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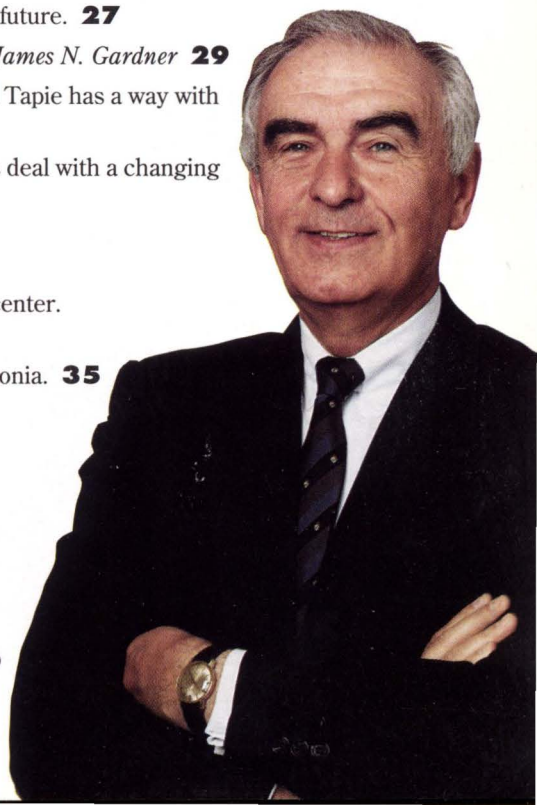
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Letter From The Editor

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RESIDENT GEORGE BUSH AND President Mikhail Gorbachev are now involved in a new type of arms race—an arms race in reverse, one to reduce the number of nuclear weapons in existence on both sides. Bush's "sweeping initiatives" and Gorbachev's counterproposals to the President's September 27 speech, in which he said he would eliminate the "entire worldwide inventory of ground-launched short-range, that is, theater nuclear weapons," will hopefully lead to a Europe with fewer nuclear weapons.

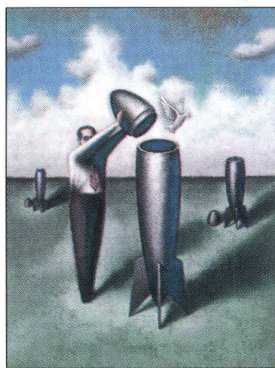
Although these initial steps leave us a long way from a nuclear-free Europe, they are a significant move toward that eventual possibility. In our cover story, Lionel Barber, the Washington bureau chief of the *Financial Times*, says, "By far the most important impact of Bush's moves—and Gorbachev's largely favorable counteroffer—will be in Europe." As Barber also points out in his article, "Bush has been scrupulous about briefing allied leaders about his future intentions, consulting the leaders of Britain, Germany, and France in detail in the weeks leading up to his offer" on the elimination of certain categories of nuclear weapons.

Europe presents reactions from several European capitals to Bush's speech. Contributing editor David Lennon presents insight into what the British will do with regard to reducing their nuclear arsenal in light of Bush's and Gorbachev's announcements. Contributing editor Wanda Menke-Glückert reports from Berlin that the Germans are quite enthusiastic about these new nuclear proposals. And Charles Goldsmith, who covers diplomatic affairs for UPI and the *International Herald Tribune* in Brussels, gives our readers the reaction from the E.C. and NATO to these new developments in arms policy.

The European Community is a major contributor of aid and assistance throughout the world. *Europe* looks at the various E.C. assistance programs and carries an exclusive interview with Ernst-Günther Bröder, President of the European Investment Bank, which is the largest E.C. institution providing loans throughout Europe and the world.

Robert Hormats, Vice Chairman of the investment firm of Goldman Sachs, talks about current business and economic conditions in Europe. Bruce Barnard, reporter for *The Journal of Commerce* in Brussels, reports on how European businesses are preparing for the single market.

In addition, *Europe* looks at Denmark and the Baltics; the awful economic conditions in the Ukraine; and lobbying in Brussels.



Europeans welcome the idea of fewer tactical nuclear weapons.

Illustration by Scott Roberts.

