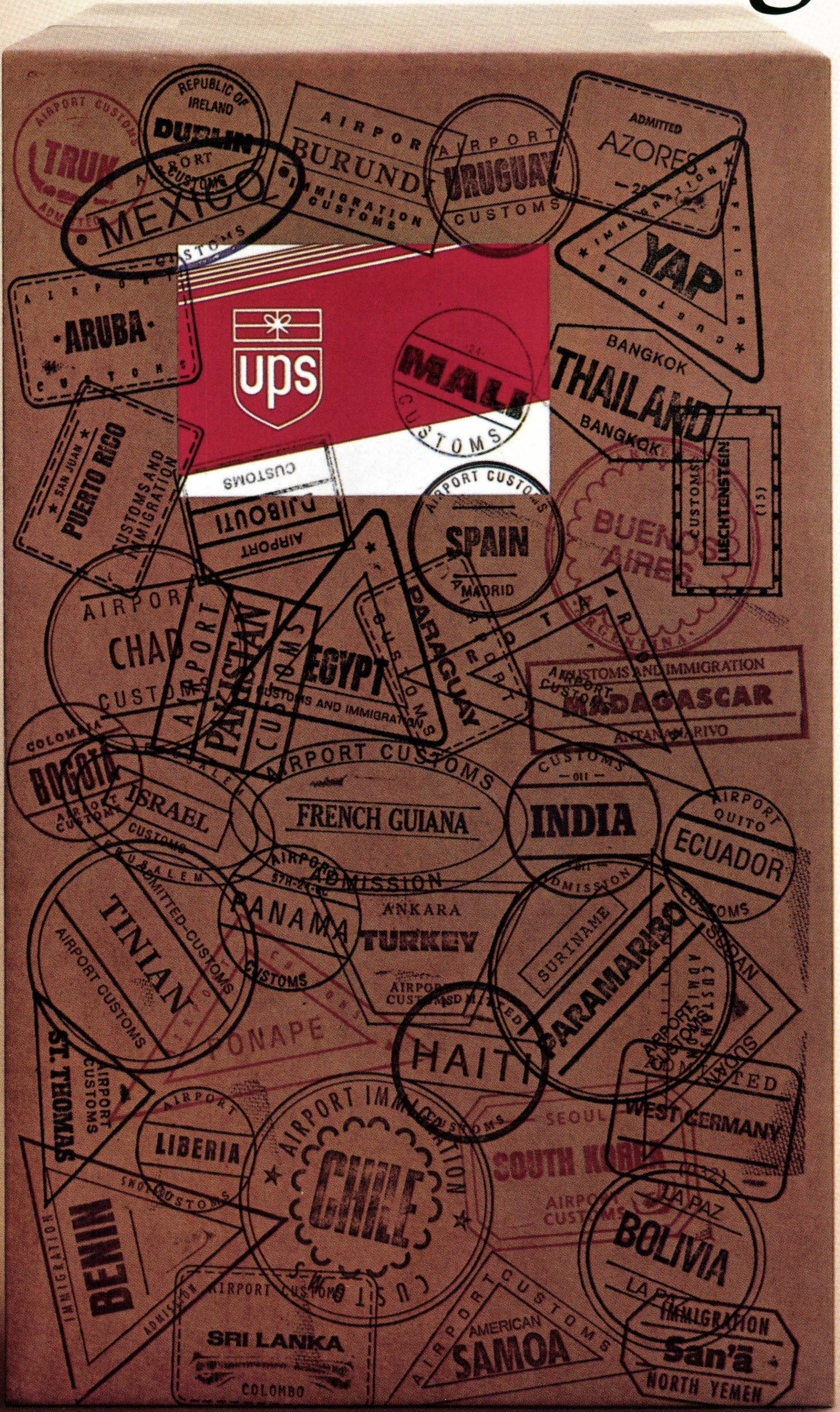

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SEPTEMBER 1990 A7683 NUMBER 299

EUROPE

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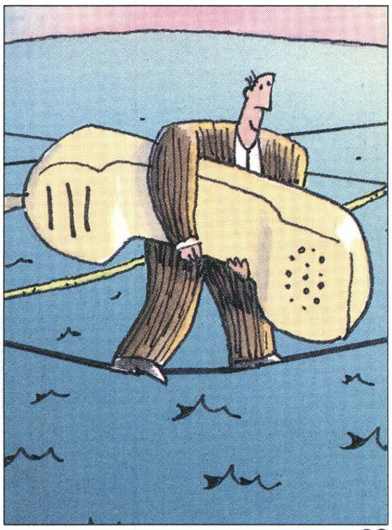

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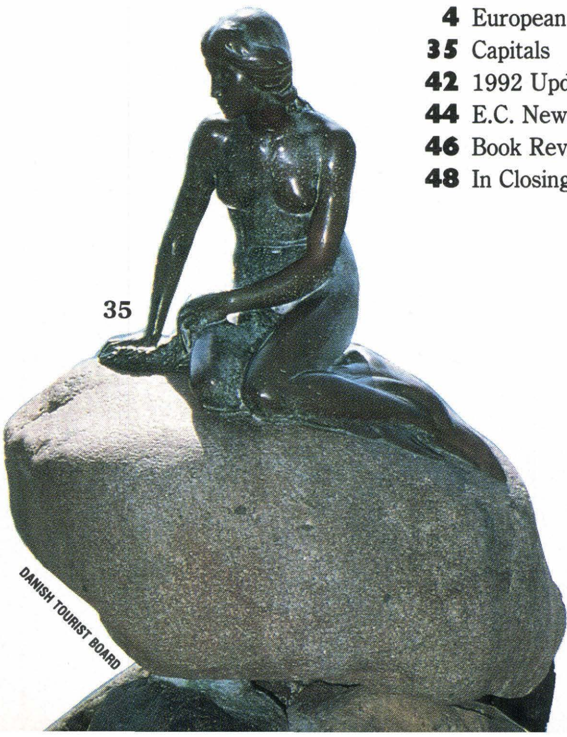

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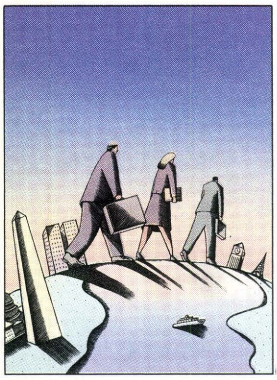
Letter From The Editor

"U.S. COMPANIES ARE INvesting in everything European, from insurance brokers and automobiles to Scotch whiskey and electronic mail services," reports Bruce Barnard, the Brussels correspondent of *The Journal of Commerce*, in our cover story, which illustrates American business' "bullishness" on Europe in the 1990s.

Europe presents an in-depth look at the business strategies of some of America's largest firms as they prepare to do business in the 1992 single market and the new Eastern European markets.



COVER: U.S. business is gung-ho about Europe. Illustration: Randy Lyhus

Europe gives you a first-hand look at American business strategies for Europe in the 1990s, with exclusive interviews with the President of MCI Communications Company, the Executive Vice-President of The Coca-Cola Company, and key decision makers at The Chase Manhattan Bank and Marriott Corporation.

Senior executives at General Motors, American Express, International Paper, and other U.S. multinationals also explain their plans for increasing business in Europe in the next decade.

Many of these firms have been doing business in Europe for decades, notes Keith Rockwell, a Washington-based reporter for *The Journal of Commerce.* "One common link among the U.S. multinationals is that their pan-European presence is a cornerstone of their marketing efforts," he writes in his article on the increased competition resulting from the single market.

From a slightly different angle, Steve Dryden looks at the new "Euro-executive," and explains why fewer American managers will be sent to Europe in the 1990s. And Julian Weiss writes that American telecommunications firms are busy ringing up sales in Eastern Europe.

This month's member state report highlights Luxembourg and explains how the country is becoming a high-tech and financial services center for Europe. Peter Greenberg takes you on a tour of this beautiful country and points out unique places for you to visit on your next trip.

Former Secretary of Defense Caspar Weinberger, in an important *Europe* interview, discusses the implications of the current Middle East crisis for Europe. Weinberger also talks about the end of the cold war and the new role for NATO in the 1990s.

Europe will launch a "Letters to the Editor" column next month, so we look forward to your comments.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

EUROPE

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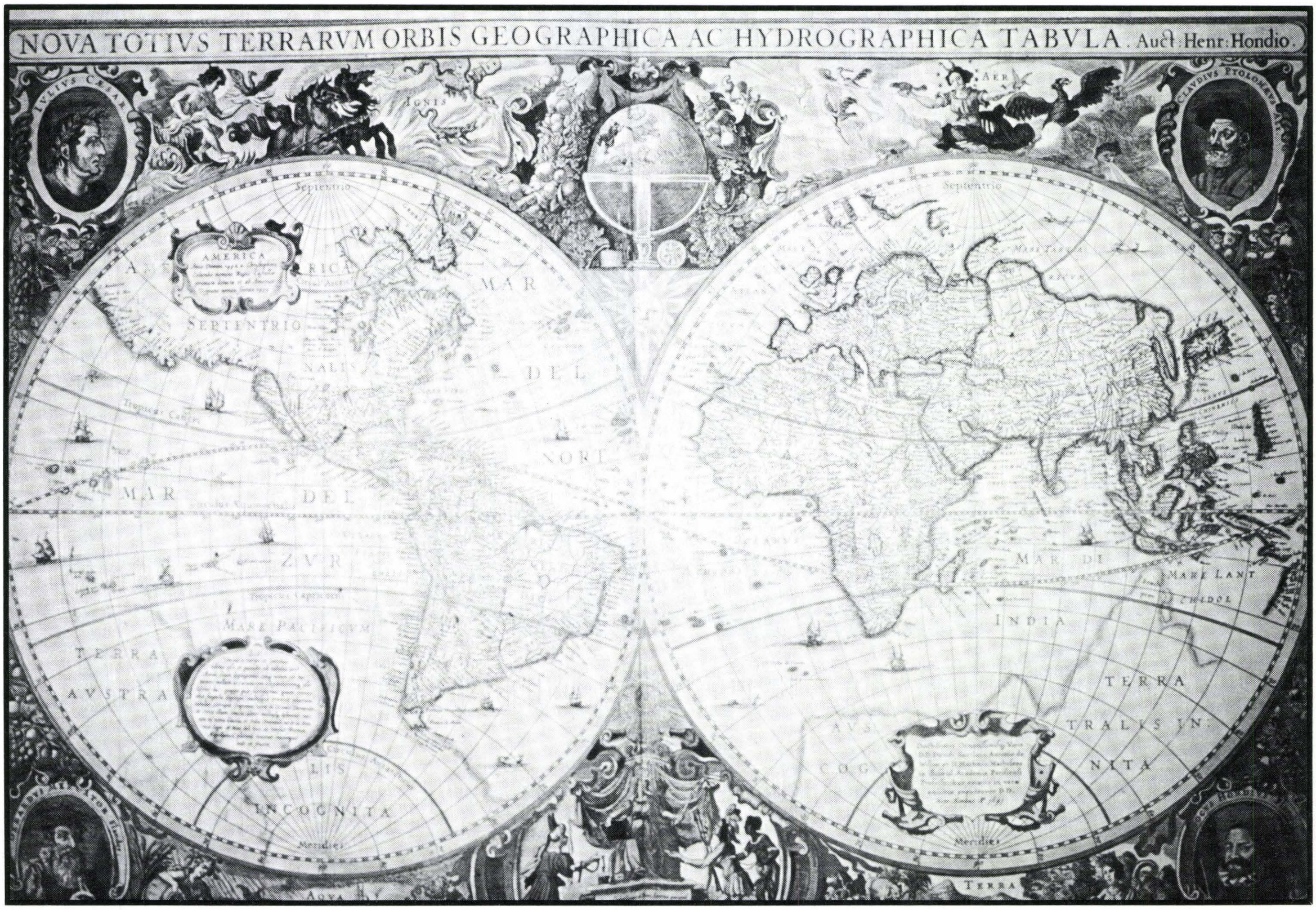

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EUROPEAN SCENE

Euro-Chic

Trendy "Euro-chic" paraphernalia is being sold on the streets and in the shops of Europe, particularly in Brussels: On rainy days (of which there are many in Belgium) Euro-umbrellas—of blue fabric imprinted with the ring of 12 gold stars—pop up everywhere.

But there is more to satisfy Eurocrats and tourists alike. The ever-so-useful Euro-agenda book and Euro-watches, on which the flags of the 12 member states act as numbers, keep busy Eurocrats organized, while *Pour Europe* cologne pleases the less business-oriented individual. Several Euro-souvenir stores have

© JOS. PALMIERI

opened in Brussels, where customers model T-shirts and scarves, and amuse themselves with Euro-playing cards.

Euro-souvenirs are not limited to Brussels, however. One can also purchase many items of Euro-paraphernalia in stores in other European countries and in the United States.

PRINCELY ARCHITECTURE—This summer, Prince Charles opened an architectural school in Oxford. He began his new endeavor with criticism of the traditional British methods of teaching the profession, and cited the 203 applications received as evidence of some dissatisfaction with the established alternatives. The first class of 25 students, from Europe and the United States, will spend the six week summer session in Italy and England sketching and designing highways, and working on historical buildings from the 18th century.

No "Big Mac" Attacks for East Germany?

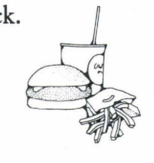
With unification looming ever closer, East Germans will get almost everything the West Germans already enjoy—except fast food.

Many East German environmental groups do not want McDonald's in their country. Ernst Doerfler, chairman of the East German Parliament's environmental committee, recently called for a ban on "McDonald's and similar abnormal garbage-makers," in an attempt to avoid trash disposal problems caused by their throw-away plastic cartons. At a news conference in East Berlin to announce McDonald's' expansion plans, journalists dined on smoked salmon sandwiches as a protest.

Walter Rettenweder, chairman of McDonald's Corporation Germany, emphasized the chain's commitment to its workers, its customers, the community, and the environment, and announced a $950,000 plan to look into making environmentally friendly hamburger packaing from recycled paper. He also cited plans to open the first East German McDonald's in the southwestern town of Plauen by December. About 10 more restaurants are expected to follow next year.

In further attempts to persuade East Germany to welcome the fast-food chain, McDonald's promised to help East Germany's farmers by buying their produce. Doerfler, however, who remains firm in his drive to ban fast food, calls fast food and plastic utensils "capitalism's worst environmental mistake." Obviously, he has never suffered a "Big Mac" attack.

—Reuters



DE GAULLE REMEMBERED—Nineteen-ninety is the year of Charles de Gaulle. France is commemorating the centennial of the General's birth, the 20th anniversary of his death, and the 50th anniversary of his historic radio broadcast from London, in which he urged the French to continue fighting despite the Vichy Government's capitulation to the Nazis in World War II. In honor of this last occasion, a huge "radio" was built over the obelisk on the Place de la Concorde in Paris, and fireworks and a sound—and light—show delighted Parisians.

In Colombey-les-Deux-Eglises, de Gaulle's birthplace, 40,000 people paid tribute by marching to the 135-foot granite Cross of Lorraine memorial. A new statue will be erected in his honor and his home will be turned into a museum. Commemorations and other tributes for the former French president and general will continue throughout the year.

New Issues

This information appears as a matter of record only.

August 28, 1990

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European Telecommunications Satellite Organization

ECU 100,000,000
10 % Bearer Bonds of 1990/1992

Offering Price: 101⅛ %

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AMERICAN BUSINESS

is Bullish on Europe

Corporate America is flexing its muscles in Europe again, recalling the investment bonanza of the 1960s and 1970s that catapulted it into commanding positions in key business sectors.

The U.S. multinationals' march overseas is ending a period of retreat that saw big names like ITT, United Technologies, Monsanto, Beatrice, Gulf Oil, and Carnation sell or scale back their foreign operations. Now, U.S. companies are investing in everything European, from insurance brokers and automobiles to Scotch whiskey and electronic mail services.

They are also selling more to Europe, have whittled a $28.2-billion trade deficit in 1986 down to a $1.3-billion shortfall in 1989, and achieved a $2.7-billion surplus in the first four months of 1990. As in previous investment waves, the European Community is the biggest draw, receiving 53 percent of U.S. manufacturers' overseas spending in 1989.

The higher U.S. profile in Europe stems from two interrelated factors: the creation of the 1992 single European market, and the accelerating trends toward global manufacturing.

With some 340 million consumers, the single market will be the world's biggest trading bloc. U.S., as well as European and Japanese, companies will finally be able to reap economies of scale that are not feasible in the fragmented markets of the 12 E.C. member states. The single market will also allow companies to rationalize their operations on a pan-European basis, thus easing the shift to global manufacturing.

Some U.S. transactions in Europe are mainly industry-driven, like Ford's $2.4-billion takeover of Jaguar, the British luxury car maker, and General Motors' $600-million purchase of a 50-percent stake in Saab Automobile AB of Sweden. At the same time, however, both deals boost the companies' chance of a post-1992 payoff.

The View From Europe

Bruce Barnard

American multinationals were openly skeptical of the single market program three years ago. Today, they are jockeying for positions alongside European and Japanese firms in the run-up to 1992.

The United States slipped in early 1990 as European companies, which for a long time had favored investing in the United States, suddenly switched focus onto their home turf. But the United States bounced back with one of Europe's biggest takeovers—Philip Morris' $3.8-billion acquisition of Switzerland's Jacobs Suchard, the world's biggest chocolate and coffee group.

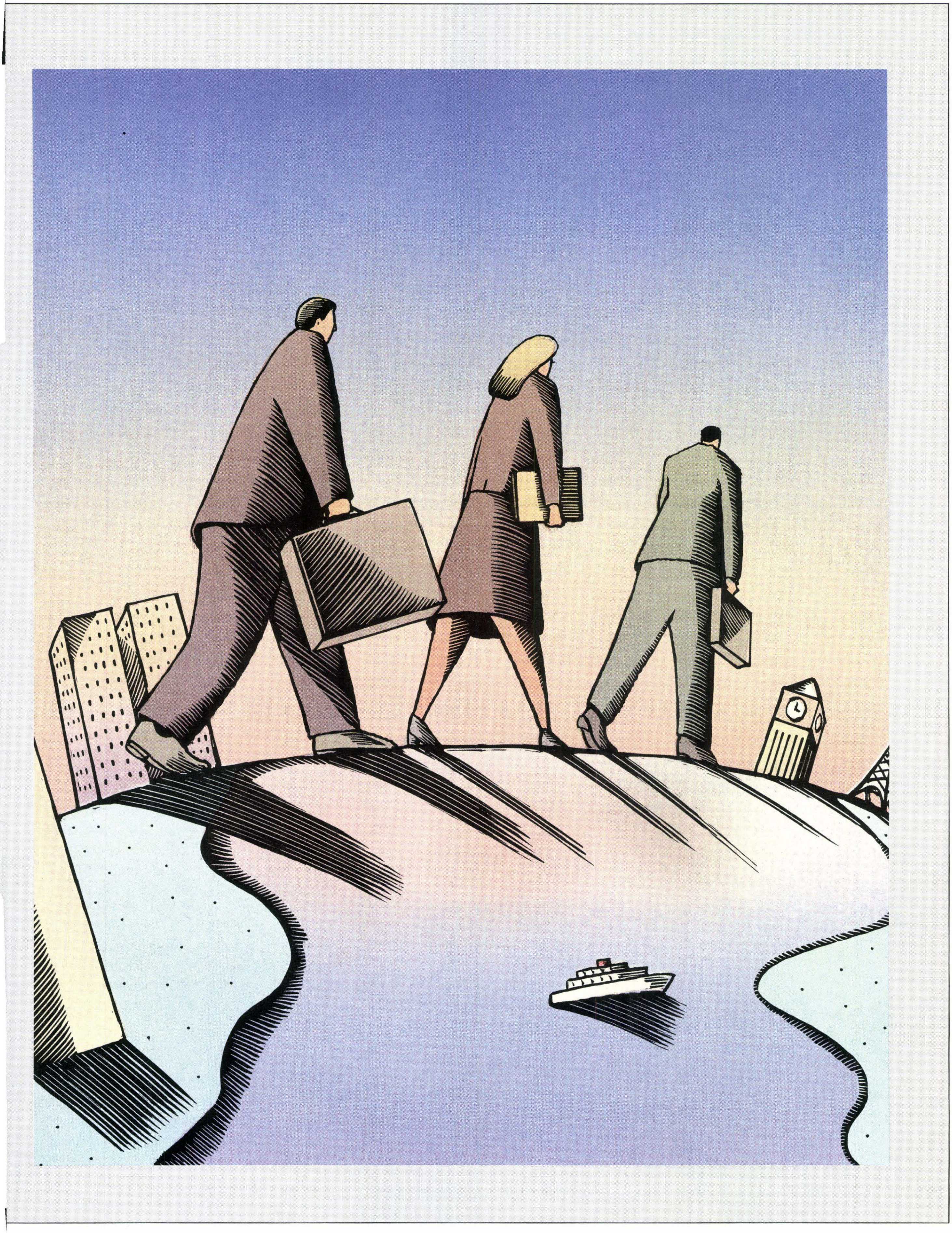
The United States topped Europe's cross-border mergers and acquisitions league table in 1989, spending 13.8 billion European Currency Units (ECU), about $11 billion. Second-place France trailed a long way behind at $7.7 billion, followed by West Germany with $5.3 billion.

U.S. financial concerns are also gung-ho about European prospects. Together with Japanese institutions, they provided nearly a quarter of the record-breaking $4.6 billion of new funds raised by European venture capitalists in 1989.

Most U.S. companies are investing heavily in new European production facilities. Texas Instruments is spending $1.2 billion to expand its Italian operations; du Pont de Nemours & Company, Inc. has teamed up with the Spanish Government to invest $1 billion in an industrial plant in the northern region of Asturias; Intel of California, the world's leading manufacturer of advanced computer chips, has made its first foray into Europe with a $530-million investment in a plant in Ireland.

U.S. multinationals, led by Ford, General Motors, and IBM, already mapped out pan-European strategies in the early 1960s to capitalize on the removal of intra-Community tariffs after the E.C.'s creation in 1957.

As a result, American companies already have deep roots in European economies. They have invested some $130 billion in the E.C. alone and employ over two million people in plants and offices dotted across the Continent. In key sectors such as computers, food, household products, and pharmaceuticals, they do more cross-border business than their European counterparts. Colgate-Palmolive, for example, has sales organizations in 16 European countries,



RANDY LYHUS

and manufacturing plants in nine, with revenues of $1.5 billion, and a payroll of 7,000.