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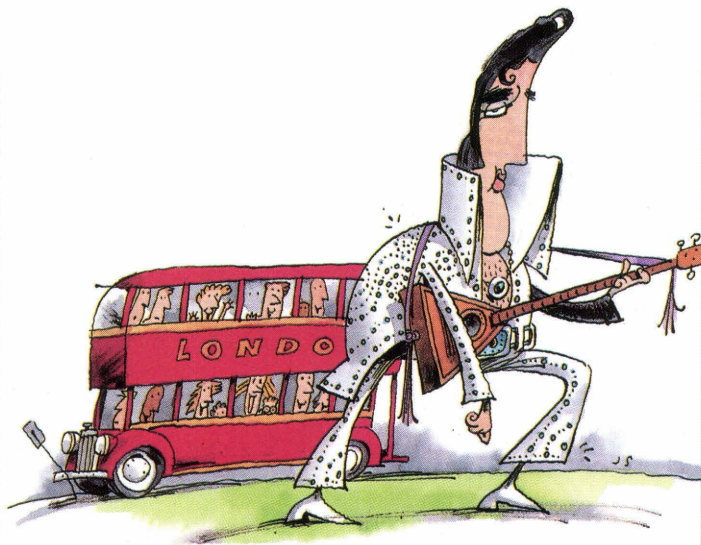
France Favorite for '98 World Cup

France appears to be the early front-runner among those bidding to host the 1998 World Cup soccer finals. England, Portugal, and Brazil declared themselves out of the running, leaving the French to battle it out with the two remaining candidates, Morocco and Switzerland.

The Moroccans will offer the stiffest competition. Morocco appears to have formidable support within FIFA, the international soccer governing body and the organization that will decide on the 1998 host country.

The French, however, remain the favorites. Already, Paris has plans for a new 80,000-seat stadium that would host the final game. Domestic support, vital to a successful bid, is being carried with a large-scale advertising campaign.

France's biggest asset could turn out to be its track record for hosting international events. The 1984 European Championships, for example, went off without a hitch.



Russian Elvis Shakes Up London

Elvis Presley stopped the traffic in London's Piccadilly Circus.

Or rather, Rafik from St. Petersburg, Russia's top Elvis impersonator, brought a sea of taxis and buses to a halt when he strolled across the street dressed in Elvis's trademark sequined jumpsuit and wraparound sunglasses.

Rafik, a fan for years, had finally obtained a visa for the United States and was passing through London on his way to

visit Presley's Graceland mansion in Memphis.

"Russians are dreamers," he said. "If I had been told three years ago that I'd be doing this I wouldn't have believed it."

Rafik made an appearance at the Rock Circus, a waxworks dedicated to rock-and-roll greats of the last 30 years. He put on his best Elvis sneer and launched into "American Trilogy" with his arm around a model of Presley himself.

Rafik, 34, is a skilled musician with an operatic voice and a degree from the St. Petersburg Institute of Culture. So why did he feel the urge to impersonate Elvis?

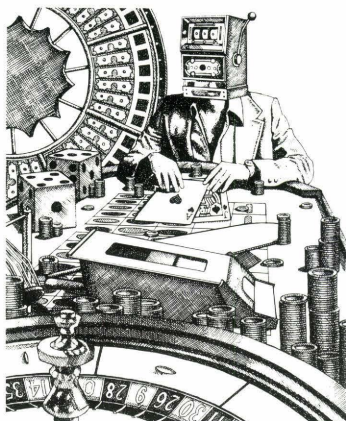
"Because he's Elvis."

FOUL PLAY ON GERMAN 'PEAKS'

Nothing is worse than being halfway through a suspenseful movie and having someone tell you how it ends. Well, a German television station did just that to viewers of *Twin Peaks*.

Putting over rival station RTL Plus's purchase of the popular David Lynch series that kept U.S. audiences glued to their sets trying to figure out who killed Laura Palmer, SAT 1 revealed the killer on its program guide. Viewers who tuned into the channel that provides program schedules, news, and weather forecasts found this message: "Dear RTL Plus, Don't be sad, SAT 1 is helping your viewers enjoy 'Twin Peaks.' Laura Palmer was killed by her father, Leland." The message went on to give the details of the plot's finale.

RTL Plus plans to sue. The station's chief executive, Helmut Thoma, was quoted by the Austrian press agency APA as saying that "the series has run in more than 50 countries and there has been fair play everywhere else."



GAMBLERS BETTING ON '92 BOOM—The passion of European gamblers leads them to place more than \$50 billion a year in bets across the E.C., making gambling the Community's 12th largest industry, according to a recent report prepared for the European Commission by Coopers and Lybrand.