U.S. companies are now consolidating their positions as the Europeans counterattack with cross-border mergers and alliances, and Japanese factories sprout up across Europe:

- Honeywell Europe is retraining hundreds of managers to prepare for 1992;
- Scott Paper, with 30 percent of the European sanitary tissue market, worth $1.25 billion a year, has paid $125 million for a 51-percent stake in Feldmühle of West Germany to plug a gap in its pan-European manufacturing network;
- AT&T finally broke into Europe in a big way in 1989 by forming a partnership with Italtel SpA, Italy's main telecommunications equipment maker. It is now well placed to tap new markets that will be pried open by the E.C.'s decision to partially deregulate telecommunications services by 1992.

The current U.S. invasion is being mounted mainly by companies already entrenched in Europe, although a few big names are making their first trans-Atlantic moves. Small- and medium-sized companies are not investing in Europe, but many have found lucrative new export outlets, especially in the high-technology and biotechnology sectors.

The most visible newcomers are Whirlpool Corporation, paying over 750 million guilders ($360 million) for a 53-percent stake in the appliance operations of N.V. Philips, the Dutch electronics group. As a result of this move, Whirlpool immediately ousted Electrolux of Sweden as the world's top appliance manufacturer. Moreover, it has the right to buy out Philips shares for another one billion guilders ($560 million) before the end of 1991.

Federal Express and United Parcel Service swooped down on Europe because it was an untapped market that was taking off just as their domestic U.S. businesses were slowing down. Both have snapped up small firms across Europe to dominate the European express mail market along with two other outsiders, U.S.-based DHL and TNT of Australia. Having snuffed out the local competition, these companies are now poised for a bonanza in a post-1992 world of simplified customs procedures and deregulated transport.

The renewed enthusiasm of American business for Europe has paralleled Washington's more positive attitude toward the single market after it concluded that the E.C. was not bent on building a protectionist "Fortress Europe" to preserve the benefits of 1992 only for European companies. American executives based in Europe were always more positive about 1992 than their U.S.-based colleagues and Washington politicians. The U.S. Administration still grumbles about certain aspects of the single market program, such as country-of-origin and local-content requirements, and the controversial broadcasting directive, but U.S. business has been largely unaffected by these measures.

Intel said its decision to manufacture chips in Ireland was prompted by E.C. local-content regulations that gave substantial cost advantages to European-based manufacturers. In addition, the need to be closer to its European customers, who account for about 25 percent of its $3-billion annual sales, and the fact that its U.S. rivals have already, or are planning, to build manufacturing plants in Europe, also played a major role in Intel's trans-Atlantic move.

Besides technology, the media industry is also carving a niche for itself in Europe. Hollywood studios earn nearly $700 million a year exporting movies and programs to Europe and are set to cash in on the explosive growth of television programming in Europe over the current decade.

U.S. firms have occasionally encountered political hostility in their attempts to buy into European industry. The United Kingdom blocked Ford's bid to take over British Leyland, the country's only volume car maker, and General Motors' grab for Land Rover. France similarly squashed 3M's $182-million takeover of Spontex, a household products group. Tough anti-takeover defenses also limit the ability of U.S. companies to acquire assets in West Germany and the Netherlands.

Nevertheless, American firms remain in a bullish mood as the E.C. nears the two-year countdown to December 31, 1992. Their major challenge now is to prevent aggressive Japanese companies from stealing their hard-won European markets. ∈

Bruce Barnard is the Brussels correspondent for *The Journal of Commerce.*

LOCATING IN HOLLAND

Your Gateway to 1992

A REPORT FROM THE NETHERLANDS FOREIGN INVESTMENT AGENCY

Climate for Investment Approaching 1992: Advantages to accessing the $4 trillion unified European market via the Netherlands:

LOCATION Holland is right in the center of Europe, with a pro-business attitude that makes it the Gateway to Europe.

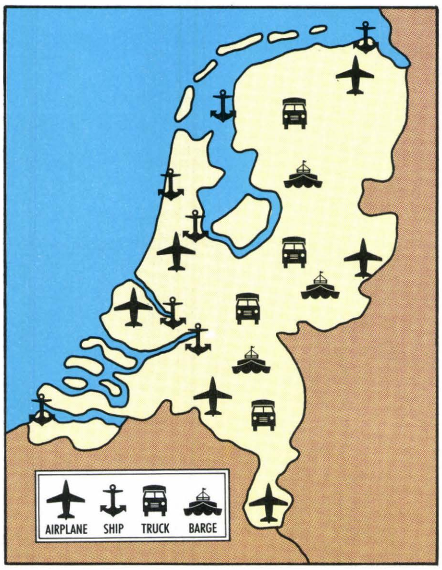
DISTRIBUTION Schiphol Airport and the Ports of Rotterdam and Amsterdam are at the heart of one of the most admired distribution infrastructures in the world. Be your goods transported by water, road or air, be they high-tech, low-tech or non-tech, be they manufactured in Holland or brought in for export elsewhere, the trip is easier via Holland. An ultra-efficient customs procedure and series of bonded warehouses makes the country a virtually duty-free zone.

TECHNOLOGY INFRASTRUCTURE Holland has the Continent's only deregulated telecom industry and its most highly developed telecom infrastructure, as well as outstanding R&D and training in other forms of information technology, medical technology and biotechnology.

WORK FORCE The approximately 5,000 foreign companies that have invested in Holland are drawn by the cooperative attitude of Dutch workers. While such labor does not come cheap, hourly wages are offset by the highest worker productivity in the EC. Productivity is supported by a high standard of education, availability of managers and highly skilled workers to fill new jobs, and a multilingual workforce—two-thirds of whom speak two or more foreign languages.

POLITICAL/SOCIAL STABILITY The Dutch government and social structure are conducive to long-term investment and a fine quality of life.

FINANCIAL CLIMATE Foreign companies enjoy the same benefits as Dutch companies in Holland. The currency is stable, inflation is about the lowest in the EC, and there are no restrictions on the transfer of capital. An almost $1.5 billion venture capital pool seeks out investments from abroad.



SOME FACTS ABOUT HOLLAND

- ☐ Working population: 6.2 million
- ☐ 1989 U.S. exports to Holland: $11.4 billion
- ☐ 1989 U.S. imports from Holland: $4.8 billion
- ☐ Port of Rotterdam: more than 290 million tons cargo handled in 1989, up almost 14% from 1987
- ☐ Share of cross-border road transport within the EC accounted for by Dutch haulers: over 25%
- ☐ About 1,500 U.S. firms invested in Holland
- ☐ Rate of return on U.S. investment 1984–1988: Higher than the EC average and one of the highest in the world—26%
- ☐ Corporate tax rate: 35% (40% on first Dfl 250,000 net profit)

THE NETHERLANDS FOREIGN INVESTMENT AGENCY, a division of the Dutch Ministry of Economic Affairs, offers free and comprehensive assistance to U.S. companies interested in establishing or expanding manufacturing, assembly, research and development, sales offices, headquarters and distribution facilities in the Netherlands. North American NFIA offices are located in New York, San Francisco, Los Angeles and Ottawa. NFIA staff spends most of its time visiting prospective investors, offering assistance with investment and marketing strategy formulation for the European market, and providing specific proposals with respect to an investment. The NFIA provides guidance through every step of the process, including site selection, identification of sources of capital, and introductions to key networks and suppliers in industry, academia and government.

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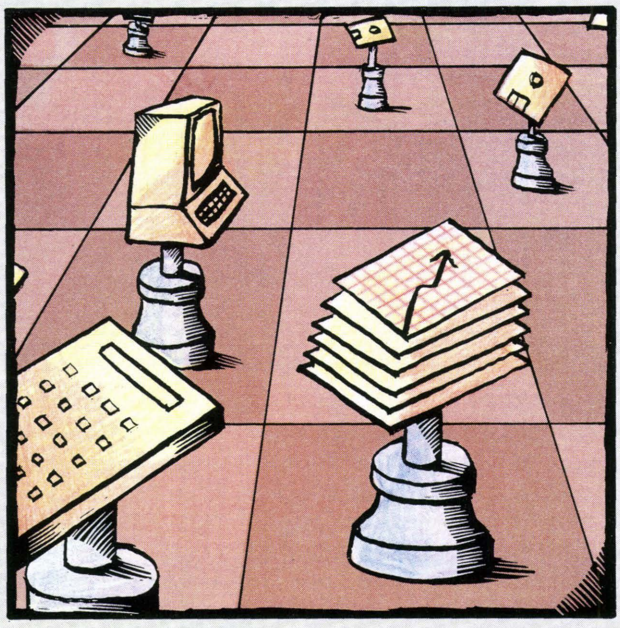
Customers & Competition

Guide U.S. Firms



The View From America

Keith M. Rockwell

It should come as no surprise that the E.C.'s drive for a single market by year-end 1992 is forcing U.S. companies to look again at their E.C. game plan.

Unexpectedly, however, this re-examination of strategy is not being driven by the great mounds of directives and regulations that Brussels churns out with such regularity. Rather, a fundamental readjustment by other firms, competitors, and especially customers is forcing companies to change the way in which they do business in Europe. Throughout the Community, companies are seeking to improve distribution channels and quality, and to check prices—all with an eye toward maintaining and expanding their customer base in an increasingly competitive market.

As the E.C. rushes headlong toward a single market for goods, capital, and services, U.S. firms with operations in the E.C. are committing themselves to the old adage that the customer is king. "The legislative part of the 1992 program is not very complicated for a company like ours with the resources to handle it," says Roger Wilson, public affairs director for Hewlett-Packard in Europe. What is really much more important is the 1992 state of mind . . . what is happening in the marketplace. Other companies, especially our customers, are saying 'we've got to be better, smarter, because 1992 is coming.' "

This is not to say that U.S. firms in the Community are not devoting energy to analyzing the evolving legislative and regulatory framework that will shape the E.C. into the next century. On the contrary, U.S. firms are keenly interested in how Brussels will come down on key issues like taxation, technical standards, labor policy, and government procurement, and are lobbying vigorously to see that their interests are protected. At the same time, however, U.S. firms in the E.C. are different from their European counterparts in one fundamental way: They have considered the Community a single market since its inception in 1957, and have escaped the burden of deciding how to operate beyond one nation's borders. These companies profited immensely from the economies of scale gained in serving the huge U.S. market and sought to gain a similar advantage in Europe.

Although they have been hamstrung by non-tariff barriers like domestic content requirements or differences in technical standards that still exist between the 12 member states, U.S. multinationals are in an extremely advantageous position in that they are already established across the E.C., while many European firms are only now looking to expand their operations beyond their home country. Meanwhile, those American firms that have yet to set up shop in the Community are working fast to do so in order to be closer to their customers.

The expanding American presence in the Community is illustrated by the huge number of acquisitions made by U.S. firms in recent years. In 1989, U.S. companies engineered some 182 deals with a reported value of $15.2 billion, while in the first quarter of 1990, U.S. firms were involved in 37 deals valued at $747.8 million. Some of these takeovers have been by firms looking to gain a foothold in Europe for the first time. Other acquisitions are due more to a desire by giant U.S. firms to shore up already strong positions in Europe. This was the case in Ford's $2.4-billion acquisition of Jaguar, for instance.

Yet other companies are looking to trim costs by rationalizing. As non-tariff barriers are stripped away, there is less need to operate facilities in every country when one warehouse or factory can serve several countries or, indeed, the entire Community.

But most U.S multinationals feel they are well placed to take advantage of the single market and are more concerned with shifting customer needs or the changing strategies of their competitors. "The single market won't cause a fundamental restructuring. The strategy will be the same, but we'll be able to do things more efficiently," says David Henson, director of public affairs in Europe for Caterpillar. Like Wilson of Hewlett-Packard, Henson says the goal is to plan a strategy that enables Caterpillar to meet rapidly changing customer needs.

With the marketplace changing so rapidly, however, there is a great deal of unpredictability, and American managers warn that flexibility is key when planning any long-term strategy.

One common link among the U.S. multinationals is that their pan-European presence is a cornerstone of their marketing efforts. American Express Company, for example, trumpets its Europe-wide operations when talking with potential corporate clients. Jürgen Aumueller, president of American Express International for Europe/Middle East/Africa, believes the evolution of the single market—as well as the opening of Eastern Europe to Western firms—will lead to a rapid expansion in corporate travel.

As executives seek out new markets beyond their borders, Aumueller says, they will want the convenience of dealing with a single company. To meet that demand, American Express is strengthening its operations across borders. "We are currently in the process of... setting up a pan-European sales and service operation for corporate customers," says Aumueller. Moreover, the company has recently opened offices in East Berlin, Budapest, and Prague to serve a growing customer base in Eastern Europe.

Of course, the opportunities brought on by a single market are also matched by considerable competition. Clearly, a more competitive marketplace will require companies to improve efficiency if they are to survive.

Consumers in the E.C. will find themselves more and more in the driver's seat as they seek out higher quality and lower prices. To deal with this reality, firms are working hard to improve quality control and cut costs to keep their prices competitive. "One thing that will cause some people some problems is that they won't have protected markets anymore," says Richard Dulude, group president of Corning, Inc. with responsibility for the telecommunications business. "Telecommunications producers like British Telecom [for example] are going to be looking for lower prices, and that's going to give other companies some heartburn."

Wilson of Hewlett-Packard says his company has faced similar price pressures. In the past, the company has offered its products at different prices in different countries. Now, Hewlett-Packard is dealing with a more sophisticated customer quite adept in the use of arbitrage. "Dealer chains in Europe have been merging and saying: 'We'll buy from you in the cheapest country in which you operate.' We have had to be responsive to these shifts in the distribution channels," Wilson says.

With the rules of the game changing so rapidly, companies are forced to consider options that never warranted much consideration in the past. In the area of distribution, for example, some companies are facing great difficulties in moving products across country borders. Traditionally, many companies operating in fragmented markets were able to handle all product distribution, marketing, and retailing.

A more competitive environment, however, means companies must devote greater resources to improving production techniques, and leave distribution to others. Since most European distributors sign exclusivity clauses barring them from carrying goods that compete with those of the client, there is a growing shortage of companies that can move goods across national borders. "Exclusivity means there are no loose distributors to pick up five, six, or 60 new product lines and distribute them within a country or, more importantly, across country lines," says one U.S. Government official.

Independent operators who can offer clients a "one-stop-shop," including distribution, warehousing, and insurance, should find enormous opportunities in the marketplace, he adds. Of course, the governments remain the largest customer in Europe. Fully 15 percent—or about $700 billion—of the E.C.'s gross domestic product is generated from the E.C.'s government procurement. This has not proven an easy market to crack for companies in other member states, let alone those outside the Community. Until now, less than 2 percent of government contracts have gone to firms from other member states, but there are indications that telecommunications and other public works projects will be more open to competition in the future.

Most U.S. multinationals manufacture in Europe with European labor and could well meet any domestic content requirements. U.S. exporters, however—particularly those that serve U.S. multinationals in the E.C.—worry that their customers may shift supply sources to meet any content requirements.

This could cause particular problems in the electronics industry, in which European firms are not competitive in producing products like semiconductors. "We haven't made any significant changes in our supplier network yet," says one official with a major American computer manufacturer, "but the directive has made us more open to finding more European suppliers."

A tougher marketplace will surely bring hard times to the inefficient firms that have survived in a protected environment. But along with the cold realities of greater competition comes a greater consciousness of customer needs, and that should bring lower prices, better products, and a wider selection to E.C. consumers in the years ahead. €

Keith M. Rockwell is a reporter for the *Journal of Commerce*'s Washington bureau. In January 1990, he will become the *Journal*'s European bureau chief in London.

RANDY LYHUS

FEATURE

Europeans Are Managing American Firms on Their Own Turf

"Europeanizing" U.S. Business

AMERICAN BUSINESSES ARE BECOMING more oriented toward the global market, and cannot afford to be out of touch with the latest market trends overseas. So Europe, with one of the world's wealthiest and most dynamic economies, must be overflowing with U.S. executives, right?

Think again. Americans did surge across the Atlantic in record numbers in the 1950s and 1960s as U.S. companies made enormous investments in Europe. Now, for a variety of complex reasons, the actual number of American managers and business employees working in Europe appears to be decreasing. Instead, Europeans are now running American companies on their own turf.

Organization Resource Counselors, a New York consulting firm, has surveyed more than 300 American companies over the past 15 years about their personnel levels in Europe. In 1976, the average number of Americans employed by the companies in Europe was 28. This number dropped to 25 in 1983, and the latest survey puts the figure at 23.

Patterns at individual companies sometimes reveal an even more striking "Europeanization" trend. General Motors, for example, currently has about 180 Americans assigned to Europe, down from almost 300 at the beginning of the 1980s. The same trend is visible at numerous other companies. For example:

- Italians are in charge of the European operations of Digital Equipment and General Electric;
- An Englishman runs Weight Watchers Europe, the diet food affiliate of H.J. Heinz;
- A Swiss executive leads Caterpillar, the maker of earthmoving and construction equipment, in Europe.


NIP ROGERS

Does this mean the American business manager in Europe is a vanishing species?

Not at all. The drop in the number of expatriate business executives does not indicate a loss in interest in Europe on the part of U.S. firms. On the contrary, the promise of 1992's single market—and the opening up of Eastern Europe—is

STEVE DRYDEN

exciting American companies as much as its European and Asian counterparts. In fact, American direct investment in Europe increased by 16 percent in 1989, to $176.1 billion, according to a Commerce Department estimate.

But the accelerated money flow does not necessarily translate into more Americans being sent abroad. For one thing, it is just getting too expensive to transfer executives to Europe every time the need arises. Organization Resource Counselors estimates that an American manager who earns a $100,000 annual salary in the United States, will cost his company at least $300,000 during his first year abroad: In addition to a hefty bill for moving the executive and his family, other costs, such as schooling for the children, a housing allowance, taxes, and home leave, must also be paid.

Then there is the problem of the track record of American executives abroad. Some experts who have studied the subject, such as Professor Stephen Kobrin of the University of Pennsylvania's Wharton School, believe that Americans tend not to cope very well with the rigors of living and working overseas, even in the hospitable climate of Western Europe.

"Americans have had trouble adjusting and the firms didn't help them. The companies are getting out of this ball game," says Kobrin, who estimates that the "failure rate" of Americans abroad—due to family stress, bad performance, or unhappiness with the foreign posting—ranges from 30 percent to 50 percent. Nancy Adler, a professor on the faculty of management at McGill University, agrees with Kobrin. "Unfortunately, we [the United States] are the leader in the world" in expatriate failure, she says.

It has also become more difficult for American companies to convince their managers to go abroad. Overseas assignments often mean that employees lose touch with their home headquarters, and do not get the promotions they would have received had they stayed in the United States. "While many CEOs talk about global operations, in the vast majority of companies an overseas assignment is still for the birds," says Calvin Reynolds, senior vice president of Organization Resource Counselors.

But probably the most important reason for the declining number of American executives in Europe puts a more positive light on the phenomenon. There may have been a need for U.S. managers to go to Europe during the first waves of postwar investment, because their companies used technologies and methods that were, in many cases, new to Europeans. These days, however, Europeans are often the innovators, and the flow of trans-Atlantic know-how is more evenly balanced. Many American companies, in fact, pursue research and development in Europe, and distribute the fruits there and in the United States.

It has also become obvious to U.S. companies that Europeans appreciate the subtleties of their own national markets more readily than Americans. Moreover, U.S. firms are sensitive to the fact that they will not get the best out of their European employees if a perception exists that the top ranks are reserved for Americans only. Promotion of local workers "sends the right signal," says Richard Rachnor, director general of international personnel at General Motors (GM).

While the current president of GM's European operations, Robert Eaton, happens to be American, his predecessor was German. And at Heinz, an Irish executive, Anthony J.F. O'Reilly, rose above the regional operations and is now the chairman of the company at its Pittsburgh headquarters.

As far as managing the Eastern European ventures of American companies, it looks as though Europeans will again be favored. They know the languages, cultures, and politics of their neighbors better than Americans, and they already have experience in developing their products and know-how internationally. General Electric acknowledged this reality when it chose from among its ranks a Hungarian émigré, George Varga, to run Tungsram, the Hungarian light bulb manufacturer the company bought from the Budapest Government last November.

In future, however, business executives in Europe may come from any number of points on the globe, and their overall qualifications and skills will count for more than their places of birth.

McGill's Adler observes that, as multinational companies begin to pursue what is known as a "global strategy"—gaining *worldwide* competitive advantage rather than just producing and selling overseas—the rising executive must have *international* experience. And such an individual could just as well come from Hong Kong as from London, Paris, or New York. "If you want to be global, you have to have people who know one another and can work together," Adler says.

The Euro-Executive

With the development of a pan-European economy, some management consultants are predicting the emergence of the pan-European executive.

A résumé of this person might look like this: born in Amsterdam, educated at Oxford and INSEAD (the European business school located outside Paris). Management experience in Dutch and German companies. Fluent in three European languages.

The chances of finding someone in this mold is greater among the younger generation of Europeans. For, until a few years ago, most European companies concentrated on their national markets, either because of barriers to doing business across borders or a narrow outlook.

Now, according to corporate headhunters and business school administrators, companies are scrambling to find the managers who can help them cope with the European single market. "The demand [for the European executive] is increasing significantly," says Paul Ray, an executive recruiter who works both in Europe and the United States.

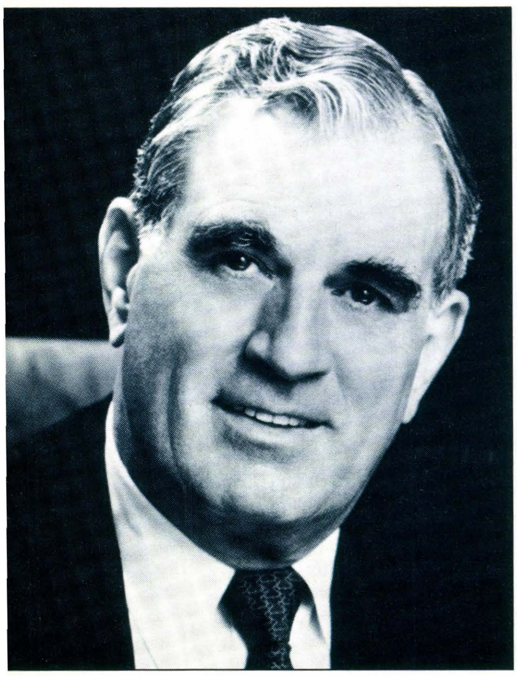
Some management specialists think Americans may do well as Euro-executives for their companies, since they have experience with the "single market" of the United States. The language problems remains, however. "I haven't seen any great surge toward multilingualism on the part of Americans," admits Herbert Schwamb, manager of international assignment policy at IBM.

With their transnational operations, American companies are credited with developing a European identity among their local employees, however. 3M, for example, has had a Danish executive run its West German operations, a Belgian in charge in Finland, and a British manager heading up its Swedish operations. Says Bruce Hoffel, director of international human resources for the company: "We don't see the nationality line. It's just 3M."

Steve Dryden is a Washington, D.C.-based journalist who has written for *Business Week*, the *International Herald Tribune*, and *The Washington Post*. His article on U.S.-E.C.-Japanese trade relations appeared in the May 1990 issue of *Europe*.

The Coca-Cola Company

John Georgas



Corporate Comments: Doing Business in 1990s Europe

John W. Georgas, Executive Vice President of The Coca-Cola Company, and President of the company's International Soft Drink Business Sector, spoke with Europe *about Coca-Cola's marketing policies in Europe. Georgas was interviewed by Robert J. Guttman in late summer.*

The president of Coca-Cola has been quoted as saying: "We think the 1990s is the decade of Europe." Could you comment on that?
Obviously recent events in the E.C. and in Eastern Europe would stimulate a comment like that. Long before the E.C. was popular, we were committed to the Community as a growth area in the 1990s, and restructured our organization accordingly: Several years ago we created a separate E.C. unit to concentrate on the events leading up to 1992.

Is Coca-Cola optimistic about the 1992 single market?
Yes, we are.

Do you feel 1992 will be an improvement for business all over Europe?
I think so, but you have to remember that we are not new to Europe. We have been in partnership with local businessmen throughout Europe for decades and have established a presence through our partners, or franchisees. Now it's just a matter of seeing the change taking place and building upon that very solid base.

Can you explain your $140-million investment in East Germany?
Almost immediately after the Wall came down and East Germans started to visit West Germany and West Berlin, Coca-Cola was there handing out free Coca-Cola. It was a very popular event in West Berlin. People were seeking out the Coca-Cola man to get the samples.

Within weeks thereafter, we were in East Germany discussing the distribution of Coca-Cola there. Almost at the same time we reorganized: As soon as we saw the changes, we moved East Germany into the West German and E.C. group, and transferred the infrastructure, talent, and technology of our West German operations into East Germany. Within weeks, we were shipping Coca-Cola in cans into East Germany to distributors with whom we had made agreements. Within a month or two, we were selling a million cases a month in East Germany.

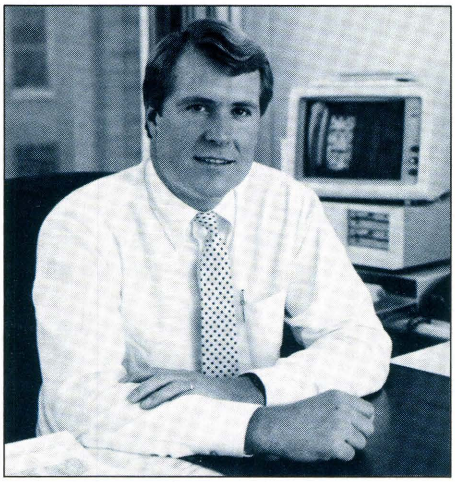
We discussed a relationship with local East German soft drinks producers who had production facilities—albeit antiquated—whereby they could begin to contract pack Coca-Cola in East Germany to our standards, and to upgrade their technology. By July, we had put our first East German production facility in place. Now we're no longer solely importing into East Germany, we're producing and distributing in the country. Next year we expect to sell 30 million cases and, by 1995, 100 million cases a year in East Germany.

In Eastern Europe, do you do barter or do you have hard currency?
We do counter trading. In Yugoslavia, we have been exporting wine out of the country for years in order to bring in our concentrate and the equipment necessary to build the business. In Poland, we were exporting beer, in Hungary apple juice. Historically that has obviously been limiting growth: You have to find the exports to get the import in. We are hopeful, and believe, that in the 1990s those currencies will be convertible, which will allow for growth on the basis of a market-driven economy as we know it.

What events will you be sponsoring in Europe in 1992?
There are a number of cultural and sporting events in which we will be actively participating. We are a major sponsor of the Barcelona summer Olympics, and the winter Games in Albertville, France. Disney is opening a park outside Paris, where we will have exclusive distribution on carbonated soft drinks. There is also the Seville "Expo '92" World's Fair, and celebrations of the 500th anniversary of Columbus' discovery of America. □

Chase Manhattan

Tom Swayne



Tom Swayne, Senior Vice-President and Europe Corporate Finance Director for The Chase Manhattan Bank, discusses his bank's strategy in Western and Eastern Europe for the 1990s. Swayne was interviewed by Anke Middelmann in August.

Will you be adopting any new strategies, or changing your current strategies, for the upcoming single market? If so, what are those?

We have [already] changed our strategies. We have been expecting and dealing with the changes for some time; they are not some new revelation in terms of our structure.

But we are continuing to refine our structure in Europe. Our approach has not been that of a corporation new to Europe—we have been in most countries for over 50 years and have a fairly substantial European presence, probably one of the only complete networks in Europe.

Our strategy, therefore, has always been to deliver services in a focused manner, on a pan-European basis. So the fact that Europe, and the corporations within it, is becoming more a part of a common Europe is a great advantage for us.

What are the advantages of running your European operations from London instead of from New York?

You are part of the European picture, as opposed to observing it from a time zone away. Our approach is not to try to be a universal bank to all the corporations in Europe, but to have long-standing relationships, which we have built up over many years.

We have an industry focus in Europe. In addition, we have strong product capabilities, not only in London, but in key markets across Europe. Our hub is definitely London, and we have spokes that are not inconsequential in many locations across Europe. We work as a connected series of units, as opposed to a free-standing, independent, locally servicing corporation. We concentrate on cross-border [activity], and we do not emphasize local servicing, except in selected cases. For example, media is one of our key industries. We have a media team in London that works very closely with our media hub in the United States.

What will happen in the banking industry after 1992? Will there be a shakeout once the single market is in place?

At the moment, there are a series of participants in the corporate finance business in Europe. Some of these have been very strong in, let's say, a very local market. Their clients increasingly will be looking for them, or for intermediaries, to provide services, not just within a local market but, as their capabilities expand throughout Europe, around the world and in multiple locations.

That's going to force, and [already] is forcing, a great number of local players to make decisions such as:

- strategic alliances;
- ways in which they can spend the money to build up networks across the world, which some of them cannot do;
- whether to sell out completely since they will not be able to compete in that format;
- whether to focus on super-niche strategies that will mean much downsizing, on just a small specialty, or on a series of specialties that they may be able to develop.

C. Wesley Smith, President, International Paper Europe:

❶ We have not changed our business strategy as we have prepared International Paper to benefit from the formation of a single European market. Like everyone, we have heard a lot of speculation about the possible effects of the changes slated for 1992. Rather than making decisions based on one scenario or another, we have continued our long-standing policy concerning expansion by acquisition—looking for businesses with the potential to be long-term, strong performers under various circumstances.

An example of this policy is that we have kept the management structures of companies we acquired in Europe. They were successful as independent companies, so we saw no reason to change management. These companies are Aussedat Rey in France, Zanders in West Germany, Bergvik Kemi in Sweden and the Netherlands, and Ilford in the United Kingdom, France, and Switzerland. In addition to these acquisitions, we are a major exporter of pulp, linerboard, and bleached board to Europe and we operate one of the largest container businesses on the Continent.

Our view of 1992 is that it is a process that has more to do with the concept of change than with change itself. We do not believe the formation of a single economic community will make a significant immediate difference. It will bring some very useful changes, but more are likely to be gradual. We expect to see a steady increase in the level of international cooperation inside and outside the European Community.

❷ There is certainly potential, but it is wise to remember that these countries are in an extremely difficult period of political and economic adjustment. The collective market is large and tempting, but, because of the uncertainties, we think it best to slowly investigate and study possible investments in Eastern Europe. For example, we recently attended a trade show in Moscow where the need for liquid packaging systems was emphasized. As a result, we have a contract with Czechoslovakia and the Soviet Union to supply aseptic packaging systems, and we are negotiating supplying systems to other Eastern European countries. In addition, we are seeking new business in Eastern Europe for our existing manufacturing base in Western Europe.

John Dollisson, Vice-President, Corporate Affairs, Philip Morris International, Inc:

❶ Philip Morris International (PMI) is well positioned to take advantage of the 1992 European single market in Europe. The company has long operated as a global company, with four manufacturing centers in Europe (the Netherlands, West Germany (two), and Belgium), and a research facility in Switzerland. These facilities serve all of the European Community.

PMI has always operated overseas with the view that Europe is a continent rather than a collection of individual countries. This is reflected in our promotion, advertising, marketing, and manufacturing activities. PMI has about 22 percent of the E.C. market.

This history of being a pan-European operation for more than 30 years will stand PMI in good stead as Europe approaches the single market.

A Philip Morris subsidiary, Kraft General Foods International (KGFI), has European sales of $3.5 billion. Its European regional headquarters are in Munich.

Richard J. Collins, Manager, Public Affairs, KGFI, says the company has successfully launched 75 new products and line extensions, several of which are contributing to building European brands. These new products and lines include new varieties of cream cheese, and low-cholesterol, light, and low-fat Kraft cheeses and dressings. It has also added new soluble coffees, such as Kenco and Saimaza, to its line-ups in the United Kingdom and Spain. In early summer, KGFI made a significant move in Europe with the announced agreement to purchase Jacobs Suchard, a large chocolate manufacturer.

These combined European businesses complement each other, giving added scale in coffee across Europe, and offering significant growth potential in confectionery.

After the acquisition of Jacobs Suchard, KGFI sales will more than double in Europe to over $7 billion.

❷ Philip Morris was among the first international companies to market in Eastern Europe. Our success in establishing licensee agreements in most of the Eastern European countries during the 1970s provides the company with growth potential.

The region offers future opportunities, but one should not expect much change in the near term. Eastern Europeans do not have the hard currency to buy imported products.

One of our leading brands, Marlboro, has been in Eastern Europe for years, and is the largest international brand made under license in all Eastern European countries (except the Soviet Union and Romania), although the volume is small.

PMI is better positioned than other cigarette companies in this region, and should be able to take advantage of whatever opportunities the future holds.

John F. Smith, Jr., Vice-Chairman, General Motors Corporation (GM)

❶ We are a European company with a 60-year history. We are well prepared for the 1992 single market as we are organized and operate on a pan-European basis. We have the broadest sales base of all the European automakers with a double-digit market share in 12 of 17 countries.

We are well positioned because we have improved our productivity and capacity utilization without building new plants. In Spain, we have added a third shift at our Zagoria assembly plant, making it the first three-shift, 24-hour-a-day vehicle assembly operation in Europe. We are now making some 360,000 cars a year there, on one assembly line.

Last December, we established a joint venture with Saab-Scania, the Swedish automobile, truck, and aircraft builder . . . . This will enable GM to strengthen its presence in the European luxury car market.

I would give more examples, but I think you have the general idea: We are bullish on Europe, and we are bullish on GM Europe.

❷ Looking at the Eastern European market, we must keep in mind that the word "potential" is still the operative term.

. . . The challenge here is more than to rebuild an industrial base and put labor back to productive work, as it was in Europe after World War II. And it is more than to exploit the advantages and opportunities of an open market, as is the case with the 1992 single market. The challenge of establishing market economies in Eastern Europe involves shifting the entire pattern of resource utilization by pricing goods to reflect their scarcity, eliminating massive state subsidies, and creating the real possibility of bankruptcy and unemployment.

. . . All of that makes caution the byword for Western firms contemplating doing business in Eastern Europe. Caution, however, does not mean that opportunities should not be sought and explored, as GM did in entering into an agreement in Hungary.

In fact, Western companies wanting to do business in Eastern Europe need to get in now, or risk being locked out. They will have to invest and establish operations there, and they will have to export out of Eastern Europe. There will be real opportunities, but those who go for them will need to earn their way over the long haul.

(Excerpts from a Duke University speech, 1990.)

Thomas Holtrop, Vice-President, Public Affairs and Communications, American Express, London:

❷ American Express has had a business presence in Eastern Europe for over 30 years. The new democracies offer huge potential to increase our travel-related services businesses.

In the area of travel, the company will be seeking to expand its travel service office network, primarily to service the increase in American Express inbound travel clients—leisure and business in particular. It will also provide travel financial services—the sale and refund of travelers' checks—and other services for American Express Cardmembers. In the longer term, the demand for outbound travel services is expected. The latter will be determined by the hardening of the Eastern European currencies.

Joint-venture card agreements have been concluded in the Soviet Union, Hungary, and Czechoslovakia. Additionally, the exclusive agreement with Cedok in Czechoslovakia includes the exclusive sale of American Express travelers' checks by

It's expensive and time-consuming to build up a full European capability. This is one of the problems for the more moderately sized players, who have traditionally been very local in their focus. Some will survive, some will be merged, some will form joint ventures, and some will turn into very focused boutiques.

Another group of players would be American, Japanese, and other firms that are just now arriving in Europe and are trying to take advantage of what's going to happen. Their decisions will vary. In some cases, [U.S. firms] will try and bring with them the advantages that they may have in the United States, for example, and try to focus on a marketing strategy that delivers U.S. solutions to Europeans.

A third group of firms has chosen, and will choose, to do fly-in type marketing from a couple of locations, like London, and to deal with the fact that they cannot afford to build a network quickly enough. They will be using an airplane to jet some of their people into some of these markets. That is a more difficult strategy to execute. You are trying to win business from a client base you may not have established yet, in a very competitive market environment. It is unlikely that you will have a high success ratio.

Another approach will be the large, powerful European banks that have been spreading out trying to gain more market presence in Europe. Those players are few, but some interesting ones are emerging: Very powerful large European groups will continue to develop and will do quite well.

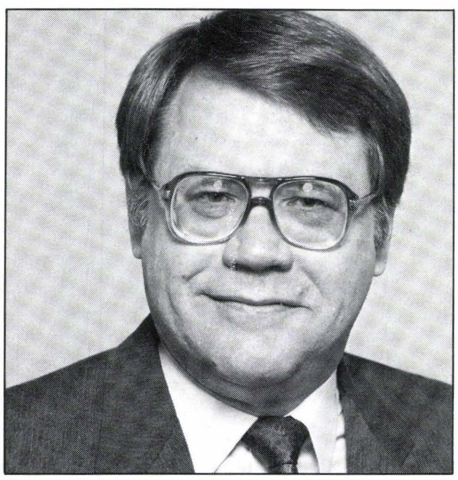
Are you saying, then, that the trend is toward trans-border operations either diversifying into many areas or really specializing into very specific ones?

Yes. Take Deutsche Bank, for example, which is very powerful and dominant in Germany. People who decide to enter Germany will be unlikely to be very successful if they emerge as local banks, setting up branch locations and competing head-on with Commerzbank, Deutsche Bank, and a few other pretty good banks.

So therefore their strategies will have to be tempered by the reality that there are excellent local providers of those services who have been in the market for many years, and who have long-standing, deep relationships—for example, common ownership structures. Those are formidable barriers to new entrance. Chase Manhattan has been in London for over 100 years, and in a number of these [European] markets for many years. So we have the benefits of having developed and nourished some very good relationships. However, we are not trying to be all things to all people, and we are continually refining our physical presence. It is a business that requires very good local execution capabilities, and the flexibility to move one's resources around. □

Marriott Corporation

Ronald Eastman



Ronald E. Eastman, Group Vice President, International Lodging Development, Marriott Corporation, was interviewed by Robert J. Guttman at the corporation's Bethesda, Md., headquarters in late summer.

How will the 1992 single market affect Marriott's business?

We think it will cause more travel, which will certainly lead to more hotel usage. We will also do more conferences, which would add to hotel nights as well as meeting room occupancies.

Do you see a change in the way people are thinking in Europe because of 1992?

Yes, there's a change because of more free trade. In fact, I spent 10 days in Paris recently working with a bank and two contractors in France to do a hotel in Madrid. So a lot of things are going back and forth across the borders.

Do you see a spirit of optimism pervading Europe?

I don't know if it's a spirit of optimism. There's certainly a spirit of more competitiveness. There will certainly be fewer automobile manufacturers. Each country is no longer going to have its own three or that organization, the first non-bank company in that country to offer this service.

Following the unification of the two German currencies on July 2, American Express launched its Deutsche Mark Card in East Germany and established a mini-operations center. This will primarily expand the number of service establishments accepting the Card (currently over 200) and will process Cardmember applications.

Other expansion plans in the GDR include the opening of three American Express-owned travel offices in Leipzig, Dresden, and East Berlin.

The company believes its investment in Eastern Europe will serve its customers' immediate needs and reap rewards in the long term.

Mark Rudolph, Vice-President and Director of Sales for CNN International Sales Limited:

❶ In 1980, Cable News Network (CNN), became the world's first 24-hour news network with the intention of distributing international news globally. In 1985, CNN began transmitting its live round-the-clock news service, Cable News Network International (CNNI) to 27 European countries. Because CNN has had a global outlook since its launch in 1980, and is now available and marketed in all of the E.C. countries, CNN will not be changing its strategies for the 1992 single market.

❷ CNN has been actively involved in Eastern Europe since it opened its Moscow bureau in February 1983.

CNN World Report is the world's largest international news exchange and the only truly global newscast, carrying reports from more than 150 news organizations in over 122 countries, including many Eastern European news organizations. In Eastern Europe, CNN is available in hotels in Poland, Yugoslavia, Hungary, and the Soviet Union. CNNI is available to 48,000 television households in Hungary, and between eight and 10 million Polish viewers can watch excerpts of CNN's *Headline News,* which has been taped and translated into Polish. In addition, the Yugoslav national broadcaster, JRT, distributes CNN in Yugoslavia.

Most recently, Czechoslovakian broadcaster CST has begun using CNNI on an experimental basis for two evening news briefs and also during the day on the country's experimental third television station. CNN is also in active discussions with Bulgarian parties for an experimental distribution in Plovdiv, the country's second-largest city.

Timothy O'Kennedy, International Marketing Director, Nike:

❶ It is certainly our view that 1992 will have a very stimulating effect on the European economy in general and on consumer spending in particular. As a brand that is fairly dependent on discretionary income, we want to be as well-positioned as possible prior to the final unification of the market.

In preparation, we are not adopting new strategies as much as we are organizing ourselves to evolve and implement existing ones. We have done enough research to be convinced that our basic positioning, and many of the strategies that created it, are conceptually appropriate for Europe, with some locally indicated variations.

Our goal is to mirror the U.S. organizational model both at the regional and, eventually, at the country level.

❷ The potential for us is clear, but we are taking the long-term view. Many people envisioned an immediate and insatiable demand for Western goods—especially prototypically Western brands—when the process of democratization began; that has not yet materialized.

There are several reasons for this. For one thing, Eastern Europeans face great personal economic insecurity, which is not a mind-set usually associated with free spending. For another, the simple fact that Western brands are now available to Eastern retailers does not mean that instantaneous and widespread distribution is assured; as of early July, most Eastern retailers in our industry were still carrying virtually only the major German brands.

But perhaps most importantly for us, the demand for high-end products is not yet very great; it will take time and marketing dollars to upgrade Eastern European markets to the point that they can represent significant volume for Nike. In the meanwhile, low-end brands may have some success, but the commodity end of the markets is of little interest to us.

four different automobile companies. There is a big opportunity for companies like Ford, General Motors, and others.

There are going to be winners and losers because of 1992. Do you see a shakeout in the hotel business?
There might be some, yes. There's been a lot already. There were a number of sales in the United Kingdom just in the past several months, and there will be others. We think there will be more and more international firms. You will see a number of U.S. firms become more international.

What are other growth markets in Europe at this time?
Golf is becoming a big factor in Europe, which also presents opportunities to do golf resorts, and a lot of business meetings.

Most of your customers are business people. Are they aware of the 1992 single market?
Of course. Many Americans are trying to establish themselves in the market now because it's large enough. They can have one office for 325 million people, instead of 12 different operations, to establish and market their products. So a lot of people are getting involved, especially more medium-sized companies, which [prefer] to have one European office versus 12 country offices.

Does Marriott have a strategy for expanding into Eastern Europe?
Yes. We're currently looking at a number of opportunities in Moscow, Prague, and Budapest. However, the opening up of Eastern Europe has caused some confusion. For example, we don't always know exactly who's in charge now, like we did before. Also, we often don't know who owns the land. Some people say: "My grandfather owned that land, back in 1938–44, so that's my land now, not the government's." So there is confusion, but we feel that there are certain opportunities for hotels there, especially in Czechoslovakia and Hungary.

When you do invest in Eastern Europe, are you going to start with luxury hotels?
We have one hotel in Eastern Europe and it's very much high class—a five-star hotel in Warsaw. □

FEATURE

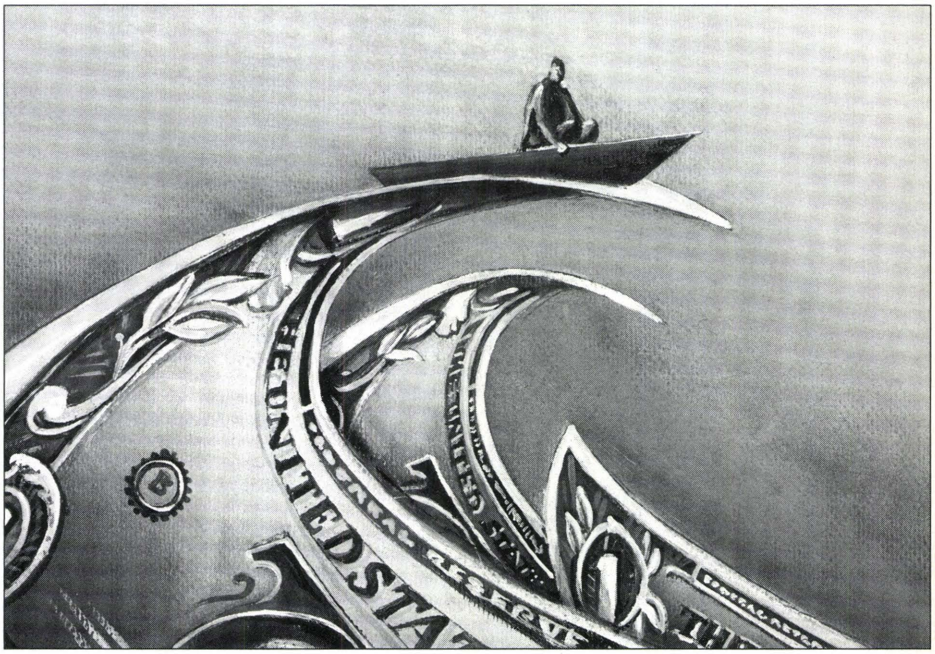
Eastern Europe

Anthony O'Sullivan

DESPITE THE MANY RISKS INVOLVED, AMERican companies are moving into Eastern Europe because of the potential of profits in this new market.