Now the Commission is using the report to consider large-scale deregulation of gambling, a business that could expand enor-

mously when the single market is in place. Until now, income-hungry governments have prevented gaming from going pan-European. But if gambling is deregulated, even more Europeans could flock to the lotteries, casinos, bingo halls, and betting shops that are already so popular.

Many Spanish gamblers are passionate subscribers to lotteries and slot machines and are sworn fans of bingo. Only casinos leave

the Spanish cold, a void filled by swarms of gamblers in Germany, France, and Britain.

Every country has its special habits, but lotteries take the lion's share of the overall market, drawing more than \$20 billion, or 36 percent, of total spending in 1989. Bets on horse racing rank next with 31 percent. Casinos took in a 16 percent haul, gaming machines another 11 percent, and bingo halls 5 percent.

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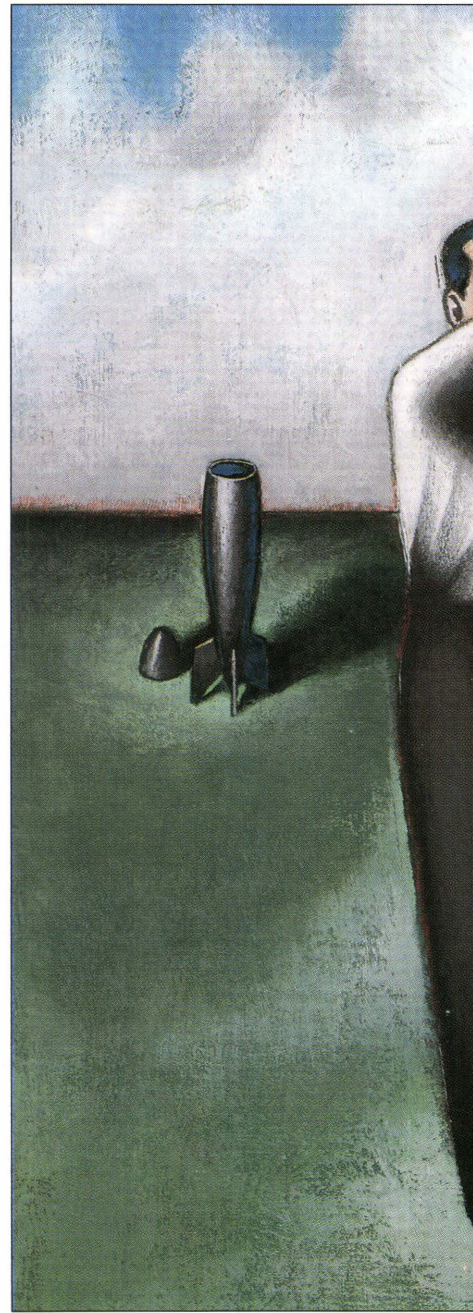
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Europeans Respond Positively to Sweeping Nuclear-Arms Proposals

By nature, President George Bush is intensely secretive. He loves the intimate setting: One-on-one sessions in the Oval Office, small group meetings at Camp David, or a private conversation out of earshot in his speedboat off the coast of Kennebunkport, Maine.

It is a fair bet that General Brent Scowcroft, Bush's National Security Adviser, will never be far away from any of these conversations. During the past 15 months, Scowcroft has assumed an increasingly influential voice in U.S. foreign policy-making, starting with his early, correct prediction that force would be required to remove Iraqi forces from Kuwait. Last month, after Bush unveiled his sweeping nuclear arms proposals, the Scowcroft imprimatur became unshakeable.

Bush's offer marked the first significant response from the West to



The ARMS RACE

the failure of the Kremlin putsch against President Mikhail Gorbachev and to the emergence of a new, if fragile, democratic political leadership in Moscow. Covering air-, land-, and sea-based nuclear systems, the U.S. initiative combined unilateral cuts in warheads with proposals for negotiated reductions in U.S. and Soviet arsenals. Bush, often accused of lacking vision, suddenly found himself acclaimed for setting in motion the most important changes to U.S. national security and nuclear posture in 40 years.

Much about the background to Bush's proposals remains unknown. It is still unclear whether the President refined the original proposals after consultations with allies or whether he was prepared to consider even deeper cuts in warheads with the Soviet Union. More broadly, questions remain regarding how far Bush's proposed cuts affect Britain and France, the other two European nuclear powers; and what impact they will have on the NATO doctrine of flexible nuclear response to what most now recognize is a rapidly shrinking Soviet military threat to the rest of Europe.