Of course, companies are not putting all their chips on the table; for now, they are merely placing small bets to test the new terrain. Ford Motor Company's July decision to build an $80-million automotive components plant in Hungary, to produce ignition coils and fuel pumps for its Western European branch, is a case in point.

This venture represents a tiny fraction of Ford's presence in Europe, let alone the world. But at this early stage, presence, not profits, is most important. "Companies are dipping their big toes in the water," explains John Endean, Vice-President of Policy at the American Business Conference, a business association representing some of the fastest-growing companies expanding overseas. "Right now it's a learning process, and companies are thinking [in the] long term; this is the beginning of broader international expansion."



KAREN STOLPER

Testing the New Terrain

The early birds hope to get the best deals. Example: The Hungarian Government agreed to grant Ford 10 years without taxes as an incentive to invest.

More importantly, businesses will establish contacts and create a new base. With personnel exchanges now being discussed, notably in the Soviet Union, managers from both sides could gain a crucial understanding of each others' culture, people, and business techniques. For example, Eastern European companies have for the most part been dominated by the Communist nomenclature more concerned with party ideology than with corporate efficiency. Accordingly, a thorough understanding of Eastern European business and culture is essential to begin a new global partnership.

To minimize the risks of any political backlash, most companies are sticking to joint ventures. General Electric (G.E.) has joined with Hungary's Tungsram to produce light bulbs in Eastern Europe. G.E. offers its management techniques and advanced technology in exchange for Tungsram's established position as a supplier in Europe. Levi Strauss & Co. has invested a majority share in a joint venture to produce denim jeans and jackets in Kiskunhalas, Hungary. It is now looking to set up plants in Poland, Czechoslovakia, and the Soviet Union.

Even the smaller American companies

are moving into Eastern Europe and the Soviet Union. Tabard Farm has announced a joint venture with the Soviet Union's Zybino to build a farm-based food-processing facility to manufacture potato chips. The task is arduous: "Critical areas," explained Edward Cohen, co-director of Tabard Farm to *International Economy,* "include lack of Soviet experience in commerce and sales and a lack of packaging potential."

The more cautious companies are pooling their resources by joining in consortia to tap the Eastern European market of more than 400 million people. For instance, Eastman Kodak, Chevron, Mercator, Johnson & Johnson, RJR Nabisco, and Archer-Daniels-Midland have formed the American Trade Consortium to establish business relations with Soviet companies.

Through the Overseas Private Investment Corporation (OPIC), American investors can find compatible Eastern European firms through a computer data bank that operates like a dating service. OPIC also offers political risk coverage—for war, revolution, or insurrection—in Poland and Hungary.

Even though optimism floats in the air, harsh reality still exists. First, most agreements are just on paper—in other words, they are largely non-operational. Second, there is no infrastructure to speak of: Roads, telecommunications, banks, and industry are antiquated in Western terms. Third, understanding who owns what is confusing. Joint ventures and acquisitions are impeded by antiquated accounting methods and faulty record keeping. In more embarrassing circumstances, many individuals have been demanding back property stripped from them by the communist governments after World War II. And fourth, with the exception of the internally convertible zloty, Eastern European currencies are inconvertible.

The relationship between the pound sterling, the dollar, and the ruble is simple for cynics in the Soviet Union: It takes a whole pound of rubles just to get a dollar. While Eastern Europeans think of puns to lighten the burden of a dismal financial situation, American companies are more creative. Pepsico, for example, exports wooden chairs from Poland to its Pizza Hut franchises in the United States, and sells its soft drink to the Soviet Union in exchange for old submarines.

Bartering aside, lack of hard currency makes it difficult for companies to fix a value on a deal. For example, Pet, a Hungarian fertilizer company, was sold to Hungarian and Swiss companies for $45.5 million, even though Price Waterhouse valued it at somewhere between $10.6 million and $182 million.

Paradoxically, the very backwardness that impedes success for many joint ventures is the principal driving force for others. In telecommunications, for example, the situation is so bad that business people can only trust personal interaction. According to ***Business America,*** only one-third of Polish telephone calls are ever completed.

The pace of technological change in Eastern Europe can only accelerate now that the June 7 Committee for Multilateral Export Controls (COCOM) meeting in Paris has authorized a major liberalization of technology trade restrictions. Minnesota-based Control Data had eagerly awaited COCOM's approval to sell six computers to the Soviets for nuclear safety engineering. Of course, some still argue that agreements on paper are a far cry from reality.

Not all Eastern European industry needs help, however. Science, especially biotechnology, is highly regarded. This is partly because raw materials and scientific research are cheap (senior scientists in Poland earn approximately $80 a month), and partly because Marxism inspired a long-standing commitment to excellence in science and technology.

American companies are keenly aware of the Eastern European strengths in the scientific field. Millipore, for example, started a joint research and development center with the Institute of Genetics in Moscow to isolate biologically active compounds.

Which Eastern European country will lead the way in attracting American investment still remains uncertain. Hungary has taken the early lead because of its proximity to Western markets and aggressive business incentives. Poland and Czechoslovakia are trying to achieve the same goal—a free-market economy—using different methods. Poland is attempting the "cold turkey" approach—stopping inflation, reducing the budget deficit, and ending government subsidies and control of prices in one rapid and painful blow. Czechoslovakia, in contrast, is acting in progressive stages, by slowly loosening prices, controlling inflation, and building capital markets, all without over-relying on Western cash.

Since no country has ever made the transition from a communist to a capitalist economy, it will be fascinating for U.S. businesses to watch, learn, and possibly profit from the experience. €

LEADING EASTERN EUROPEAN COMPANIES

Poland: Polmos (vodka producer)
Petrochemica (oil refinery)
Lubin Copper (mining, smelting)
Huta Katowice (steelworks)
Lenin Steel (steelworks)

Hungary: Hungarian Plastics (plastics manufacturer)
Duna Oil (oil refinery)
Tissa Chemicals (chemicals)
Hungarian Electrical Works Trust (electric energy)
Ikarus (bus manufacturer)

Czechoslovakia: CEZ (electric energy)
Skoda (automobile manufacturer, heavy machinery)
ZTS (heavy machinery)
OKR (mining)
NHKG (steelworks, rolling mills)

Romania: Electronica (household electric, computers, radios)
Textile Machinery Central (light industry equipment)
National Center for Aviation (aircraft)
Chimica (chemicals, pharmaceuticals, paper)
Danubiana (rubber, plastics, chemicals)

East Germany: Baumwolle (textiles)
Carl Zeiss Jena (precision optical equipment)
Robotron (computer technology, data processing)
Mikroelectronik (electronics)
Fortschritt Landmaschinen (farm equipment)

Bulgaria: Kremikovtzi (steelworks, metallurgy)
Bulgarian Maritime (shipbuilding)
Polimet (chemicals)
Polichim (chemicals)
Lead & Zinc (nonferrous metals processing)

Soviet Union: Avto Vaz (automobiles)
GAZ (automobiles, trucks)
Zil Production (trucks, appliances)
Elektro Zavod (electrical engineering)
Tyazmashzagranpostavka (heavy power, transport, engineering)

(Source: *Financial World,* March 6, 1990)

Anthony O'Sullivan has contributed to staff reports for *Europe* magazine. Jana Nelhybel and Gènon Jensen also contributed to this article.

FEATURE

Ringing Up Sales in Eastern Europe

The Telecom Industry Takes Off

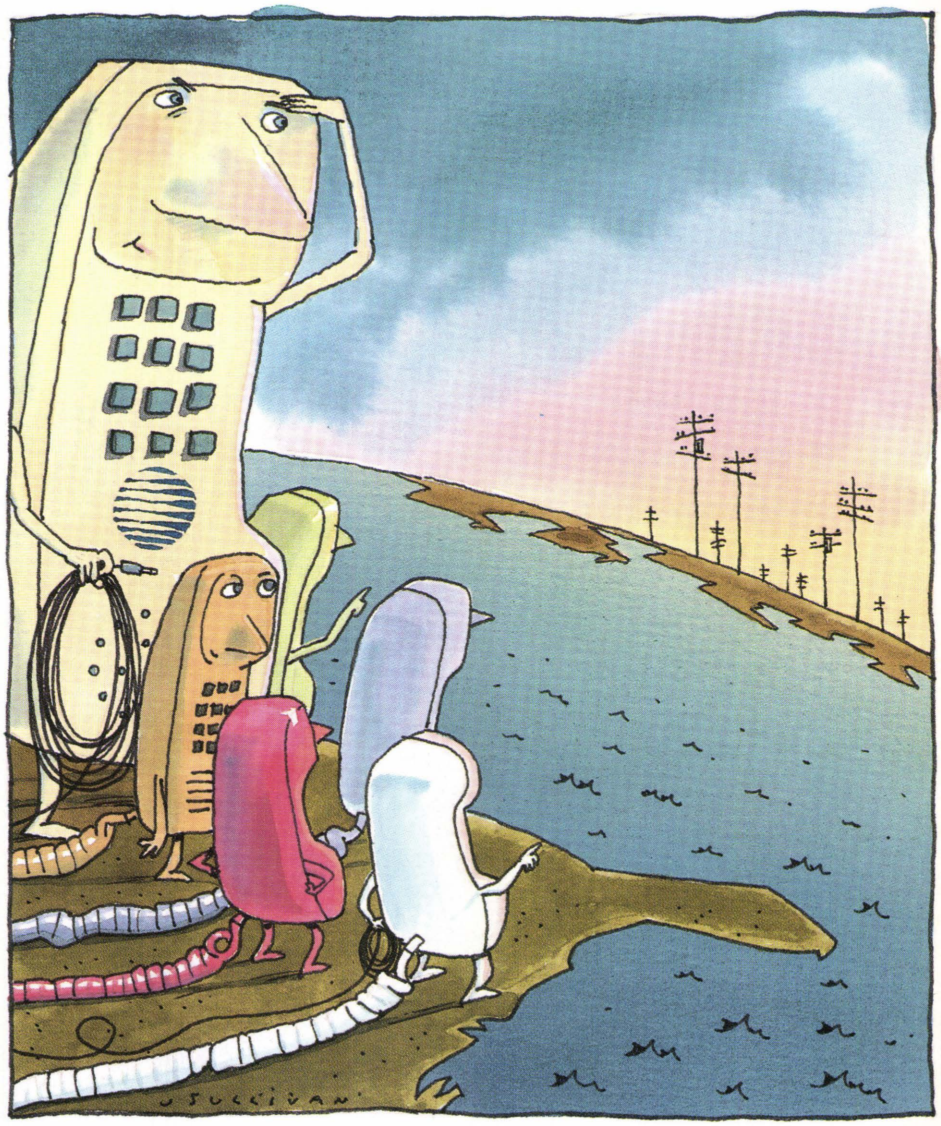
JULIAN M. WEISS

THE EASTERN HALF OF THE EUROPEAN CONtinent is fast becoming a key battleground in the global telecommunications contest, as most of the deregulated American telecommunications giants eagerly pursue opportunities from Berlin to Bucharest.

It is competition with enormous stakes. Major trends are recasting communications systems worldwide, and the inauguration of ultra-high-tech equipment is seen as infrastructure befitting a new century. Digitization, cellular phone units, integrated services, fiber optics lines, and value-added data exchange networks—spawned from the transformation of ordinary telephones into information receivers, organizers, and transmitters—are cornerstones of a vast telecommunications revolution.

For businesses, globalization, mergers, image-changing, and rationalization are crucial for their future prospects in telecommunications. Just as is true in other "sunrise" sectors, enormous research and development costs are required. "You cannot be a world-class competitor," cautions a Siemens spokesman, "without enormous investments" that are "difficult for many companies." Companies on both sides of the Atlantic wonder about "fine print" and forthcoming regulations affecting shared deals and alliances—as well as measures to preserve the Community's indigenous market share.

The ubiquitous trade issue is another factor propelling American interest in Europe's dialing systems. With nearly $3 billion worth of overseas investment in telecommunications, American Telephone & Telegraph (AT&T) and the roster of deregulated "Baby Bells" boast considerable expertise abroad. The arena of telecommunications and allied equipment



JEM SULLIVAN

Bert Roberts, President of MCI Communications Corporation, discusses MCI's strategies for the 1992 single market, Eastern Europe, and the role of telecommunications in Europe in an exclusive "Europe" magazine interview with Robert J. Guttman in late summer at MCI's corporate headquarters in Washington, D.C.

Do you have any special strategic plans for the 1992 single market?
As a company, we are focusing on it as a major opportunity. We've got significant correspondent relationships with all the E.C. countries. These go back many years because the two companies that we acquired—Western Union International and RCA Global Communications—had agreements and arrangements with the various PTTs (Public Telephone and Telegraph) in Europe, going back 50 years.

MCI has continued to expand on those relationships. We now have certificate agreements across the spectrum of services with all the E.C. countries, which we see as something on which we can potentially build as opportunities in 1992 come about. We account for an excess of 15 percent of all the phone traffic to and from Europe, some countries being higher than others. We have initiated special agreements for world mail and Infonet, which offers value-added packet services.

You're going to find that MCI is a player in some of the value-added services that will evolve. The E.C.'s 1992 single market program has already endorsed competition in value-added types of telecommunication services, and MCI plays a part in that by setting up specialized networks to focus on individual communities, ventures, financial transportation, and other things. We are working in joint partnerships, maybe even through acquisitions within the E.C., to get ourselves strategically placed for various opportunities.

As a company, we're going to have to obviously play by the ground rules that will be set up. Those ground rules have been somewhat fluid, although they continue to point toward a direction of competition. It's not our posture as a company to go in and try to bias the ground rules, but rather to be a player within whatever the constraints and/or opportunities set up.

Are you going to have a single strategy for a United States of Europe, or will you still market your services country-by-country?
First, you will find that MCI will have multiple strategies. On a country-by-country basis, there will still be certain ground rules left to the providence of the country, such as long-distance telephone services. These include intra-company, intra-country services, and perhaps the ability of each country to set up individual agreements for certain types of competitive services.

Second, you will find us being a player where we can with respect to the *European* market. For example, specialized networks and value-added types of services could be set up throughout Europe that fall within the E.C. ground rules.

Third, we will posture ourselves as a provider of global communications for those transnational companies that are headquartered in Europe, for example, and/or American companies that do business in Europe.

Are you going to be a player in Eastern Europe?
First and foremost, we look at the European Community and Western Europe as the key opportunity in the European arena for MCI. We do have relationships with many of the Eastern European countries; for example, we provide voice, telex, and message communications to most of the countries that were in the Eastern bloc. We have had business discussions with the PTTs of those countries and with the Soviet Union.

We will focus on expanding the current relationships and, perhaps, establish different kinds of networking in and out of the countries. We won't be going in and revamping the telephone system, as a number of Bell operating companies are bidding to do. We will be a player in terms of international communications in and out of those countries.

Is Europe your fastest-growing market?
With the 1992 single market program, Europe will be the fastest-growing segment of our international growth.

What do you see as the major problems of doing business in Europe? Are they cultural differences? Are they language problems or different standards?
The first thing is that each country is its own individual entity. Therefore, at least until the 1992 single market program, one certainly did not look at dealing with Europe as Europe. One looked at dealing with Europe as a grouping of individual

countries, each of which had its own priorities, its own ways of doing things. It was paramount for MCI to recognize that and to deal with each country, based on its own needs and priorities, and its own rules and regulations.

As the single market comes into place, that will be modified to some degree over time. At least for the foreseeable future, however, it will be very important that we continue to deal with each country on an individual basis.

I don't think that language or cultural differences have been a big problem for MCI, simply because of the way we staff the offices. When I fly to Europe, I deal with MCI employees who have lived in the country. They are French or Italian, for example, and they know not only the language but also the customs.

Standards, in so far as they are different from one country to the next, have come a long way: In terms of standardization, the E.C. process has put standards into place early on for most types of services.

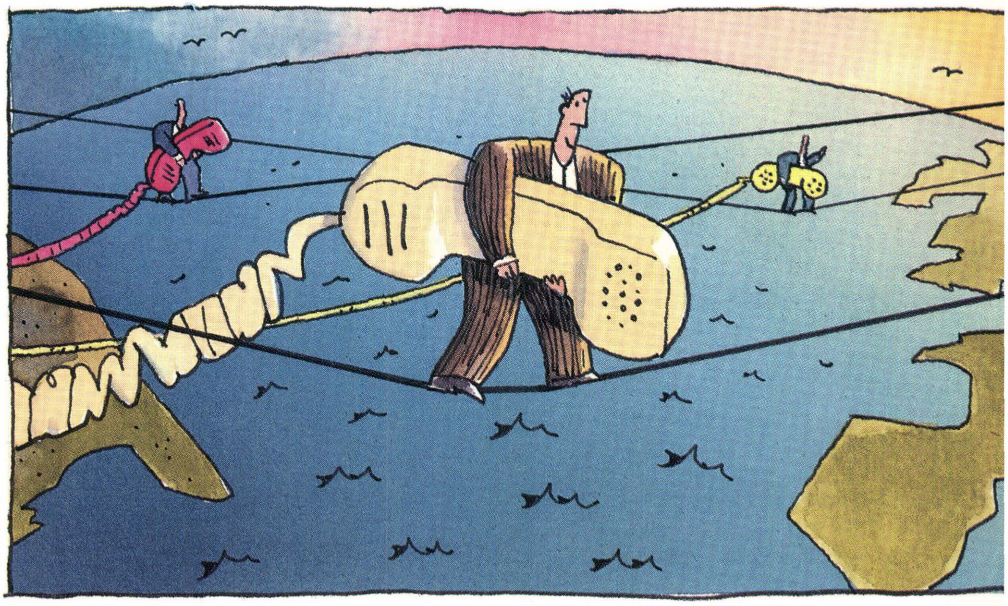
Are fiber optics the main media communication network that you use for Europe and the United States?

Certainly for the United States and certainly for communications between here and Europe. The trans-Atlantic cables now being put into the ocean are all fiber optic cables, and they will be the main mode of communication over time. But right now, we use satellite to and from Europe. We have not built a network in Europe or in any of the European countries.

In Europe, do you see a shakeout in your industry because of 1992? Are there going to be winners and losers?

Yes. I don't think that it is at all different from the other industries. For example, if one looks at the number of consultants running around, there will be a shakeout just in terms of consultants.

In order to be successful, one has to be familiar with the territory. We've got excellent relationships within the individual E.C. countries and we've got our corporate objectives in focus: It is critical that we be a major player on the European scene. All of those things will come together as a formula for success for MCI.



JEM SULLIVAN

remains a bright spot on both E.C. and U.S. trade statistics; it is no wonder that serious competition is afoot.

The Eastern Bloc Prepares

Nowhere is this competition more evident than in Eastern Europe. Given the legendary delays not only in basic service but also in installation of the most basic telephone systems, communications systems lag far behind those in the West. Czechoslovakia—with the highest per capita level of telephones installed—boasts 236 phones per 1,000 of its citizens, a third the level in the Federal Republic of Germany. In East Germany, some $22–30 billion will be needed to bring the telephone system on a par with that found in the West. The total needed to install quality service across seven Eastern bloc countries by 2005, according to Britain's Telecommunications Research Center, is $350 billion.

Most governments in the Eastern bloc are advising foreign companies to adapt a long-range strategy. Spin-off benefits for fledgling start-up supplies and subcontractors will assure preferred treatment, as well as packages that include training local technical support teams. Overcoming the lack of hard currency may be offset by requests submitted to the World Bank and other multilateral agencies. Some funding is also being obtained through special accounts offered to future individual telephone service subscribers who deposit advance payments.

Western European partners with first-hand expertise in the Eastern bloc were received favorably by the newly opened companies. Many credit West Germany's PTT, the Bundespost, with breaking new ground for all players—E.C. and American alike—through an aggressive cellular phone marketing program. Concentrating on the other Germany, the Bundespost instantly gained recognition for a bevy of products among many Eastern bloc governments.

Another common thread is the importance of personal contacts as the range of radio frequencies and other proprietary "property" is negotiated by individual governments. France's Alcatel and West Germany's Siemens, for example, were known quantities in Poland when Warsaw recently announced plans to end its monopoly control over communications. These E.C. firms had spent time in advance contacting officials and indicating they would go to extra limits to satisfy Polish users. Warsaw liked this approach and reasoned that there were many advantages in collaborating with an alliance representing the interests of two E.C. members.

Deals Accelerate

To assure new contracts, the mini-Bells and AT&T are entering into joint ventures and cooperative agreements with E.C.-based telecommunications partners.

One new kind of alliance is that used by Philadelphia-based Bell Atlantic and U.S. West, headquartered in Englewood, Colo. Both teamed up with proposals for the Czechoslovakian Ministry of Posts and Telecommunications to upgrade all systems "within the target dates," says an official, "which are around 1995."

U.S. West also has ambitious plans for Hungary. A first phase, costing $10 million, will lead to a nationwide cellular system. Reynie Ortiz, president of U.S. West International, says that the government agency, Magyar Posta, will provide construction and interconnections. Such a business strategy allows U.S. West to remain in the running for its proposed fiber optic network in the Soviet Union. With its base in the United Kingdom, where U.S. West holds cable television franchises, this Baby Bell is able to monitor potential for sales of varied services across the Continent.

Contel, headquartered in Atlanta, envisions radio-telephone service as viable in Hungary. According to the company, the major challenge was to position itself as truly international. "To some extent, we wanted a very 'big name' company," says a Hungarian commercial attaché. "[Contel] convinced our Government it was going to stay with us for a very long time, for its benefit and ours."

Another ingredient of success was the development of Contel's joint ventures with recently formed, locally controlled, Hungarian companies. Hungary has, for years, stressed indigenous technology and electronics as part of its quiet liberalization program, and is able to meet many of Contel's criteria for servicing, equipment production, and the like. Within a year, over 20,000 subscribers are expected.

Motorola, based in Schaumburg, Ill., sees its vast orbiting satellite network as a gateway to cellular service in Eastern Europe. Because there is little chance of adding capacity in the switching towers found across the E.C., those satellites will be essential. Motorola and Ericsson of Stockholm, Sweden, will produce equipment together.

NYNEX, the Baby Bell from New York, had subsidiaries in Geneva and Paris before finalizing contracts with France Telecom for value-added services, including voice mail. In addition, a series of cooperative agreements with other E.C. members will share the fruits of some research and development while dividing marketing efforts. A joint venture with British Telecommunications PLC aims at implementing a more localized, less costly, form of cellular service.

Other opportunities led the Baby Bells to form consortia. Pacific Telesis in San Francisco preferred this route in a project that will offer cellular services through the Federal Republic of Germany. Although Southwestern Bell (in St. Louis) has not formally entered the European market, many believe it will choose to join a consortium in order to sell E.C. and Eastern European customers its advanced integrated services digital network.

A pair of other Baby Bells, Chicago's Ameritech and Atlanta's Bell South, are not yet involved in formal telecommunications deals. But they report that options remain open should niche markets arise.

MCI has been involved in joint ventures in West Germany for five years, and anticipates marketing to Eastern Europe "in a year or so," insists international affairs spokesman Alan Garratt, once other systems are up and running (see also interview, p. 24).

While competition for these lucrative markets intensifies, prospects for cooperation at fundamental levels are encouraging. As a spokesman for France's SGS-Thomson notes, resolution of technical standards issues (for the 1992 single market) "will lead to better business and trade . . . in telecommunications." €

Julian M. Weiss contributes frequently to *Europe*, and writes for several leading business magazines. His article on ASEAN appeared in *Europe's* May 1990 issue.

Caspar Weinberger

Caspar Weinberger, currently publisher of Forbes *Magazine and formerly Secretary of Defense in the Reagan Administration, speaks out on the Middle East crisis, East-West relations, NATO, the end of the cold war, and other defense-related issues in an exclusive* Europe *interview.*

Are you pleased with the E.C.'s reaction to Iraq's invasion of Kuwait and the subsequent crisis in the Gulf?

To the extent that I am familiar with it, yes. It seems to be generally along the same lines as [the nations of] NATO: Action is required and the consequences of allowing this aggression to stand, thereby encouraging future aggression by Saddam Hussein, would have very serious consequences for Europe, the United States, and, indeed, the world. I have not seen any specific language from the E.C., but my understanding is that they are as concerned as NATO at the consequences of this aggression.

The reaction of the world markets to this kind of aggression has revealed a certain fragility of Europe's "emergent democracies." What is your assessment of the situation, specifically of Eastern Europe's ability to weather such storms and continue on the path toward free enterprise and democracy?

First of all, I hope they will continue [on the path to democracy]. The communist and socialist systems of economics have proven to be totally bankrupt and unworkable. Moving to a true free-market economy does, however, require major adjustments. Certainly anything that disrupts the economy and that sends up the cost of a very vital product tends to encourage and induce more inflation. This makes it generally much more difficult for them to market their products because other countries are similarly affected. This is another reason why we cannot simply stand by idly and accept the results of this kind of aggression.

From the response to this crisis, do you see signs of a new East-West relationship, whose axis runs east and west through Europe, or at least signs of a new understanding of shared interests?

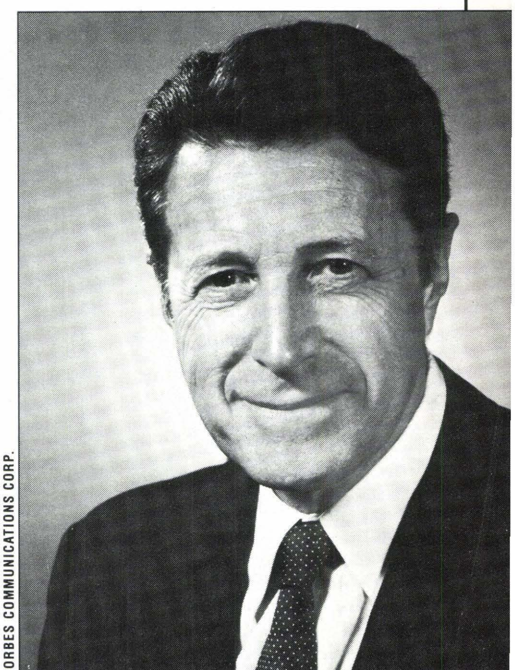
I think there has been for some time. This crisis does emphasize that there are now many common interests. One reason why we have been able to move as quickly and decisively in the Middle East is because there appears not to be the kind of situation that was produced in East-West confrontation as we were concerned about a year or so ago.

Your new book, *Fighting for Peace,* does not emphasize Europe as much as other parts of the world. Why?

To some extent, that reflects the fact that there were not many difficulties or problems with our relationships with Europe. The Chinese and Japanese relationships had some interesting aspects to them, which we attempted to cover.

But the book is not intended to be a comprehensive treatment of everything that happened during the seven years [I was U.S. Secretary of Defense]. It just picks out some highlights and particular episodes and activities.

I certainly believe that the European-NATO relationship is one of our most important, as important as those with other parts of the world. Our increasing interest in the Pacific should not come—and



FORBES COMMUNICATIONS CORP.

Former Secretary of Defense Discusses Crisis in Middle East

ROBERT HASLACH

does not come—at the expense of Europe. We need them both.

Do you agree with E.C. Commission Vice President Sir Leon Brittan's recent speech that it might be a possible time for the E.C. to take on its own defense capabilities. What would be the role of the Western European Union?

The Western European Union (WEU) has been around for a long time, and has had varying degrees of success. I have never had any problem with European organizations providing additional security for Europe, as long as they work in cooperation with, and not in competition to, NATO, and recognize the vital American linkage to European security.

The WEU generally falls into that category, although many of the Western European nations have not paid much attention to it. It could be a perfectly useful mechanism for strengthening Europe's security and providing additional European contributions. But, again, it ought to be worked in cooperation with NATO. The more European security there is, the better, but there is the possibility that a lot of those organizations, with duplicate overheads and bureaucracies, could be a little bit wasteful. But as long as it is a cooperative, coordinated effort, I have no problems with it.

But not in place of NATO?

Not in place of NATO, no. I do not think we need anything in its place. NATO has done a very fine job: It has largely been responsible for keeping the peace for the past 40 years. We should support and try to strengthen it, and not talk about ways of weakening it.

What will be Western Europe's defense relations now and in the future with Eastern Europe, the Soviet Union, the European Community, and the United States?

We have a lot of fine rhetoric from Mikhail Gorbachev, but no actions really to back it up with in respect to security forces. General John Galvin was asked specifically on television if there had been reductions in the size of the Soviet forces facing him on the Central European front. His answer was no. So there has been some talk but no reduction.

The Soviet Union has retained a great military capability. Many people feel that the Soviets would not use it because they are so preoccupied with their dreadful economic situation. But as long as that capability is there, and is being strengthened and modernized, you cannot really predict the future relationship with any confidence.

I can tell you what I hope would happen. I hope that NATO would remain strong and unified, and that there would be a sufficient NATO force to convince the Soviets that they could not make a successful attack on Europe. That could be the basis of better relations with the Soviet Union. At present, we have only a few months of rhetoric to go on. We have very little evidence yet of continued, sustained good behavior, and of the fact that the changes in the Soviet Union are irreversible. They are much more irreversible in Eastern Europe.

I do not believe that Gorbachev is going to be in power very much longer. Therefore, much would depend on his successor. If it is a Boris Yeltsin, or someone with that general frame of mind, we could probably continue to improve relations. If it is someone who replaces Gorbachev because they are unhappy with his letting the Soviet Empire break up and downgrading the military, then we have a lot to think about.

Has the cold war ended?

I don't know. I think the degree of hostility—the size of the threat from the Soviet Union to the West—has diminished. Whether that is because of the Soviets' increasing concern with their own economic situation and their recognition that they cannot get the improved relationships with the West unless they change their public tone, or whether it represents a genuine change of heart, I don't really know.

I do not think any of us can or should forget that the Soviet Union is the only nation that has the military capability to destroy the United States overnight. The question then is: Are they likely to use it? They are less likely to use it, but that has not changed the fact that they still own it.

Was the true competition between the United States and the Soviet Union a policy of economic competition using weapons systems as the counting chips?

No. That seems to be a growing myth now that it is getting more and more favor as one person after another repeats it. The fact is that, as far as President [Ronald] Reagan and I were concerned, we wanted to—and actually did—regain sufficient military strength so that the Soviets would never feel they could successfully attack us or our allies.

There was no idea that, if we had a great military, the Soviets would collapse economically. It certainly was not our intention, and I do not think that there was an attempt to grind them into the ground economically. They did that to themselves, because socialist economic theory does not work. That has been proven in country after country, and now they recognize it themselves.

Can the Soviet Union, as Gorbachev avers, switch to a market economy?

If it wants to it can. That's where Gorbachev seems to be perpetuating a myth in the West. He is calling for a "controlled market economy," but that is an oxymoron: There is no such thing. And that's Yeltsin's big point: He's not moving in that direction, not only not fast enough, but really not at all.

The Soviet Union can switch to a market economy, if it wants to. Poland is doing it, and so are various other countries. [This switch] causes some problems, of course, because the economic theories are diametrically opposed to each other, and it does require a change in thinking.

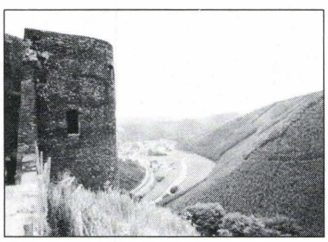
The Soviets have been traumatized by an educational system that, for 40 or 50 years, has taught them nothing but communist, socialist economics, and has derided capitalism. It will be hard for them to get back to sea, but people who have had an opportunity to visit the West and to see the differences in standards of living don't have any doubts.

What will be the impact on Europe of a unified Germany in 2000?

By that time, Germany as a whole will, in a sense, be beginning to be strengthened. The first few years of unification will require an immense amount of funding to try to overcome the incredibly bad situation in East Germany. All the factories, infrastructure, transportation, and communications need to be brought up to date, because, as happened in those Eastern European countries under communist domination, these things declined very rapidly and were not modernized or improved over the years. In 10 years, the unified Germany may well be a stronger economy, having acquired an improved, modernized infrastructure, and be ready to reap the fruits of that kind of investment in East Germany. €

DENISE CLAVELOUX

LUXEMBOURG NATIONAL TOURIST OFFICE



LUXEMBOURG IS A COUNTRY of bewildering geographical contrasts, out of all proportion to its size. Only 35 miles wide by 60 miles long, it is littered with ancient forts and castles, and an astonishing array of natural attractions.

Because of its historical and geographical position between much larger neighbors—who invaded and occupied it often—Luxembourg has developed a keen sense of national identity and self-preservation that allows it to approach closer European union without fearing an erosion of national character. Clockwise from left: Countryside; Clervaux; the Moselle River.

High-Tech and Financial Services Sectors are Growing

LUXEMBOURG

In the north and along Luxembourg's western border with Belgium lie the Luxembourg Ardennes, where roads wind through deep pine forests, undulating hills, and cascading rivers. A bit further south, around Echternach, the hills become more rugged in the area known as *la petite Suisse,* which, while not quite rivaling Switzerland, is close enough to be breathtaking.

Vineyards are much in evidence along the eastern border on the banks of the Moselle River, which divides Luxembourg from Germany, and are the source of the excellent Luxembourgian white wine, such as Rivaner, and sparkling wine, such as Bernard-Massard, which rival just about anything produced in Germany or France.

The steel mills, the original source of the country's wealth, loom up into the sky along the southern border with France in an area—not much more than about 35 square miles—that qualifies as Luxembourg's industrial heartland.

More or less in the middle of the country is Luxembourg City, one of the most modern banking centers in the world, perched in the middle of a fairy-tale setting with ancient fortifications overlooking a 280-foot gorge carved out by the Pétrusse River.

But despite all its charm, many Luxembourgers leave the country. There are more people of Luxembourgian origin in the United States than in the Grand Duchy, for example, and over a quarter of the Grand Duchy's 360,000 residents are foreigners.

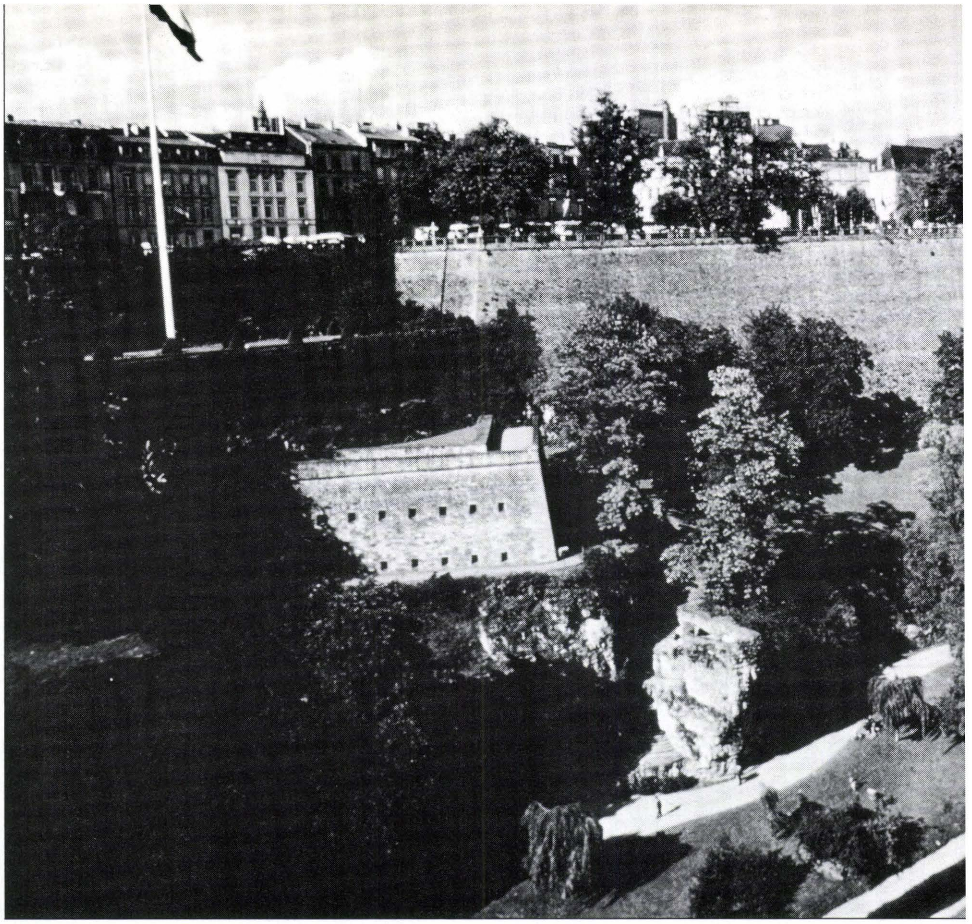
Despite this urge to leave the country and see what the rest of the world is up to, Luxembourgers are nevertheless keen on guarding their national identity, and are quick to react should anyone mistake them for being German, French, or Belgian. And perhaps because they have lived shoulder to shoulder with other nationalities for so long—and been occupied by their neighbors on so many occasions—Luxembourgers have developed special skills in self-preservation. In fact, they alone among the smaller E.C. nations have little fear of the plans for creating a single European market, as they are convinced that their own national character cannot possibly be eroded.

One of the keys to preserving their uniqueness is their national language—*Letzeburgesch*—an impenetrable dialect of German that even Germans cannot understand. Luxembourg, in fact, has two other officially recognized languages—French and German—and English is learned at school and widely understood throughout the country. The main characteristic of *Letzeburgesch* is that it is primarily a spoken language, for which linguists have developed a written method only within the last 10 years.

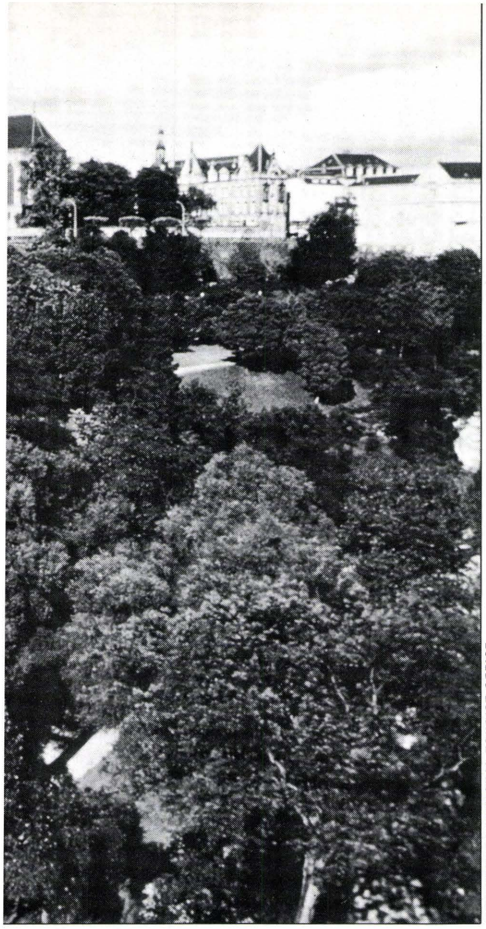
The consequences of having a spoken language as one's main means of communication are vast. The leading newspaper, the *Luxembourger Wort,* which has been established for over 100 years, publishes its articles in German or French, although the occasional *Letzeburgesch* column is now finding its way into the newspaper.

Children speak *Letzeburgesch* with their parents at home, and at their first year at school—the equivalent of kindergarten. But starting in grade one, the teachers start speaking to them in German, and French is added by about grade three. Throughout their school years, children learn some subjects—say geography and mathematics—in French, and others—like science and history—in German. This makes sense, for there would be no *Letzeburgesch* text books to use. But the moment they go home or into the playground, they revert to *Letzeburgesch.*

As there are no universities in Luxembourg, this multilingual approach helps children to make their future choice of attending a university in France, Germany, Belgium, or even further afield.



Thanks to liberal banking laws, Luxembourg is one of Europe's few banking and tax havens. To date, over 180 banks have set up shop in the Grand Duchy. The country is also wooing computer and other high-tech companies to establish themselves there. Above: Luxembourg City; the Moselle valley.



LUXEMBOURG NATIONAL TOURIST OFFICE

And when they do go away to university, they will end up writing letters home to their parents in a language they never used at home.

The ability of the average Luxembourger to switch effortlessly between at least three languages never ceases to astound foreigners. But it proves what people can achieve when they put their minds to it, and points to an element of survival that is much in evidence in the Luxembourger's make-up.

At the end of World War II, much of Luxembourg lay in rubble. Nearly a third of all the farmland had been ravaged, a fifth of the entire population was homeless, and most of the railways, over half of the roads, and the majority of the bridges had been destroyed. The steel plants, the country's economic backbone, were in ruins.

The Luxembourgers did not dwell on their misfortune, however, but picked themselves up and started rebuilding the country, so that, by the mid-1950s, they had managed to attain one of the highest GNPs per capita of any nation in Western Europe. Their war experience did teach them, however, that it is unwise to concentrate all of the country's economic strength in a single industry. In the 1970s, when most of Europe's steel mills were facing extreme economic crisis, Luxembourgers did not panic, as banking had by then replaced steel as the country's number one industry.

Thanks to extremely liberal banking laws introduced in the 1960s, Luxembourg qualifies as one of Europe's few banking and tax havens, and over 180 banks have now set up shop in the Grand Duchy. This is one of the highest ratios of banks per square meter—and per inhabitant—of any country in the world.

The financial services sector, which has now expanded to include substantial securities and reinsurance markets, generates about 15 percent of the GNP, and provides employment for over 15,000 Luxembourgers—about one out of every six of the active working population.

The E.C.'s plans to create a single European market, which will mean the harmonization of E.C. banking and tax laws, could mark an economic crisis for Luxembourg, if it were not already prepared. Luxembourg does not believe that its special position will be undermined by the 1992 program. But, ever hedging its bets, the country has already started diversifying into other areas.

High technology may one day replace banking as Luxembourg's key industry. Over the past 10 years, Luxembourg has been wooing computer companies to its kingdom, and is now a major European center for some of the world's leading blue-chip firms, including IBM and Computerland.

Over the past two decades, Luxembourg bankers and the Grand Duchy's governments have worked hard to promote the image of Luxembourg as a major international banking center, on a par with Switzerland. And they have made it clear that they are not willing to give up this position.

For the moment, it does not look as though they will have to do so, and wealthy investors with Luxembourg bank accounts can rest assured that the E.C.'s plans to create a single European market will pose no major threat to their positions, which are considerable. At last count, private investments in Luxembourg banks were believed to stand at around $160 billion.

Luxembourg's financial reputation stems mainly from its tight banking secrecy laws. But, ironically, Luxembourg only brought in laws in this area last year, when it feared that the normal administrative practices that extended these guarantees to customers could come under threat from proposed E.C. legislation.

The main point of contention comes from proposals put forward by the E.C. Commission earlier this year to curb money laundering. They go beyond previous international recommendations on the fight against drug trafficking, and would make the laundering of profits from trade in drugs, arms, or terrorism a criminal offense in every member state.

When the new rules come into force, banking and financial authorities will be required to carefully monitor all transactions so they can identify ones that are considered suspect. They would also establish closer cooperation between financial institutions and tax authorities in different E.C. countries.

Money laundering is already a criminal offense in Luxembourg under legislation that was pushed through following revelations that the Luxembourg-based Bank of Credit and Commerce was under investigation in the United States for involvement in laundering funds for Colombian drug dealers. Luxembourg now believes that the stiff fines and bank sentences imposed under its new rules make it the toughest country in Europe on money laundering.

But on the question of secrecy, Luxembourg remains firm. Luxembourg authorities will only provide information to other tax authorities when a prosecution has been brought and a national court makes a specific request for information in connection with a specific criminal case.

For the moment, these rules look as though they will satisfy the E.C. Commission.

Denise Claveloux is the Brussels correspondent for *The European.*

LUXEMBOURG FACTS AND FIGURES

GOVERNMENT

ROYAL FAMILY: The Grand Duchy has been ruled since 1964 by Grand Duke Jean, who is married to Princess Josephine-Charlotte of Belgium.

PRIME MINISTER: Jacques Santer

FORM OF GOVERNMENT: Luxembourg has a parliamentary form of government with a constitutional monarchy. Under the Constitution of 1868, as amended, the Grand Duke is the Head of State.

EXECUTIVE POWER: This is exercised by the Grand Duke and the Council of Government (Cabinet), which consists of a President of Government (Prime Minister) and 10 or 11 ministers. The Prime Minister is usually the leader of the largest party in the Chamber of Deputies.

LEGISLATIVE POWER: This is vested in the Chamber of Deputies, elected directly by all citizens over 18 years of age to five-year terms. A second body, the Council of State, is composed of representatives of various sectors of society, who are appointed by the Grand Duke. The Council of State is an advisory body whose views are considered by the Chamber of Deputies in drafting legislation.

MAJOR POLITICAL PARTIES: Christian Social Party, Socialist Party, Democratic (Liberal) Party.

BRIEF HISTORY

Formerly part of a personal union with the Netherlands, Luxembourg gained independence in 1839. The 1867 Treaty of London recognized the country as an independent state, and the Grand Duchy was declared permanently neutral.

Luxembourg abandoned its neutrality in 1948 by joining various international economic, political, and military organizations. It became a member of NATO in 1949.

DEMOGRAPHICS

POPULATION: 377,100

RELIGION: Over 94 percent of Luxembourgers are Roman Catholic, the rest are Protestant, primarily Lutheran, and a small number are Jewish.