Under Scowcroft's general direction, the Administration has long been studying options for cuts in nuclear weapons, well beyond those agreed under the START treaty—signed at the Moscow summit last July—that would reduce long-range U.S. and Soviet missiles by 30 percent. The abortive coup that occurred barely three weeks after the summit concentrated minds in Washington wonderfully.

A senior U.S. official involved in the initiative says that the details were stitched together in little more than two weeks. The urgency reflects an essential truth about the August revolution: The failed putsch destroyed central authority inside the former totalitarian Soviet Union, dispersed power to the republics, and created an alarming power vacuum in Moscow.

The political and military repercussions of this collapse in central authority can be measured by the stream of U.S. visitors to Moscow after the coup, each seeking out the familiar old faces, only to find that the people in charge in Russia, Kazakhstan, Byelorussia, and the Ukraine were virtually unknown quantities. Yet these were the very Soviet republics that served as bases for an arsenal of approximately 12,000 tactical nuclear weapons.

Gorbachev's favorable response to

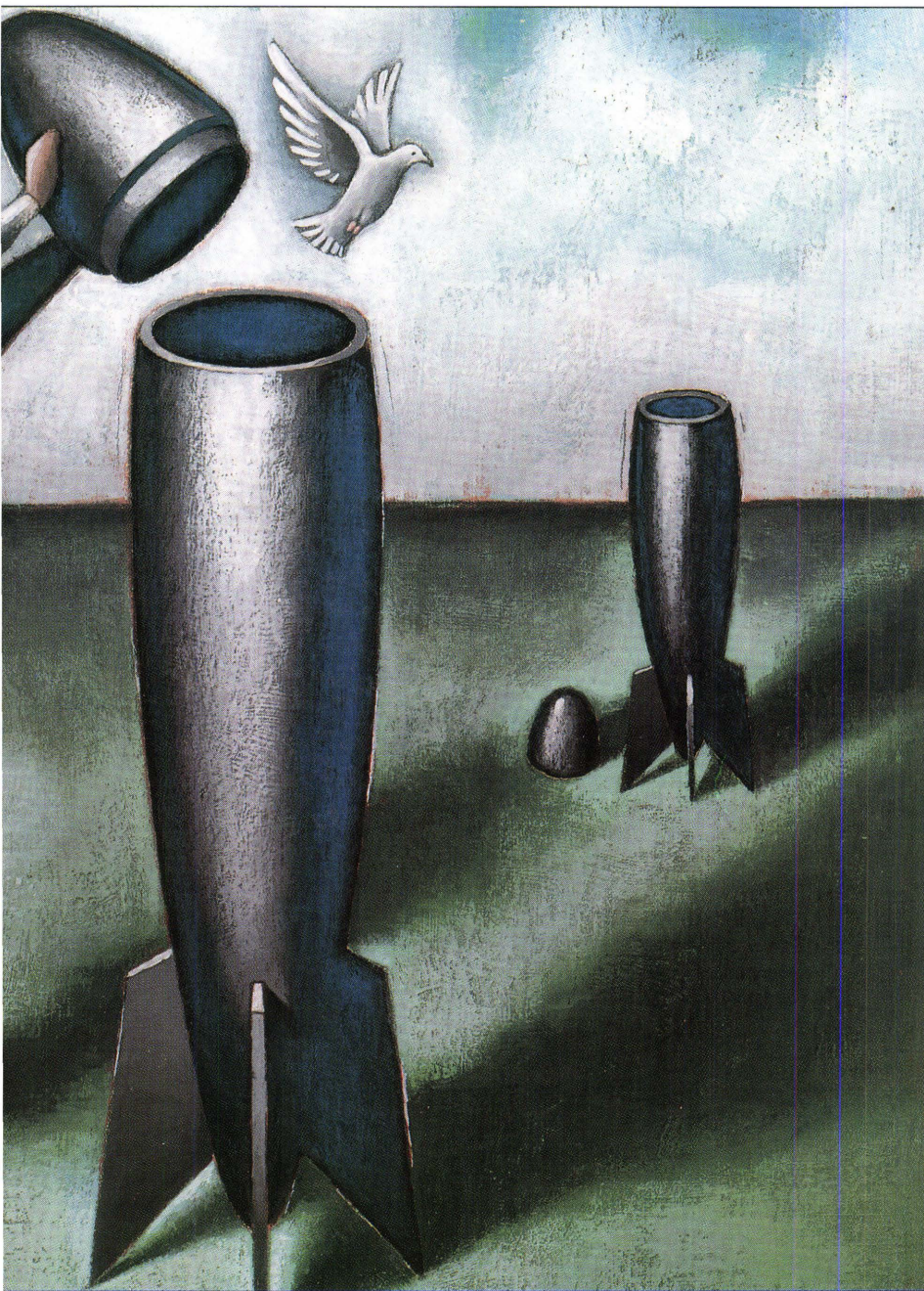


ILLUSTRATION BY SCOTT ROBERTS

in REVERSE

Which Weapons Go?