LANGUAGES: "Letzeburgesch" was declared the national language by a law passed in 1984. French is the official language of the civil service, law, and Parliament. German is the primary language of the press. Literacy is 100 percent.

GNP: 263 billion Luxembourg francs (1988), or $6.6 billion (1988).

GDP: Per capita GDP in 1988 was $17,592.

CURRENCY: Luxembourg franc (on a par with the Belgian franc). $1.00 = 39.40 Luxembourg francs.

EUROPEAN COMMUNITY

Luxembourg is one of the E.C.'s founding members. As a result, Luxembourg City has become one of the capitals of Europe: The E.C.'s Court of Justice, the Court of Auditors, the Secretariat of the European Parliament, the European Investment Bank, and several departments of the E.C. Commission are all located there.

Robert Schuman (1886-1963), French Foreign Minister, developer of the Schuman plan to promote European economic unity, and one of the most famous Europeans, was born in Luxembourg.

USEFUL ADDRESSES

• **EMBASSY OF LUXEMBOURG**
2200 Massachusetts Avenue, N.W.
Washington, D.C. 20008
Tel.: (202) 265-4171

• **LUXEMBOURG CONSULATE GENERAL**
801 Second Avenue
New York, N.Y. 10017
Tel.: (212) 370-9850

• **LUXEMBOURG CONSULATE GENERAL**
1 Sansome Street
Suite 830
San Francisco, Calif. 94104
Tel.: (415) 788-0816

BUSINESS

LEADING LUXEMBOURG COMPANIES: Arbed (steel), Groupe Cactus (supermarkets), CFL Luxembourgeois (rail), Luxair (airline).

IRON AND STEEL INDUSTRY: This is the country's basic industry, and represented 43.3 percent of Luxembourg's exports in 1988.

TELECOMMUNICATIONS: Luxembourg is strong in this field. Radio-Télé-Luxembourg (RTL), the largest private European broadcasting company, broadcasts its radio programs to about 50 million people throughout most of Europe.

FINANCE AND INSURANCE: Banking accounts for 15 percent of Luxembourg's GDP. In June 1989, 156 banks and 25 non-bank financial institutions were registered in the country's capital. As of May 1989, 52 insurance companies and 93 reinsurance companies were located in Luxembourg.

LEADING LUXEMBOURG BANKS: Banque Internationale, Banque Générale, Caisse d'Epargne de l'Etat. U.S. banks in Luxembourg include Bank of America, Chase Manhattan, and Citibank.

TRADE: Exports and imports represent about 85 percent of Luxembourg GNP. It receives 90 percent of its imports from Belgium, France, Italy, the Netherlands, and West Germany. Of Luxembourg's total exports, 79 percent go to the European Community, mainly to West Germany.

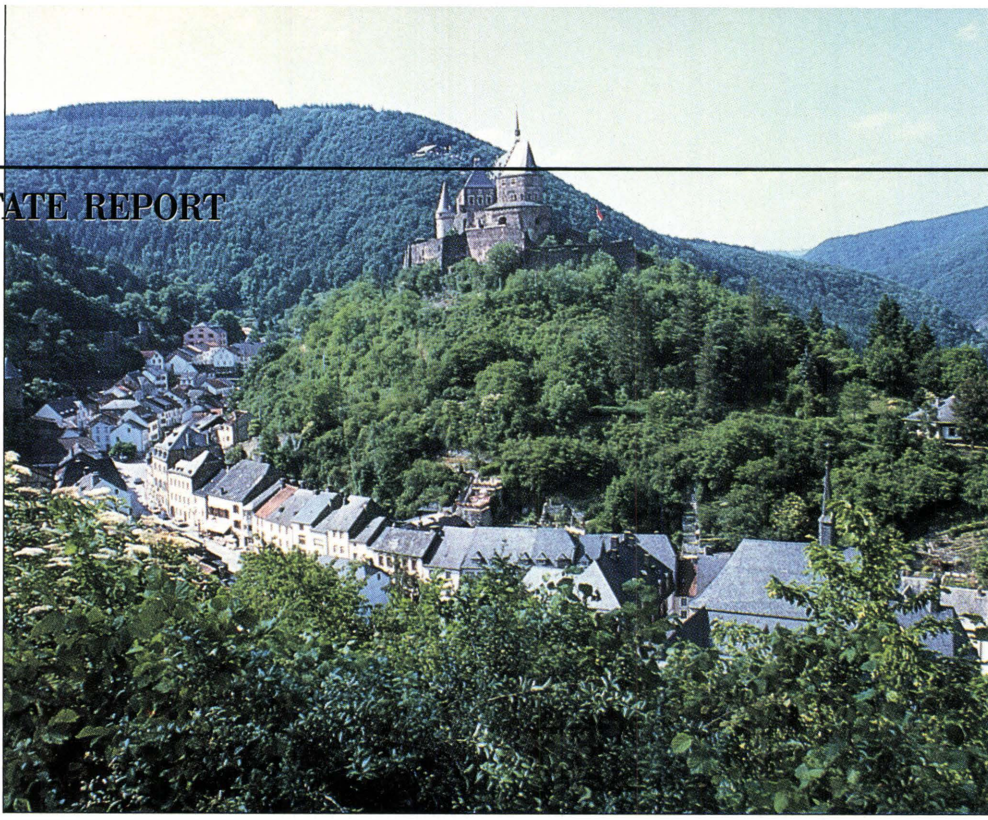
TRADE WITH THE U.S.: In 1988, 4.8 percent of Luxembourg's exports went to the United States. 2.3 percent of Luxembourg's imports came from that country.

GEOGRAPHY

AREA: 2,586 square kilometers (999 square miles)

CAPITAL: City of Luxembourg

CLIMATE: Luxembourg has a cool, temperate, and often rainy climate.


LUXEMBOURG NATIONAL TOURIST OFFICE

Those who want to get away from it all should consider a holiday in Luxembourg, which offers storybook towns, stunning architecture, and much history. Here: Vianden Castle.

Luxembourg
The Undiscovered Jewel

THE TINY PROPJET FLEW OVER LUSH GREEN hillsides, its twin engines droning dependably. Flying low over France, the lone stewardess announced that this was a "meal flight," and proceeded to serve small trays of finger sandwiches. Then came the crowning touch: Coca-Cola in the original six-ounce glass bottles. It was a perfect introduction to the largely overlooked country of Luxembourg, at the heart of Europe but on the sidelines of that Continent's tourist boom: While millions of American visitors elbow their way through the rest of Europe, those who pick Luxembourg choose a more tranquil approach.

PETER S. GREENBERG

Luxembourg's Findel Airport is an efficient place, where the walk from the plane is short, and your luggage often beats you to the carousel. In fact, the airport is all many Americans know about the country. For years, Luxembourg was famous as the place served by Icelandic Air (now called Icelandair), once the principal cut-rate airline from New York to Europe. It was the country into which today's baby boomers flew as college students, and then scattered by bus or train to neighboring nations.

Verdant and sparsely populated, the Grand Duchy of Luxembourg is, quite simply, an undiscovered jewel. Nestled between France, Germany, and Belgium, it is 999 square miles in size, smaller than Rhode Island. It's a place given to gentle hills, a cool climate, and quiet nights. It is the Europe of 20 years ago, where one can enjoy the proverbial bottle of wine

LUXEMBOURG NATIONAL TOURIST OFFICE

Luxembourg's landscape ranges from undulating hills in the Ardennes in the north to vineyards in the Moselle valley in the east.

and loaf of bread in relative privacy by just pulling off a road.

Many people have not visited the country, partly because they don't know where it is. "It's all right with us that some people are bad geographers," says one long-time Luxembourg resident. "But it's important for them to know what we are." That streak of independence is also reflected in a line from Luxembourg's national anthem: "You may come from Belgium, France, or Prussia—we will show you our country, but we want to remain what we are."

Luxembourg is a happy constitutional monarchy, an international center of politics, business, and international finance. It is like a Renoir painting filled with flowers, storybook villages cradled next to peaceful rivers, and castles sitting where castles sit—at the top of tidy, green hills.

The capital city—also called Luxembourg—is centered around the deep Pétrusse valley, which offers shady walks by a fast-flowing stream. Far above it are mammoth fortress walls that kept would-be conquerors out after the walls were built in the late 1600s. And in the city's Old Town, you can still see bits of the 18-mile network of underground, fortified chambers, called *casemates,* that were built in the 1500s. Because the town was not ravaged by world wars—although the Germans occupied the country both times this century—the architecture almost everywhere is stunning.

There is something to be said for a country that embraces only the most positive aspects of provincialism: Luxembourg has a declining birth rate, virtually everyone is employed, and crime and poverty are literally foreign concepts. It does have a standing army, but there are only 560 soldiers—of whom 60 are in the band.

How does one talk to the prime minister of Luxembourg? In my case, I walked unchecked to his office and simply knocked on the door. Official security consisted of two uniformed *gendarmes* polishing the prime ministerial car in the small circular driveway outside his office.

"The beauty of this country," says the 53-year-old Prime Minister, Jacques Santer, "is that I can walk through the streets and greet everyone. But when you're a country of 360,000 people, it's difficult for some people to understand Luxembourg is a sovereign state." He adds that "for us, tourism is very important, but at the same time we are trying to be prudent. We don't want too many people or hotels."

Ironically, notes Santer, some Europeans and Americans had no trouble discovering Luxembourg during World War II. The country is dotted with historical battlefields, graveyards, and World War II museums, all marking the spots crisscrossed by the American and German forces as they fought the Battle of the Bulge for control of Europe.

Today, visitors to Luxembourg can enjoy long, quiet walks through the park-like center of the capital city, and strolls along the Promenade de la Corniche, which overlooks the Old Town, where the city's bistros, artists' haunts, and gourmet restaurants are centered. And outside the city, they can discover a range of adventures just by taking a 15-minute drive in any direction.

To the southeast is Mondorf-les-Bains, a spa city that also boasts a gambling spot. To the northeast, on the Luxembourg-West German border, is Echternach, a medieval picture-postcard village that has been wonderfully restored. Nearby is Vianden, on the Our River. A wonderful, perched castle guards the village in the valley.

Have lunch at the **Hotel Heintz,** which has been run by the same family for four generations. Meals are events orchestrated by Madame Hansen, who doesn't hesitate to serve you herself. Along with the food comes a local history lesson, through signed pictures on the wall from, among others, Margaret Truman, General George Patton, and Perle Mesta, who was a regular at the place during her term as U.S. Ambassador to Luxembourg.

Luxembourgers share their prime minister's pride in their modest slice of Europe. "We may be a quiet place," says one, "but we try to maintain our sense of values, while we keep our sense of humor.

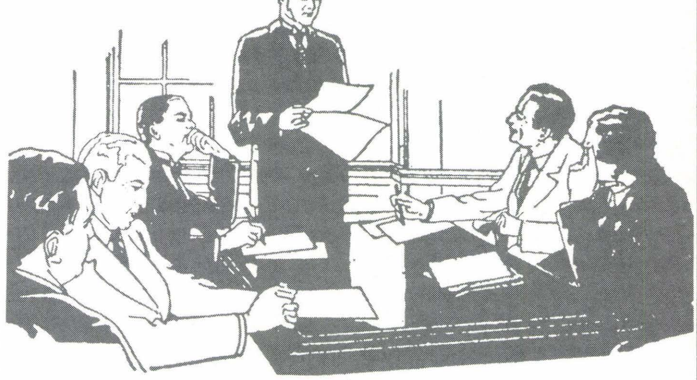
"For example," he explains, "men in this country stay faithful to their wives."

(That's the sense of values. Now for the humor part.)

"But we're such a small country, that everyone knows what everyone else is doing. We have a saying: "If you want to have an affair in Luxembourg . . . go to Belgium." €

Peter S. Greenberg, who appears frequently on *Good Morning America,* is a syndicated travel writer in California. His article "Exploring Amsterdam" appeared in *Europe's* July/August 1990 issue.

CAPITALS



Sparking a Debate

LONDON—Europe is a curious place, and no part of it is more curious than Britain. It is a member of the E.C., yet seems to spend much of its time fighting against the idea of European unity. It would appear—on the surface at least—that the British have scant regard for the Italians, distrust the French, and, from time to time, appear to loathe the Germans.

Is this view right or wrong? The answer seems to depend on whom you listen to. In July, British Prime Minister Margaret Thatcher had to force the resignation of her Trade and Industry Minister, Nicholas Ridley, because he said that the Germans were trying to take over Europe, could not be trusted, and by and large were a dangerous bunch, especially now that they were being united.

In an intemperate outburst, Ridley voiced the fears of his generation about a united Germany dominating the E.C., and of Britain ending up "being bossed by a German." The Germans, he said, were "already running most of the Community," and European monetary policy was "all a German racket designed to take over the whole of Europe."

For good measure, the Minister also lashed out at the Community as a whole. He described the European Parliament as both "supine" and "behaving with an arrogance I find breathtaking."

The general assumption was that Ridley had expressed the feelings, fears, and prejudices of most Britons, and that there was widespread support for his views, if not necessarily for the way in which they were pronounced. Newspaper commentaries and readers' letters appeared to bear out the view that what he had said was right, only he had made the cardinal error as a politician of actually saying what he thought. It was for this mistake, not for the contents of his message, that he had to go.

But opinion polls conducted shortly after his remarks were published revealed that he may not have been as in tune with the thinking of the general public as initially assumed. Indeed, the indications are that Ridley and, by inference, his Prime Minister, are out of step with the majority of the nation on the question of Europe.

A Gallup poll conducted for one of the British Sunday newspapers showed that only 33 percent agreed with his declaration that the "French are behaving like poodles to the Germans." Ridley's assertion that West German Chancellor Helmut Kohl "will soon be trying to take over everything" found support from only 28 percent of those questioned.

Ridley did reflect the true sentiments and fears of the older, Conservative party supporters, but they are a dwindling breed. The polls revealed that the young are much less fearful of European unity and a diminution of British sovereignty than their elders.

Ridley's brutally frank and openly insulting words at least served to spark a debate, and also revealed that a majority of Britons think of the Germans as basically a decent and rather successful bunch to be admired rather than castigated.

—David Lennon

D I R E C T O R Y

Italy's Banking Revolution

ROME—It took two years of hard infighting in Parliament. But in the end, the Italian banks adapted to modern times: In Italy, as in the majority of advanced countries, public banks are becoming incorporated. They will be listed on the stock exchange and be "open" to private investors. This is a true revolution in one of the most closed- and conservative-minded sectors of the Italian economy.

In mid-July, representatives and senators gave the green light to the new norms that will liberalize the credit institutions. This delay is virtually historic: Over 100 years ago, when Britain adopted the industrial system, the privatization of banks was one of the inevitable corollaries.

The new law was proposed by the former Socialist Treasury Minister, Giuliano Amato, and was completed by his successor, the Christian Democrat and a former Governor of the Banca d'Italia, Guido Carli. It contains fiscal advantages meant to encourage a concentration of banks. The legislators clearly want to enlarge the dimensions of Italian credit institutions and make them more competitive in view of the unified market. At present, not one of Italy's top three banks has a competitive position in European—or world—classifications.

The hope is to encourage mergers and agreement among the various banks. According to one estimate, about 70 banks could be induced to change their juridical and administrative compositions. The Government hopes that at least two or three "super banks" capable of withstanding international competition will emerge from these accords.

So everything is fine, then? Of course not. The strong resistance to changing an accepted situation on which Italy's political and social systems have rested for years has forced at least one fundamental compromise. First, privatization is not obligatory. Any bank that prefers to remain under state protection may do so. Moreover—and herein lies the true compromise—the state cannot cede more than 49 percent of its control of the banks. This point was not part of the initial draft of the law, which hypothesized that privatization was to be "complete" and unconditional. Economist Gustavo Minervini, echoing the perplexities of many of his colleagues, complains that leaving the state with 51-percent ownership will "perpetuate the present regime of political appointments" of key positions on the bank boards.

Criticism aside, there is no doubt that the possibility for private investors to finally enter the bank's capital by means of stock acquisitions will stimulate the entire Italian credit system, bring it on a par with the E.C. standard, and enable it to withstand the ever-increasing pressures of international competition.

—Niccolò D'Aquino

Of Bells and Soil

AMSTERDAM—The traditionally keen mercantile sense of the Dutch has been benefiting from *glasnost.* Offices and agencies for every kind of activity in the Soviet Union are rapidly being established in the Netherlands—including one for bell foundries.

Bells, you may ask. Dutch bells were always popular in pre-Revolutionary Russia, and the Dutch bell maker of Petit and Fritsen is optimistic that it will win the bid to start a foundry with a Russian partner in the Soviet Union during the next five years.

Jan Wijnen, spokesman for Petit and Fritsen, says that there are currently only two Dutch-made carillons left in the Soviet Union—one in Moscow, the other in Leningrad—and that between 40 percent to 50 percent of all church bells in the Soviet Union had disappeared during the Communist years.

Since *glasnost,* however, the Soviet authorities have returned many rights to the Church. Some 3,000 churches have recently been returned by the Soviet authorities, and Wijnen expects Petit and Fritsen to obtain the sole right to set up bell foundries and to restore half-ruined ones from the Russian Orthodox Church.

Petit and Fritsen have manufactured several famous bells, such as the new Liberty Bell in Philadelphia in the United States, the Bourdon bell in Brussels, Belgium, and bells for churches in São Paolo, Brazil. Wijnen said his firm has made bells for Orthodox Churches for a long time, and has exported them to places as distant as New Zealand, Australia, and the United States.

In addition to talks with the Soviet Union, the Dutch have signed an agreement with Albania. On the initiative of the Food and Agriculture Organization (FAO), a Dutch agrarian technical mission will advise Albania on land reclamation and desalinization of its coastal areas.

Albania and the Netherlands share a certain number of demograhic and geographical features. Albania, like the Netherlands, needs more room for agriculture. The two countries are also the most densely populated in the world.

In addition, Albania's landmass consists of two-thirds mountains. Having neglected its land for many years, the country must now improve its heavy clay and silty soils. The Albanian Government also wants to reclaim land from the sea. Borrowing from Dutch expertise and equipment in this area, it has asked Dutch scientists to carry out the investigation of sea currents, sedimentation, and erosion processes.

—Nel Slis

Cracking Down on Drugs

MADRID—This summer, while Spanish police snared drug traffickers across the country in a highly public anti-drug campaign, the Government was quietly shifting its sights to a previously untargeted group—drug users.

Spain, an acknowledged gateway for cocaine, hashish, and heroin into Europe from Latin America, is coming under pressure from its international partners and from citizens in drug-besieged neighborhoods to introduce tougher laws. Spain's E.C. partners especially have have been pushing for these before borders between the 12 countries become a thing of the past.

A six-minister task force is now preparing a draft bill expected to contain Spain's first tentative penalties against consumers. Expected to be presented to parliament and passed in September, the new law would introduce fines and other administrative sanctions for drug use in public places. The text does not contemplate jail sentences, however.

While a 1987 amendment to Spain's main drug law made drug consumption illegal, it is not penalized—a legally confusing state of affairs that has grown in importance with Spain's drug problem. In many cases, judges must decide whether defendants caught with drugs were dealing—and thus eligible for a tough sentence—or simply buying for their personal use.

As drug use shot up over the last decade, the police stood back powerlessly as some plazas in major cities became drug marketplaces and even shooting-up galleries. In Madrid, discarded syringes are a frequent sight in many neighborhoods, and addicts can be seen washing out their hypodermic needles in public fountains. Cocaine and hashish are consumed more or less openly in many discotheques.

Rallies around the country have brought home the problem to Spain's Socialist leaders, many of whom came of age in the 1960s when drug use was viewed as a form of social protest against the Franco regime. "It's reached the point where the rights of the individual addict or user have collided with those of the public," a drug official said when asked why the new law was being considered.

—Richard Lorant

Fiercely Feuding

BRUSSELS—Imagine a country the size of Belgium, which is only slightly larger than Maryland. Then, consider Zaire in Central Africa—one-fourth the size of the United States, with a population of 31 million (three times more than Belgium), and all the most valuable mineral resources—diamonds, uranium, and copper.

Belgium, however, has one asset Zaire lacks. It has a democratic Government and is giving lessons in democracy to Zaire, which the country's leader, President Mobutu Sese Seko, does not like very much. As a result, Belgium and its former colony are once again fiercely feuding. The diplomatic battle has reached such explosive proportions that Mobutu lashed out theatrically in a recent interview: "Belgians want my head, but they realize that my head will be expensive, very expensive."

Reports in the Belgian press about an alleged massacre of students at the University of Lubumbashi, in the south of Zaire, started this latest fight. Witnesses say that, on May 11, Zairian soldiers entered the campus and deliberately killed dozens of students to quell demonstrations and ethnic violence. Several newspapers reported that Mobutu's special guard was involved in the operation.

Reports were scarce at the time of the alleged incident because Zaire had shut off telecommunications links with the town of Lubumbashi. But letters from expatriates, missionaries, and Zairians later confirmed the facts, although confusion remains about the actual number of dead.

Belgian Foreign Affairs Minister Mark Eyskens did not wait long to launch a strong attack on Zaire, requesting an immediate international investigation into the affair. In a surprising move, Belgium reversed its usually low-key attitude on Zaire's human rights record and suspended cooperation with its former colony.

Belgium's move forced Mobutu into taking action on several fronts: A "technical" reshuffle of his cabinet was organized; then, days after the operation, a Zairian parliamentary commission was sent to Lubumbashi, and sanctions were imposed on the Governor of Shaba responsible for the Lubumbashi area. But Mobutu remained totally opposed to an international investigation, "because the request was made by the Belgians," he said, and because Brussels was "the capital of subversion against Zaire."

In the love-hate relationship between Zaire and Belgium, these were normal exchanges. But Mobutu went even further, ordering all Belgian volunteer aid workers to leave the country immediately. Thus, for example, Belgian teachers who had been working in Zaire for years were forced to leave everything—their homes, their friends and, most important, their jobs.

Mobutu did not, however, break the strong economic ties that bind the two countries, due undoubtedly to the fact that Zaire's deteriorating economy profits from them considerably. Lubumbashi, Zaire's copper capital, is a case in point. Several Belgian companies—including Métallurgie Hoboken, a subsidiary of Belgium's biggest holding company, the Société Générale de Belgique—have extensive operations there. Should Mobutu attempt to tamper with these strong private interests, relations between Zaire and Belgium could be near total collapse.

—Christophe Lamfalussy

The Aegean Triangle

ATHENS—One month after Greece's April election, which saw the return to power of the conservative New Democracy Party under Constantine Mitsotakis, negotiations were resumed between Athens and Washington on a new defense cooperation agreement covering American bases in Greece. However, 90 percent of the work had already been done when talks were suspended by the then Socialist Government in May 1989, and outstanding details were quickly resolved.