President George Bush, in his September 27 speech, fundamentally altered one of the United States' traditional arms-control priorities, labeling most tactical—or battlefield—nuclear weapons obsolete and dangerous, given the end of the cold war and the breakup of the Soviet Union. His move to eliminate most tactical nuclear weapons reflects the worry that some of the estimated 12,000 such weapons widely dispersed around the Soviet Union might fall into the wrong hands as Soviet authority over the republics is decentralized.

In his October 5 countermove, Soviet President Mikhail Gorbachev repeated the call he made at Reykjavik for a nuclear-free Europe. What shocked the world in 1986, however, was greeted by the international community five years later as long overdue. By proposing deeper cuts than found in the Bush plan, Gorbachev ushered in a new era of post-cold war nuclear one-upmanship, where reduction rather than escalation is the name of the game.

While the Bush proposal is bold, many defense analysts say it merely yields to the inevitable. With the collapse of the Warsaw Pact, the unification of Germany, and the withdrawal of Soviet military forces from Eastern Europe, the rationale for maintaining stockpiles of U.S. tactical nuclear weapons in Europe has increasingly been challenged—both by the Soviets and the United States' NATO allies.

"There is no Fulda Gap except a tourist trap that was once an armed camp," said General Colin Powell, Chairman of the Joint Chiefs of Staff, after Bush's announcement, referring to the place military strategists predicted a Soviet blitzkrieg into Western Europe would take place. "The utility of nuclear weapons has deteriorated," Powell added.

Tactical nuclear weapons were developed in the 1950s to counter the Soviet Union's overwhelming numerical superiority in conventional weaponry in Europe. The U.S. military now has approximately 7,200 tactical nuclear weapons and nearly 2,600 nuclear warheads on surface ships and ground-based Navy attack planes. Nearly 1,800 nuclear warheads are carried by Air

Force fighter planes; 2,800 are in ground-based weapons like the Lance missile and artillery shells; and about 2,600 are on surface ships and carrier-based warplanes.

Under the Bush proposal, 88 Lance surface-to-surface missile launchers and 800 W-70 nuclear warheads would be withdrawn and destroyed. With a range of 115 kilometers, the Lance was first deployed in West Germany in 1972 and is now fielded in Belgium, the Netherlands, Italy, and the United Kingdom.

The Bush plan also calls for the elimination of some 700 W-79 and older W-33 nuclear-tipped, eight-inch artillery rounds based in Belgium, Germany, Italy, the Netherlands, the United Kingdom, Greece, and Turkey. In addition, 730 W-48 nuclear charges meant to be fired from 155-millimeter howitzers will be destroyed. In May 1990, Bush announced that the United States would not push ahead with plans to produce a new, higher-yield W-82 warhead for 155-millimeter artillery tubes in Europe.

Gorbachev responded in kind. The easiest part of the Soviet package calls for the Red Army to destroy all nuclear artillery shells, nuclear warheads for tactical rockets, and nuclear mines, all of which the Kremlin has been thinking of abandoning anyway. The withdrawal of Soviet troops from Eastern Europe already makes these weapons obsolete and militarily insignificant.

In fact, these are the nuclear weapons that arms control experts most fear could fall into the wrong hands as the Soviet Union continues to dissolve. Their continued deployment poses severe security problems, political headaches, and financial stress on a country already in turmoil.

While these proposals largely reciprocate Bush's moves, Gorbachev went one step further, suggesting that all short-range nuclear bombs and missiles be removed from front-line aircraft, since fears of a massive confrontation in Central Europe have been eliminated.

Pressing beyond Bush's initiative, Gorbachev also proposed that both sides eliminate all naval tactical nuclear weapons. Bush wants to eliminate 900 air-dropped nuclear depth charges but would

stockpile nuclear-armed sea-launched cruise missiles and nuclear bombs dropped from carrier-based aircraft.