One of the main planks of Mitsotakis' foreign policy is "the full normalization of relations with the United States." The new agreement, which is to run for eight years, was completed—as Mitsotakis had intended—just before his Washington meeting with President George Bush last June.

At the beginning of this year, the United States unilaterally announced that, as part of a broader cutback chiefly for budgetary reasons, two out of four existing bases in Greece—one near Athens, and another in Attica—would close. The new agreement, signed and made public in July, secures the future of the other two bases, both in Crete.

Where previous accords were purely technical in content, a novelty in this agreement is a "preamble" of political principles governing Greek-U.S. defense cooperation. Most significantly, the preamble refers to the parties' "firm determination mutually to safeguard and protect the security, sovereignty, independence, and territorial integrity of their respective countries against actions threatening to peace, including armed attack or threat thereof; and [confirm] their resolve to oppose actively and unequivocally any such attempt or action and their commitment to make appropriate major efforts to prevent such a course of action."

Following the signing, Greece's U.S.-educated Foreign Minister, Antonia Samaras, declared: "I am certain that the close and friendly ties between our two people will now be reinforced and expanded even further."

Meanwhile, despite reassurances from the Americans, the Turkish Government—which has longstanding differences with Greece over sovereign rights in the Aegean—voiced its displeasure at the signing of the agreement. Greek officials, well aware that the wording of the preamble falls short of a binding U.S. commitment to defend Greece against attack come what may, were quick to point out that the stand taken by Ankara amounted to identifying itself as a would-be aggressor.

Turkey, however, which still occupies 37 percent of Cyprus, had already been stung by a declaration of E.C. leaders at the Dublin summit that "the Cyprus problem affects E.C.-Turkish relations," and was further angered a few days later when Cyprus applied for full membership of the Community.

The fresh war of words over Cyprus and the Aegean that ensued between Athens and Ankara provided an inauspicious background for Greek dialogue with Turkey—another key element in Mitsotakis' foreign policy. Preliminary talks were held in London during the NATO summit meeting, and the two countries' foreign ministers are due to meet in New York this month.

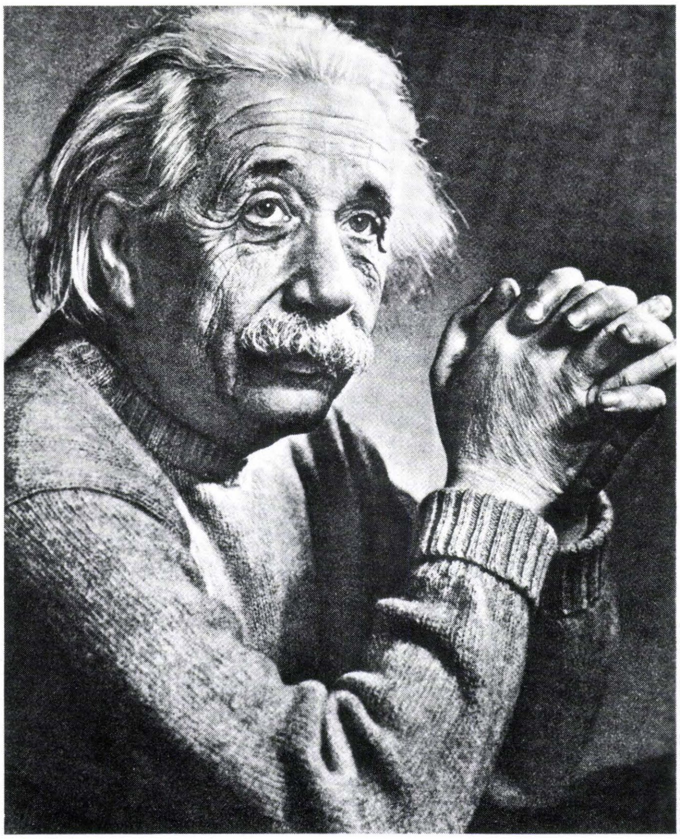
—Peter Thompson

Solid Foundations

BONN—The 40-year political and geographic division of Germany also split scientific, cultural, and religious organizations, institutes, and societies. There is one exception, however: The 338-year-old Leopoldina, the world's oldest Academy of National Science, in Halle, East Germany, has survived Napoleon, Hitler, and Honecker.

Its membership list reads like a social register, including such illustrious names as naturalist and explorer Alexander von Humboldt, writer Johann Wolfgang von Goethe, professor of medicine Rudolf Virchow, and chemist Wilhelm Bunsen. In the 1920s, the physicists Max Planck, Albert Einstein, Otto Hahn, and Niels Bohr were elected to become members, as were nuclear physicist Carl Friedrich von Weizsäcker and biochemist and Nobel Prize winner Adolf Butenandt in the 1930s. The Leopoldina now has 1,000 members from 27 countries.

The Academy was never state funded, but was always supported by private donors, foundations, and grants. When Napoleon dissolved all institutions that followed in the tradition of the Holy Roman Empire at the beginning of the 19th century, the Leopoldina survived simply because he overlooked its existence.



GERMAN INFORMATION CENTER

Albert Einstein was a member of the Leopoldina academy.

After the division of Germany in 1945, biologist Kurt Mothes gave the Academy a new lease on life and, because of his powerful personality, no Communist Party functionary dared to question its independence.

The Leopoldina entered a difficult period at the beginning of the 1970s, a time when all scientific bridges to the West were burnt and contacts with West German scientists cut. Heinz Bethge, an experimental physicist, who became the Academy's president in 1974, recalls that "it was a constant balancing act between confrontation and compromise."

In those years, the Academy's West German and foreign members considered it their moral duty to show the flag by attending the membership meetings every two years. For the young East German scientists, this was the only and most welcome opportunity to inform themselves about the scientific situation in the West.

Not until the mid-1980s did the communist regime discover that it could use the international prestige of the Leopoldina for its own purposes: During this time, even the then Minister of Science showed up to greet the illustrious gathering and to deliver anti-Western speeches. Bethge felt obliged to apologize for these, as well as for the chicanery at the border to which the guests were subjected.

In Bethge's view, the decline of science in East Germany is comparable to that of its economy. "Eighty percent of the professors were party members, of whom 60 percent should be sacked," he says, but he realizes that this will not be possible. All that can be done is to replace the incompetent professors with those who were deliberately overlooked because they were not party members.

In that context, Bethge is most bothered by the fact that these people think they can make a fresh start without even coming to terms with their past: "What is asked for is honesty, and what I particularly miss is that none of the super careerists admit that they had erred."

Bethge ceded his post to Banno Parthier, a biochemist, on July 1 this year. His courage, integrity, and honesty in a very difficult period will be remembered by academia in both East and West. That the Leopoldina continued to exist as an all-German academy throughout the 40 years of communism is, no doubt, the merit of its distinguished presidents, Mothes and Bethge.
—WANDA MENKE-GLÜCKERT

End of an Era

DUBLIN—A small part of Irish industrial history has ended with the closure of the country's only working coal mine in the Arigna hills in Ireland's northwest county Leitrim. The colliery had been worked continuously for 56 years, but for many families in the scenic area of lakes and mountains, the tradition of getting fuel for their home fires went back over a century.

Although only about 500 workers have been affected by the closure, the effect on an area with no alternative industry and small farms is likely to be devastating. Most of the younger men are already planning to emigrate from Leitrim, which is already the county most heavily hit by emigration.

The strange thing is that it had been common knowledge that the scattered mines would have to close; yet they kept getting reprieves. During World War II, when coal imports were largely cut off, the Arigna mines reached peak production and employed 500 men. When closure threatened in 1956, the state-owned Electricity Supply Board (ESB) stepped in and commissioned a power station that would use the Arigna coal for 25 years, after which time there would only remain about 12 million tons of low-grade "crow coal."

Then the energy crisis of the 1970s, and the huge increase in oil prices, made economists—with encouragement from the E.C.—look at the possibility of using the low-grade coal to produce electricity. By 1982, however, the world oil price was dropping and the ESB was getting ready to close down the power station that was costing far more to run than a more modern one that used imported coal at Moneypoint further down the Shannon River.

Political pressure postponed the mine's closure but, at the end of last year, the decision was made final. Only then was a "task force" of state agencies set up to "regenerate the economy," and the miners clung to the hope that the crow coal might yet save their jobs. They have been trained for nothing else and many have young children and mortgage commitments.

Tourism is seen as the most likely alternative and there are tentative plans to reopen a connecting canal between the local Lake Allen and the Shannon River. For many miners, however, this will be too late.
—JOE CARROLL

Commuter Chaos

LISBON—In the words of António Macado Rodrigues, city official responsible for traffic policy, "Lisbon is a city of one million people with the traffic problems of a metropolis of five million."

Mounting pressure to ease traffic congestion and to improve commuter access to the Portuguese capital may finally be bearing fruit, however. In the run-up to the 1991 general election, Government and city officials have announced a series of measures to resolve a problem that has reached crisis proportions and is inflicting incalculable damage on the economic life of the country's most important urban center.


PORTUGUESE NATIONAL TOURIST OFFICE

Traffic is increasing throughout Portugal. Here: Lisbon's Marques Pombal Square.

Plain statistics spell out commuter frustration. Over the past five years, the number of cars in Portugal has doubled to two million. Of these, some 40 percent are based in the greater Lisbon area.

Presently, employees begin commuting extremely early and spend frustrating heated hours in traffic jams, waiting for packed buses and trains, or shuttling between inefficiently linked public services.

A recent experiment showed that it took one hour to travel the 11 kilometers (seven miles) from the major middle-class dormitory suburb of Amadora to the center of Lisbon in the morning rush hour. A walker did it in 90 minutes. The bus and metro journey took 50 minutes. The quickest route, only 25 minutes, was by motorcycle.

The economic impact of these traffic problems in Lisbon and in Portugal's other major cities extends beyond the countless wasted working hours, the stress-related decrease in productivity, and the effect of traffic noise and pollution on working conditions, to the very logistical organization of companies. Because of these conditions, services companies that deal with a large flow of clients, for example, are decentralizing and setting up smaller suburban facilities.

Now, long-promised plans to make sweeping improvements in Lisbon are finally getting off the drawing boards. An inner and outer ring road, extensions to the metro network, a new bridge over Lisbon's Tagus River, a rail link on the existing San Francisco-style bridge, underpasses, flyovers, new car parks, and even express trams are all scheduled.

The pledges are not unrelated to the upcoming general election battle. In this, Lisbon Mayor Jorge Sampaio, leader of the Socialist opposition party, hopes to oust the ruling Social Democratic Government of Prime Minister Anibal Cavaco Silva.
—KEN POTTINGER

Eyeing the Baltic

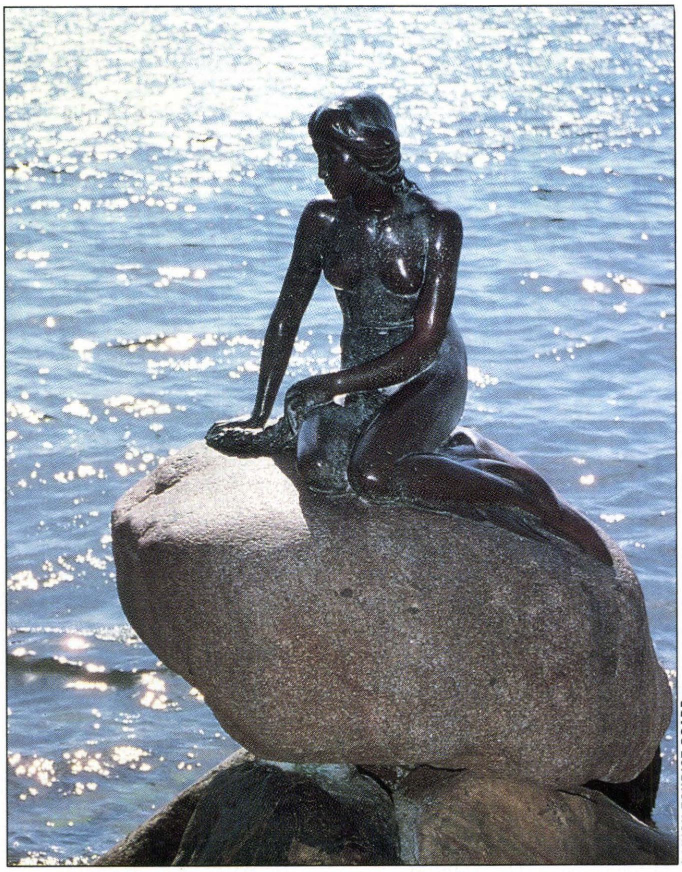
COPENHAGEN—With the opening of the first international air link and new ferry services to Latvia's capital, Riga, Copenhagen is now busily reviving historical ties with neighbors in the Baltic.

The short-term aspiration is to become a stronger gateway to this region; in the longer term many Danes hope that a new zone of economic growth and prosperity can be created to counterbalance the very powerful Ruhr-Paris-Milan triangle.

That is some challenge. But Germans living in the north and Scandinavians have a keen sense of history, and they especially focus on the medieval Hanseatic League, an association of trading cities that created a forerunner of the E.C. on a more modest scale in the 14th and 15th centuries.

With the E.C. a living fact, there is no need to reinvent the Hanseatic League. The northern shores of the Baltic, including Sweden and Finland, may be fully part of the E.C. by the end of the decade. On the southern shore, the former German Democratic Republic is already a de facto E.C. member, and Poland is developing a special relationship that may be emulated by the three Baltic states when the Soviets withdraw.

One of the smaller Hanseatic cities on the southern shore, the present Soviet Kaliningrad and former German city of Königsberg, may play a completely new role. A top German banker has proposed to turn the area, which is currently a major Soviet military base, into the Soviet Union's first economic free zone with German capital, but with the entire Baltic Sea as its natural economic environment.



DANISH TOURIST BOARD

Denmark hopes to rekindle trade ties with the Baltic region. Here: Copenhagen's Mermaid.

While waiting for some of these visions to materialize, Copenhagen is reaping its first harvest of Eastern European and Baltic tourism. East Germans, Poles, Czechoslovakians, and Hungarians are highly visible in the city, typically arriving in their vintage automobiles. On a tight budget, they contribute less than the large number of Western European, American, and Japanese tourists, who use Copenhagen as a staging post on their tour of Eastern Europe and the Soviet Union. All cruise ships entering the Baltic include Copenhagen in their itinerary, and the Baltic is the fastest-growing market for sea travel this year.

—LEIF BECK FALLESEN

High Hopes and Expectations

PARIS—Over one billion people travel by air annually, a figure expected to double by the year 2000. The French are planning to attract a healthy percentage of those passengers by turning Paris into Europe's leading air traffic center.

The French capital has two main airports: Orly, to the south of the city, and Charles de Gaulle, to its north. Orly is currently the busier of the two; last year it notched up 24.3 million passengers, as compared to 20.7 million at Charles de Gaulle. Since Orly is situated in a densely populated area, however, its future is limited for environmental reasons. Charles de Gaulle, on the other hand, lies in a large tract of land 28 kilometers (17 miles) outside the city, and has plenty of space to grow.

Planners at the Paris airport authority say there is enough room to double the number of runways at Charles de Gaulle from two to four, and to add new terminals and hangars. They have drawn up a five-year expansion plan that, they believe, will enable the airport to handle between 80 million and 100 million passengers a year.

Improving access to Charles de Gaulle is one of the development plan's top priorities. At present, traffic congestion, both in the air and on the ground, is a major complaint amongst passengers. But by 1995, the A1 highway that leads from Paris to the airport will have been widened, and several new road links to the east and west will have been built. Furthermore, the regional rapid-transit subway will have been moved to a more central location underneath the airport's two main terminals. And, right next to it, travelers from as far away as London and Brussels will be able to glide into Charles de Gaulle on board the pride of the French railway system—the high-speed TGV train.

To cope with the crush of passengers, a third terminal, CDG-3, will be built and CDG-2 will be expanded. The airport's oldest terminal, CDG-1, which dates back to 1974, will be modernized and made less con-

BONN

West German Chancellor *Helmut Kohl* has been hailed by the international and national media as the Chancellor of German unity. Even those who have reservations about his rushed unification process are impressed by the way in which he successfully imposed his timetable for unification on the rest of the world: After his successful negotiations with Soviet President *Mikhail Gorbachev* in July, Kohl informed the Bonn press that the final obstacle to unification had been overcome and that all-German elections would be held on December 2.

To express his exuberant feelings, Kohl quoted the 19th-century German Chancellor Otto von Bismarck: "One can only wait until one hears the steps of God resounding through the events, then leap forward to grasp a corner of His mantle." Kohl has definitely done that.

Edzard Reuter, Daimler-Benz chairman since 1987 and West Germany's most successful manager, is convinced that East Germany's reconstruction will be accomplished more quickly than most people anticipate.

Reuter is the son of West Berlin's legendary postwar Mayor, *Ernst Reuter,* who forecast to his son in 1946, while walking through the city's huge piles of debris, that "neither you nor I will see all the rubble go in our lifetimes." He was wrong, and Reuter is confident that East Germany will rise from its misery soon.

While Reuter, a Social Democrat, blames Kohl for not having told the West Germans of the necessity of financial sacrifices, he advises that an increase of two points in the value-added tax from 14 percent would not hurt too much. He also notes that temporary unemployment in East Germany is unavoidable, but that the structural problems will soon be overcome.

PARIS

Bernard Pivot, the French Johnny Carson of literature, is turning the page. He has put an end to *Apostrophes,* his weekly prime-time television talk show on books that topped the ratings and determined book sales for the last 15 years. Pivot has had enough of reading 12 to 14 hours a day and of being relentlessly courted by publishers and authors, for whom an invitation to the show was as prestigious—and as lucrative—as winning a literary prize.

From Soviet writer Alexander Solzhenitsyn to former First Lady Nancy Reagan, Pivot had many authors on his show. He greeted them all with a puckish smile, an elvish twinkle, and a disarmingly direct line of questions. The French public adore him: A recent poll found that 81 percent dreamed of having Pivot as a friend.

Now that *Apostrophes* has disappeared, the French literary world is in a state of mourning. There will be no more special *Apostrophes* tables in bookstores, and no more people rushing out on Saturday mornings to buy up the books presented by Pivot the night before.

But there is a happy postscript. Pivot will be back in January with a new television program, about "something cultural," which is all he will say for the moment.

ATHENS

The central figure in the first trial of former Socialist (PASOK) ministers in Athens was *Nikos Athanassopoulos,* Deputy Finance Minister in 1985–86. Last month, he was found guilty and sentenced to three-and-a-half-years for instigating the cover-up of a fraud against the Community. Athanassopoulos, in a characteristic courtroom outburst, told a Belgian E.C. official testifying against him: "When you were eating acorns, we were building Parthenons."

Corruption and telephone-tapping charges are still pending against the PASOK leader and former Prime Minister, *Andreas Papandreou.*

BRUSSELS

Interested in the Greek Parliament? Four Belgian parliamentary deputies were, and intended to go on a study trip to Athens in August for an extensive look at Greek politics. The $2,300 per person was fully paid by the Belgian Parliament, and wives were invited for a small supplementary fee of $600. The itinerary included lodging at the Themis Hotel in Heraklion, and visits to Knossos and the island of Rhodes. The only problem, as one journalist discovered in July, is that the Greek Parliament is closed in August. After that was revealed in the Belgian press, the four deputies decided to stay at home.

So far, the only foreigner to sit on the board of the Treuhandanstalt—the giant East German holding group that plans to privatize nearly 8,000 of the country's state-owned companies—is a Belgian.

André Leysen, 63, was chosen in July to sit alongside such personalities as the president of IBM West Germany, the head of West German chemical group Hoechst, and officials from the East and West German Governments.

The Treuhandanstalt will privatize East Germany's giant industrial concerns, the *Kombinats,* and decide which plants will be closed, which will continue as state monopolies, and which will be sold to private investors. As Leysen points out, the job consists in deciding the fate of about six million workers. Leysen is probably the right man in the right place at the right time: Fluent in German, he is a board member for such West German companies as Bayer, BMW, and Viag.

fusing. At the moment its circular layout, coupled with a lack of clear sign-posting, often has passengers literally going around in circles. Plans for a badly needed new baggage handling system, a children's playground, and more inviting washrooms are also on the drawing board. When all is completed, Charles de Gaulle will not just be bigger and busier, but also more passenger-friendly than before.

If the expansion goes as planned, the French see no earthly reason why Paris should not pull ahead of London to become Europe's busiest air crossroads: Only the crowded skies are the limit.

—ESTER LAUSHWAY

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UPDATE 1992

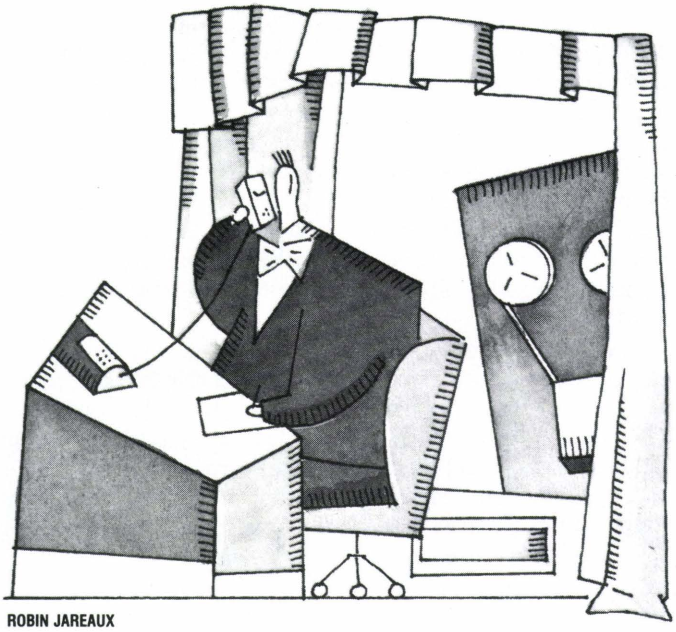
Employees Get A Break

Social Affairs Commissioner Vasso Papandreou recently put forward a proposal to standardize working hours within the Community after 1992.

The proposal calls for minimum rest periods of at least 11 hours of uninterrupted rest for every 24 hours of work for shift and night workers. Small businesses would be particularly affected by such a ruling.

The United Kingdom is expected to resist the proposal since it does not feel that workers' hours should be controlled by the government. In addition, these changes would be an obstacle to the new working environment of the single market, and the restrictions could hurt job prospects throughout the Community. The Commission's view on this matter, however, is that the Community's goal is not only to facilitate the transfer of goods, but also to secure better working conditions for its citizens.

In the area of health and safety at the workplace, the Commission recently approved directive proposals for part-time and temporary workers to receive the same health and security benefits and the same access to vocational training as full-time workers. Working women, who constitute about 30 percent of the part-time work force, as compared to 4 percent of working men, will particularly benefit from these directives.



ROBIN JAREAUX

E.C. To Secure Personal Data And Information

This summer, the E.C. Commission proposed a directive to protect the privacy of personal information held by public authorities and private companies. If approved, the directive, made up of six proposals, will provide an overall framework to ensure a high degree of protection.

The new rules would make it illegal to transfer any type of personal data without an individual's consent. Individuals would also have the right to have access to information about themselves, and to correct any erroneous data. Data concerning race, health, religion, political opinions, and other sensitive matters would be given extra protection against unauthorized use.

The directive would also provide the basis for a single market in information and telecommunications services, since varying standards of protection may obstruct the flow of information and trade between member states. At present, only West Germany, Denmark, France, Ireland, Luxembourg, the Netherlands, and the United Kingdom have protective legislation, and these laws vary widely. Science and Telecommunications Commissioner Filippo Maria Pandolfi indicated that the new rules would harmonize conditions in member states.

The proposal comes in response to modern telecommunications technology, which has not only transformed the potential for storing and transmitting information, but also increased the risk that sensitive information will be misused or stolen. The Commission also urged that the E.C. join the Council of Europe's convention on data protection, an international agreement through which the E.C. could coordinate its action with third countries. A separate directive will protect advanced electronic databases and digital networks from hacking and piracy.—*Reuters*

A Real European Real Estate Market

The 325-million member single market that will come into effect after 1992 will offer the real estate industry a great number of opportunities for brokerage, property development, property management, and other real estate services.

Harmonizing regulations and taxes, and eliminating tariff barriers will facilitate business activity for real estate firms. For example, thanks to the cross-border mergers of many real estate firms, mortgage financing terms might soon be harmonized.

Company strategies will range widely, from offering very specific services and targeting regional markets to expanding services and opening branch offices throughout the Community. Nevertheless, increased competition, company expansions, consolidations, mergers, and joint ventures may force some smaller firms, unable to compete against larger companies, out of the market.

Southern Europe promises to become a more lucrative real estate market than the northern part. For example, land values in Barcelona are rising as a result of the 1992 Summer Olympic Games, and in Portugal, the coast is being built up by international resort builders.

A real estate boom will be the exception rather than the rule in northern Europe, where high construction costs are plaguing the industry. Berlin, however, promises to become an attractive real estate location as a result of German unification.

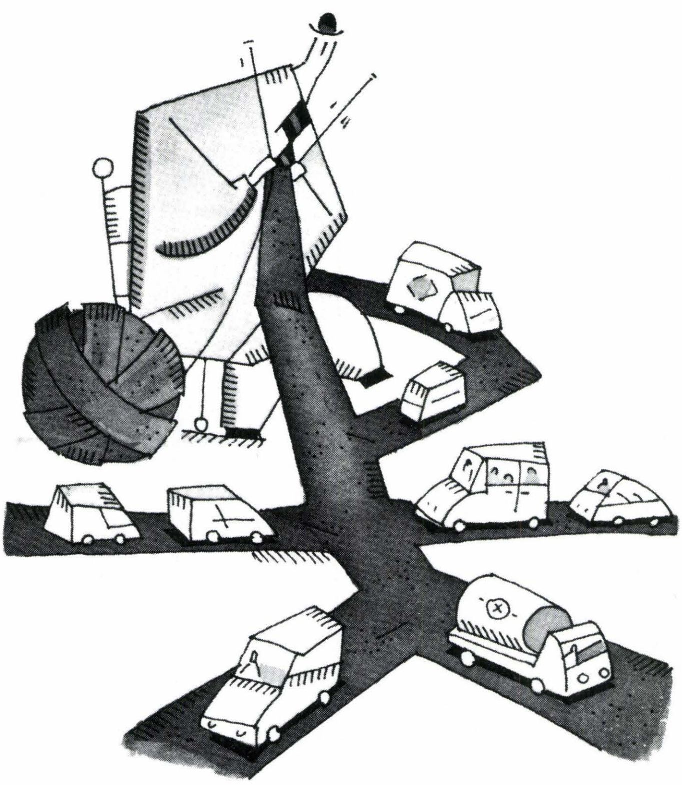
Many American and Japanese real estate firms are hoping to expand into Europe. Nevertheless, despite the opportunities, there are also many obstacles. These include, among others, the different languages and currencies. American real estate firms must also adjust to the metric system and to the different real estate policies of each member state.

Creating a Trans-European Transport Network

The E.C. Commission urged the 12 member states to unite their national road, rail, sea, and air transport systems into a single trans-European network. E.C. Commission Vice-President Martin Bangemann emphasized the importance of European transport structures for the barrier-free internal market after 1992.

He stressed that, with the growing volume of traffic within the E.C., all modes of transportation would need to be improved and coordinated, especially road and rail networks. Bangemann said that additional funding would be made available to ease traffic problems and to complete the high-speed European rail network, and he urged national railways to cooperate more closely in linking existing lines and harmonizing the technology on the main routes. The completion of the European network needs to be on a broad scale, not only to link major E.C. cities, but also to develop new lines of communication and transport between the E.C. and Central Europe.

—*Reuters*



New Tax Directives Remove Barriers

After two decades of discussion, E.C. Finance Ministers finally passed into law three company taxation directives removing tax barriers to cross-border exchanges between E.C. companies.

The Commission recently refashioned the package and resubmitted it for consideration by the Council, which quickly passed the directives, indicating that the member states are capable of cooperating on tax matters as the 1992 single market approaches. The package includes three measures covering the following areas:

- the tax treatment of mergers, splits, asset contributions, and share swaps, which will now allow companies to defer capital gains tax resulting from cross-border acquisitions on the condition that the acquired company continues to pay taxes in its home member state;
- taxation of dividends distributed by subsidiaries to parent companies established in different member states, as subsidiaries will no longer be forced to deduct withholding tax on dividend payments to parent companies located in different member states;
- an arbitration body to settle disputes on double taxation and transfer pricing between E.C. countries, ensuring that double taxation of companies in the Community will be eradicated.

E.C. Tax Commissioner Christiane Scrivener noted that this was "an historic decision. For the first time, the Ministers for Economic and Financial Affairs have been able to reach agreement on company taxation measures, the adoption of which is a vital element of the creation of a single market." She went on to say that, by improving competitiveness, the tax package "should enable companies to take full advantage of the dynamic effects of the large single market."

E.C. NEWS

FOREIGN AFFAIRS

E.C. Imposes Trade Sanctions Against Iraq

AT AN EMERGENCY MEETING in Rome on August 4, the senior Foreign Ministry officials from the 12 E.C. member states imposed broad sanctions against Iraq.

The Community statement condemned the "brutal Iraqi invasion of Kuwait" and demanded an "immediate and unconditional withdrawal of Iraqi forces." If Iraq fails to comply, the E.C. threatened to support and implement any "mandatory and comprehensive sanctions" ordered by the United Nations Security Council.

The E.C. also adopted a six-point package of sanctions in response to the unjustifiable military aggression:

- An embargo on oil imports from Kuwait and Iraq;
- appropriate measures aimed at freezing Iraqi assets in the member countries;
- an embargo on sales of arms and other military equipment to Iraq;
- the suspension of technical and scientific cooperation with Iraq;
- the suspension of Iraq's preferred trade status with the Community.

Italy, Britain, France, West Germany, Belgium, the Netherlands, and Luxembourg froze all Kuwaiti assets to prevent their confiscation by the new, illegitimate Iraqi-backed Government. This move could deprive the Iraqi-installed regime in Kuwait of assets worth billions of dollars. Furthermore, Italy renewed a unilateral ban on arms exports to Baghdad, and French Foreign Minister Roland Dumas said that France would consider supporting a naval blockade of Iraq or disrupting its oil pipelines if necessary.

The measures are expected to entail some European sacrifice, as Iraq and Kuwait supplied about 10.9 percent of the E.C.'s total oil imports in 1989. Denmark, which imported 54 percent of its oil from the two countries last year, will probably be the most heavily affected.

An Italian Foreign Ministry official called the sanctions "the strongest signal to Iraq from anywhere in the world except the United States." The swift decision indicated exceptional unity among the E.C. member states and a Community attempt to take a greater leadership role in current international policy-making.

E.C., Central America Agree to Expand Trade Links

IN JULY, THE E.C. AND THE Central American countries of Guatemala, Honduras, Nicaragua, Costa Rica, El Salvador, and Panama agreed to work toward diversifying Central American exports to the Community.

Angel Vinas, head of the E.C. delegation, said after the meeting that "Europe [was] disposed to cooperate, but [that] the Central Americans must widen their exports" away from such traditional items as bananas, cotton, and coffee. Trade between the E.C. and Central America decreased sharply during the 1980s as guerilla warfare overcame several Central American countries. The E.C. has now offered $120 million to boost commerce with the region.

Honduran Deputy Economy Minister Ramón Sarmiento called the European aid "vital for the continuity of peace among the Central American nations."

—Reuters

EUROPEAN COMMUNITY

Italy Plans Active Presidency

ITALY IS HOLDING THE E.C. presidency through December 31, 1990. Elaborating on Italy's goals for this term, Italian Foreign Minister Gianni de Michelis states that Italy will become more visible and push forward plans for a federal Europe, as well as strengthen ties with the E.C.'s Eastern European neighbors.

Although relations with the East are important, de Michelis stresses that the Community should no longer view issues as East-West questions. He emphasizes that, instead, the E.C. should adopt North-South strategies. In this way, he continues, 1 percent of the Community's gross national product (about $50 billion a year) for development aid could be saved. About 25 percent of this, he feels, should go to the Mediterranean region.

Some major events during Italy's presidency will include the Conference on Security and Cooperation in Europe in November, intergovernmental conferences on economic and monetary union and political union in December, and German unification.

EASTERN EUROPE

Eurocrats Work Overtime to Prepare East German Accession

AS THE PACE OF GERMAN unification accelerates, the E.C. Commission is forgoing its usual summer vacation to work long hours to prepare for East German entry into the Community.

The Eurocrats must resolve the various factors of the integration process and the cost involved. Presently they are preparing a 200-page package of draft legislation that will make the 16.5 million East Germans E.C. citizens.

Upon unification, East Germany automatically will become

E.C. territory, and all the economic and legal rules that have been developed over four decades for the E.C. member states will become applicable overnight. A transition period will probably be necessary to elevate standards in some areas, such as foodstuffs and chemicals.

Perhaps the most difficult legal question facing the Commission involves imposing a time limit for East Germany to meet E.C. environmental standards after years of ignoring ecological concerns. Upon East Germany's entry, E.C. standards will apply immediately to all new factories, plants, and other installations, but the Commission has to gather extensive data on pollution caused by old factories before it can decide on closures and/or modernization.

The financial cost of East Germany's accession to the E.C. could increase the E.C.'s annual budget by about $3 billion, as farm subsidies, development programs and social spending will have to be extended.

—Reuters

Thatcher Offers Hope to Eastern Europe

AT A KEYNOTE SPEECH IN August to the Aspen Institute, British Prime Minister Margaret Thatcher urged the E.C. to guarantee offers of membership to the emerging democracies in Eastern Europe, proposing that "the Community should declare unequivocally that it is ready to accept all the countries of Eastern Europe as members if they want to join, provided that democracy has taken root and their economies are capable of sustaining membership."

The Prime Minister stated that it would be some time before Eastern Europeans were ready for membership, so "we are offering the intermediate steps such as association agreements." But the option of eventual membership should be clearly, openly, and generously on the table."

She suggested that a pan-European Magna Carta be established to ensure for all citizens, including those of the Soviet Union, "the basic rights which we in the West take for granted." These would help develop her vision of a new global community "based on democracy, the rule of law and market principles."

Thatcher also emphasized that "Britain's destiny lies in Europe as a full member of the Community . . . not on the sidelines . . . ."

FOREIGN TRADE

E.C. Strives to Increase Exports to Japan

IN ORDER TO DECREASE ITS annual $20-billion trade deficit with Japan, the E.C. has launched a three-year program aimed at improving the image of European goods among Japanese consumers. This campaign will encourage E.C. companies to find business opportunities in Japan and, focuses on tourism, sport and leisure services, home furnishings, health foods, analytical and measuring equipment, and jewelry.

A semi-governmental trade promotion agency, the Japan External Trade Organization, plans to send senior trade advisers to Europe to help expand trade exports to Japan. These officials have been recruited from top companies, such as Mitsubishi and Matsushita Electric Industrial, and will provide input on marketing, product development, and other aspects of trade.

At a ministerial meeting in May, the E.C. and Japan agreed to continue working to remove barriers to market access, while encouraging European firms to be more assertive. E.C. officials are also negotiating with Japanese car companies to curb Japanese auto sales in the Community. An informal arrangement could be established outside the General Agreement on Tariffs and Trade framework, under which Japanese companies would voluntarily limit sales within the E.C., and unilateral French, British, Portuguese, Spanish, and Italian restrictions would be lifted gradually.

—Reuters

North African "Common Market" to Emulate E.C.

THE FIVE NORTH AFRICAN countries that make up the Arab Maghreb Union (AMU)—Algeria, Libya, Mauritania, Morocco, and Tunisia—are working together to make the group more similar to the post-1992 European Community: A customs union between the member states of the AMU is targeted for 1995.

Following difficulties of the AMU's individual members to penetrate the European market, they formed the AMU in February 1989 with the aim of improving trade as a unified group.

Their goals echo the hopes of the European Community. "Our aim," says King Hassan II of Morocco, "is to turn the Arab Maghreb into one country, with one passport, one identity, and a single currency."

The AMU views the E.C. as an important factor in the five countries' economic future and hopes to strengthen ties with it.

FOREIGN AFFAIRS

E.C. Offers Help to Boat People

E.C. OFFICIALS PLAN TO visit Hanoi and offer financial aid to ease the repatriation to Vietnam of tens of thousands of boat people from Southeast Asian camps.

The E.C. initiative proposes financial aid for both individuals and their communities to induce a voluntary return to Vietnam, and is estimated to cost "numerous millions."

Seeking to avoid conflict between the United States and Vietnam against the Association of South-East Asian Nations, or ASEAN (which include Hong Kong, Thailand, Malaysia, Indonesia, and the Philippines), on forced repatriation, the plan seeks to increase voluntary repatriation. While the ASEAN countries are threatening to stop accepting the boat people, the United States and Japan oppose forced repatriation. Vietnam claims that its ravaged economy could not support an influx of returning refugees.

—Reuters

E.C. Calls for End to South African Violence

IN LATE AUGUST, THE E.C. appealed for an end to the violence between rival black factions in South Africa, in which more than 280 people had died in the course of a week in mid-August.

A statement issued by the 12 E.C. Governments called the fighting a "pointless bloodbath," and noted that the violence was jeopardizing the efforts of those working to end apartheid.

This statement followed E.C. praise (at the E.C.'s June European Council in Dublin) for the encouraging developments in South Africa earlier in the summer, including the release of political prisners, the unbanning of political organizations, the lifting of the state of emergency, and the government's commitment to abolishing apartheid and replacing it with a united, democratic, and nonracial government. *—Reuters*

THIS JUST IN . . .

E.C. PRESENTS UNITED FRONT AGAINST IRAQ

Western Europe has strengthened its military commitment to the anti-Iraqi alliance, and stepped up warnings to Baghdad not to harm foreigners in Kuwait and Iraq.

Italy, Spain, Belgium, and Greece have all agreed to send warships to the Persian Gulf to enforce the United Nations' embargo on trade with Iraq. They will join ships from the British, French, and Dutch fleets. There are now more than 30 vessels from E.C. countries, and more than 40 U.S. warships, in the Gulf.

The West German Navy, constitutionally barred from military operations outside of NATO territory, will patrol the eastern Mediterranean, replacing Allied ships sent to the Gulf. The West German Government is also allowing Gulf-bound American military planes to land on its teritory.

Last month, the 12 E.C. Foreign Ministers defied Iraq's order to close their embassies in Iraq, and warned Iraqi President Saddam Hussein that any harm befalling any E.C. citizen "would provoke a united response" from the Community.

As current President of the E.C. Council of Ministers, and thus speaking for the entire Community, Italian Foreign Minister Gianni de Michelis said that "our representatives will stay on the spot as representatives of our government and to safeguard our nationals." He further noted that the E.C. Ministers had agreed in principle to financially compensate the countries suffering the most from the embargo against Iraq.

British Foreign Secretary Douglas Hurd emphasized that it was "very important" for this not just "to be a U.S. operation, but that it be seen that the European allies are vigorously helping."

On August 22, the E.C.'s Cairo Delegation announced that it would immediately mount an airlift for the tens of thousands of Egyptians who have been fleeing Iraq and Kuwait through Jordan since the crisis began. Up to 300,000 Egyptians are expected in the Jordanian city of Aqaba in the next few weeks, a refugee influx that is putting increasing strain on Jordanian and Egyptian resources.

E.C. Commission President Jacques Delors has called for a meeting of the Group of Seven, the world's leading industrialized nations, to coordinate economic policy in light of the Gulf crisis.

—Reuters

E.C. PREPARES FOR GERMAN UNIFICATION

On August 21, the E.C. Commission outlined a highly detailed package that would rapidly integrate East Germany into the E.C. following its unification with West Germany on October 3. The proposals have yet to be approved by the European Parliament and the Council of Ministers.

Under the plan, East Germany would automatically become E.C. territory upon unification, and its citizens would enjoy the full rights and obligations already held by other E.C. members, such as the free movement of people, goods, and services.

The E.C.'s Common Agricultural Policy would apply to East German agriculture from the outset. This sector of the country's economy has been thrown into particularly serious turmoil following its exposure to capitalism, with consumers shunning their own, cheaper produce in favor of the better-quality, more attractively packaged Western goods. Certain provisions, such as buying up surplus stocks, and setting milk and sugar quotas, are already in operation.

In other areas, East Germany would have transitional periods of up to two years to bring certain products up to scratch for sale in the rest of the Community.

—Reuters

E.C. SPELLS OUT FINAL EMU PROPOSAL

On August 21, the E.C. Commission made its final proposals for Economic and Monetary Union (EMU). These will serve as a guide to the intergovernmental conference on EMU, to start in Rome on December 13.

E.C. Commission President Jacques Delors and Commission Vice President Henning Christophersen, responsible for economic affairs, said Stage Two of EMU should begin on January 1, 1993. This stage would establish a single, politically independent European system of central banks, called Eurofed. The Commission further proposed to make the European Currency Unit (ECU) the 12-nation bloc's single currency.

—Reuters

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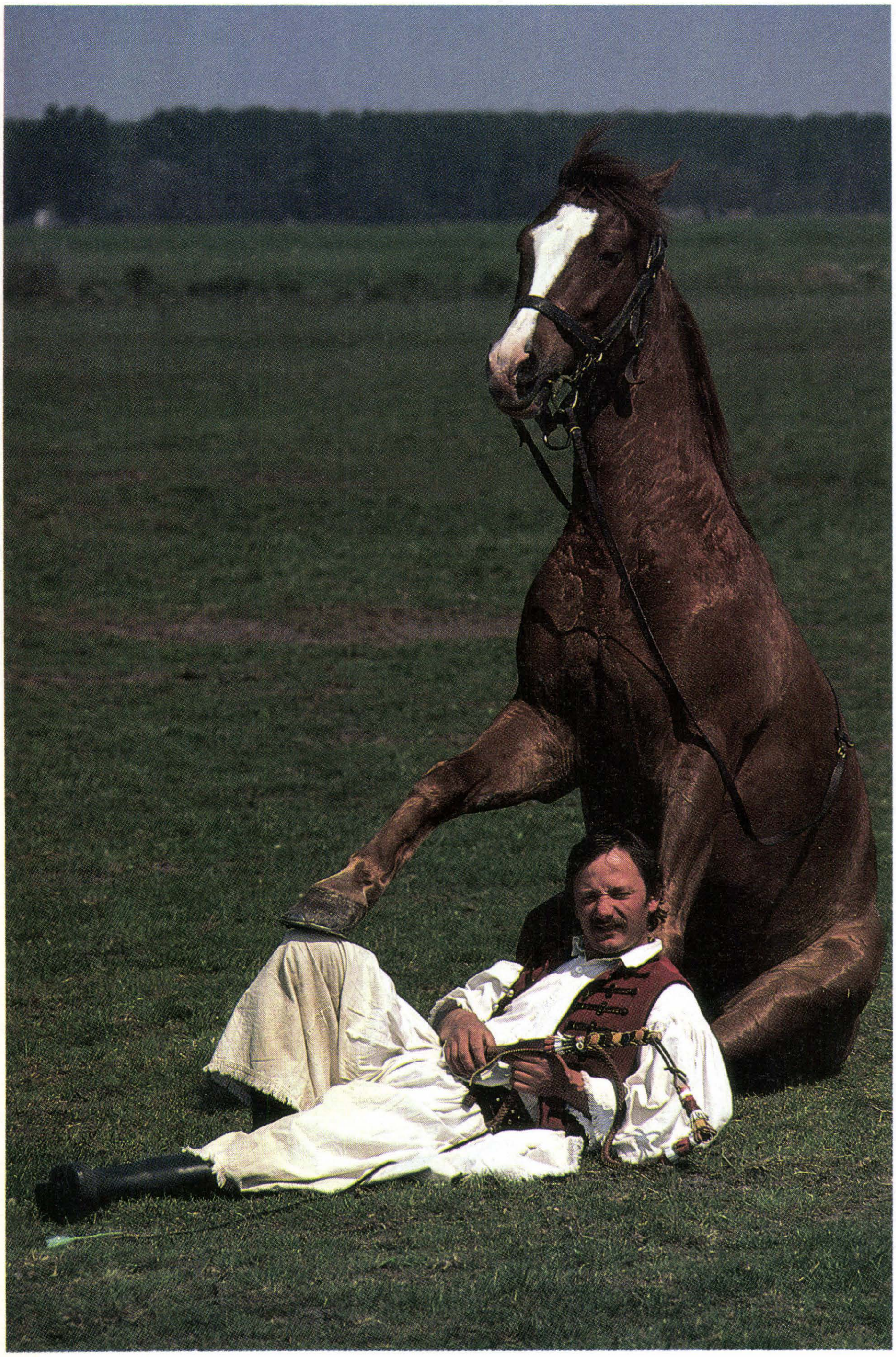
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Americans may be bullish on Europe, but the Hungarians aren't horsing around, either: Hungary is proving to be one of the Eastern European nations adapting most rapidly to a market economy.

•

General Electric, General Motors, Ford, Contel, Levi Strauss, and U.S. West, among other multinational firms, have already invested in that country.

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Moreover, Budapest established Eastern Europe's first stock exchange last May, and Hungary's Prime Minister, Jozsef Antall, has stated he would like his country to join the E.C. in 1995.

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