Unaffected by Bush's arms control plan are nuclear gravity bombs dropped from U.S. and NATO fighters and attack aircraft. Bush maintains, however, that the United States will "insure that we preserve an effective air-delivered nuclear capability in Europe. That's essential to NATO's security."

Preserving this capability means that the United States will keep approximately 1,300 B-61 nuclear bombs at airfields in Germany, Belgium, Italy, the Netherlands, the United Kingdom, Greece, and Turkey.

As part of his strategic nuclear weapons-elimination proposal, however, Bush canceled development of the U.S. Air Force's SRAM-2, a short-range attack missile to be launched from the B-1B and B-2 bombers. The SRAM-T, a tactical air-to-surface missile (TASM), was also scrapped.

NATO's Supreme Allied Commander, U.S. Army General John R. Galvin, continues to maintain that the alliance has a military requirement for a new TASM. "You may not be able to deter a nuclear power without having the capability or at least threatening to respond in kind," Galvin said in an interview several days before Bush's speech.

Pentagon spokesman Pete Williams said the Defense Department will consider development of yet another TASM if NATO commanders decide they still need one. But with Gorbachev's proposal on the table and a growing political sensitivity over the presence of U.S. nuclear weapons in Europe, most experts believe this is not likely.

With NATO Ministers meeting in Rome early this month [November], many defense experts believe the long-festering TASM debate could be put to rest. Abolishing the requirement for a NATO air-launched, theater, nuclear capability could spell the end of the U.S. nuclear role in Europe, and that, in turn, would raise questions about the viability of independent British and French nuclear arms.

If so, Gorbachev's nuclear-free Europe may be next.

Larry Grossman is a freelance writer specializing in defense and security issues.

Bush's presentation on short-range nuclear weapons suggests that the Soviet leadership shares U.S. concerns that these weapons could be sold, bartered, or even launched in response to the gathering political, economic, and social chaos in the former Soviet Union. When it comes to the threat of nuclear blackmail, Washington and Moscow speak the same language.

Yet Bush's proposal goes beyond mere tactical considerations. This time Bush has revealed that he can throw the "long ball." His unilateral removal of tactical nuclear arms from U.S. warships and submarines, where the United States has long enjoyed technological advantage over the Soviets, is a pathbreaker; his decision to take the strategic bomber forces off alert after 34 years, although largely symbolic, is no less effective in psychological terms.

More important, Bush realized that the second Russian revolution rendered the traditional plodding methods of arms control irrelevant. It took U.S. and Soviet negotiators nine years to conclude the 700-plus-page START treaty; the Administration had yet to submit the treaty to the Senate for ratification when the Kremlin plotters temporarily seized power. Prodded by Scowcroft, Bush understood that he needed to act boldly before he was overtaken by events. The next question, now that the disarmament race has begun: does Bush have a game plan?

On bilateral matters, the drift of U.S. policy looks clear enough. Scowcroft, fulfilling a long-standing personal ambition, wants both the United States and the Soviet Union to abandon mobile, multi-warhead, land-based missiles, which are the most destabilizing weapons. His preference is to revert to single warhead missiles that offer predictability in nuclear deterrence and discourage first strikes. At the same time, both Bush and Scowcroft would like to move toward some form of missile defense system, although nothing

as costly or ambitious as President Ronald Reagan's "Star Wars" astrodome defense.

The U.S. initiative is also specifically geared to curbing the proliferation of nuclear technology, a major concern of the President. The withdrawal of land-based tactical weapons is one step; but even more important is the removal of nuclear weapons on surface ships. This



By far the most important impact of Bush's moves will be in Europe.

By far the most important impact of Bush's moves—and Gorbachev's largely favorable counteroffer—will be in Europe. Bush is well aware of German hostility to land-based tactical nuclear weapons, and his decisive move breaks the "conspiracy of silence" about their location and mission inside Germany. Nor has Bush moved too far too fast. The Administration has remained adamant that it wants to retain nuclear bombs on "dual-use aircraft" and that it has no intention of declaring a "denuclearized" Europe.

Yet it is rapidly becoming clear that

these types of nuclear weapons really are "weapons of last resort" whose primary role is to serve as political reassurance to European allies. The difficulty for the French and the British is that the U.S. nuclear offer will, inevitably, raise questions about their own nuclear systems. The most obvious concern: London's expressed preference for developing a new air-delivered nuclear weapon for the NATO alliance, and France's determination to preserve the tactical nuclear system known as Hades, whose range covers mainly Germany. These questions are unlikely to be resolved at the NATO annual meeting in Rome in early November.

Bush grasped that his nuclear initiatives would play well among the European public, but it is less clear how they are reverberating among the European decision-makers who have grown comfortable

with the predictable world of nuclear deterrence in Europe during the past 40 years. The collapse of the communist empire in Eastern Europe and the erosion of the Soviet conventional military threat have brought great comfort in Europe; but it is not surprising that in some quarters there is nostalgia for the past, if only because it was more predictable.

Yet Bush has at least done one service for Europe. Unlike Reagan, who came close to agreeing to scrap all ballistic nuclear weapons over a 10-year period during the Reykjavik summit in 1986, Bush has been scrupulous about briefing allied leaders about his future intentions, consulting the leaders of Canada, Britain, Germany, and France in detail in the weeks leading up to his offer. This underlines what he himself describes as his approach to foreign policy: gather the facts, consult with friends, and deal from strength. **◀**

Lionel Barber is the Washington bureau chief for the *Financial Times*. His article "After the Breakup" appeared in *Europe's* October 1991 issue.

NUCLEAR-FREE EUROPE?

President George Bush's drastic proposals to eliminate U.S. land-based tactical nuclear weapons in Europe and to cut U.S. nuclear arms met with a variety of reactions in Europe and in the United States. *Europe* presents a sampling of the responses and short analyses from our correspondents in Brussels, London, and Berlin.

Brussels: Who Will Be Europe's Policeman?

C H A R L E S G O L D S M I T H

The sweeping nuclear disarmament pronouncements from Washington and Moscow have been welcomed in Brussels as a historic step toward world peace, but they also serve as a nagging reminder that Europe has no time to waste in developing its own post-cold war security structure.

President George Bush's plan to destroy unilaterally many nuclear weapons was enthusiastically received, in the words of NATO Secretary General Manfred Wörner, as a "very bold and imaginative initiative" that set the stage for an important summit of Atlantic Alliance leaders in Rome in early November.

Soviet President Mikhail Gorbachev's subsequent announcement that Moscow would also slash its nuclear arsenal won equally effusive plaudits from both "ends" of the Belgian capital, from E.C. headquarters in the Berlaymont building downtown, to NATO's sprawling offices near the airport.

Within days, senior NATO officials indicated that the alliance would cut its stockpile of about 1,400 nuclear aircraft bombs in Europe by up to half, yet another sign that the Continent has entered a new era of stability in which massive amounts of nuclear firepower are no longer either necessary or desirable.

The celebrations were quickly tempered, however, by the realization that the end of the cold war is by no means the closing chap-

FRENCH PRESIDENT FRANÇOIS MITTERRAND

"France approves all perspectives of progress in the direction of reduction and destruction of nuclear arms and is willing to engage itself when the French conditions which were announced in September 1983 to the United Nations are fulfilled."

-French Press Service



ter of the security debate in Western Europe. In fact, the latest development in nuclear armament has forced the pace in a crucial but often leisurely discussion on just who would serve as Europe's policeman in the years ahead.

The conflict in Yugoslavia, moreover, has served notice that there is a legitimate role for a conventional European security force to help settle long-rumbling ethnic and regional differences that are now erupting.

For the past year, France and Italy have stressed the need for the E.C. to develop its own security structure, in order for the Community to develop foreign-policy clout commensurate with its newfound role as a world economic power.

Britain, Denmark, and the Netherlands, on the other hand, argue in favor of an old chestnut: "If it ain't broke, don't fix it"—namely, that NATO's 42-year history of success is unequaled among the world's strategic partnerships, so the Atlantic Alliance should continue to serve as Western Europe's principal security umbrella.

With a December deadline approaching for the critical E.C. summit in the Dutch city of Maastricht, there are mixed signs that the security debate is nearing a resolution.

In a surprise alliance, Britain and Italy proposed on October 3 that the nine-nation Western European Union should serve as a strategic "bridge" between the E.C. and NATO. Both countries made significant concessions: Britain agreed to "the development of a European identity in the field of security and defense," while Italy accepted that the WEU should be "compatible" with NATO and not undermine it.

The WEU, which includes all E.C. countries except Greece, Denmark, and neutral Ireland, would be able to develop its own "rapid-reaction force" that could operate outside of NATO territory. The NATO charter forbids military activity "out of area," thus confining the alliance to its geographical boundaries.

"We think it is significant that this initiative comes from Italy and Britain together, because our two countries had previously been in opposite camps on this issue," said an Italian diplomat in Brussels.

The ink was barely dry on the Anglo-Italian proposal, however, before France objected on grounds that the plan continued to subordinate the E.C.'s own defense identity to that of NATO.

One provision of the proposal said the WEU must "take account of the different nature of its relations" with the E.C. and NATO, and France pointed out that the WEU charter requires the organization to "rely on the appropriate military authorities of NATO for information and advice on military matters."

France quickly found an ally in Germany, and a joint Franco-German statement, also signed by Spain, called for a common E.C. foreign policy "as a necessary component of political union," to be decided upon by majority voting rather than by unanimity. The statement made no mention of NATO, an omission that was hardly accidental.

Of all the E.C. countries, Germany sees its diplomatic hand most strengthened by the steps toward nuclear disarmament, because the presence of thousands of NATO nuclear warheads on German soil has long been a source of dispute in German politics. Just days after Bush's nuclear-arms announcement, German Foreign Minister Hans-Dietrich Genscher and U.S. Secretary of State James Baker called for a new "North Atlantic Cooperation Council" that would formalize Eastern Europe's participation in NATO activities.

As the days before the Maastricht summit dwindle, drawing to a close the E.C.'s historic intergovernmental conference on political union, efforts are afoot to find a compromise between the Anglo-Italian and Franco-German proposals.

Linking the two vastly different plans will be "like marrying fire and water," says French Foreign Minister Roland Dumas.

Diplomats continue to try to find an acceptable form of marriage vows.

Then, on October 16, France and Germany proposed their own version of what an infant European army should look like.

In a letter from French President François Mitterrand and German Chancellor Helmut Kohl, Paris and Bonn said

the WEU should serve as the Community's defense arm, because reinforcing the WEU "is an integral part of the process of European unification."

They went far further than the Anglo-Italian proposal, by calling for the E.C. to be responsible for its member states' foreign relations, including relations with the United States and "political and economic relations and cooperation" with the Soviet Union.

GERMAN CHANCELLOR HELMUT KOHL



"President Bush's decision implies that all American short-range nuclear weapons and the nuclear artillery will be removed from German soil. In the name of all Germans I want to thank the President for that.

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"These proposals will lead to a historic change in security policy. Peace will become more secure. This development was made possible because for years we kept the unity of the Atlantic Alliance and at the same time urged the Soviet Union to implement democratic reforms."

BRITISH PRIME MINISTER JOHN MAJOR



"When President Bush announced his proposals I said that if Gorbachev responded in like fashion then it could well be a turning point in the peace process. We have now had a response from President Gorbachev. At first sight it does seem to be a very comprehensive response, and that is very welcome."

London: Re-evaluation

D A V I D L E N N O N

Britain is being forced into a fundamental review of its nuclear weapons' program and the concept of an independent deterrent following the proposals and counterproposals on nuclear arms cuts from Washington and Moscow. Plans to replace aging British nuclear weapons systems will come under renewed scrutiny over the coming months, and some may be shelved.

When President George Bush announced the most sweeping changes in U.S. defense strategy in four decades and President Mikhail Gorbachev matched these proposals to reduce not merely the size but the nature of the superpowers' nuclear arsenals, European leaders had to begin reassessing the military doctrine they have known, espoused, and followed for most of their adult lives.

Consequently, no one should have been too surprised when the first reaction of ever-cautious British Prime Minister John Major was to rule out firmly any prospect of Britain cutting its Trident nuclear submarine program. He proclaimed this decision even while welcoming the U.S. and Soviet announcements as "a unique opportunity to see a dramatic de-escalation in nuclear weapons."

For Britain, two issues must be faced immediately. The first is the plan to replace the aged Polaris nuclear submarine with a new Trident submarine-launched missile system that will have nearly 1,000 warheads at its disposal. Major was adamant that "Trident is the essential minimum defense that we need in this country."

The second issue concerns the program for a tactical air-to-surface missile system (TASM) to replace 200 dated free-fall tactical nuclear bombs that require warplanes to fly directly over their target. The Government's plan was to have these stand-off missiles, which have a range of 350 miles, in service with the Royal Air Force's Tornado strike aircraft by the late 1990s. But the argument for this air-launched system has been weakened by the Bush-Gorbachev initiative.

British Defense Secretary Tom King's initial response was to say that there would be no change in Britain's Trident or TASM programs. The only direct impact on British forces

would be the long-awaited scrapping of the elderly Lance missiles with their 70-mile range and getting rid of the nuclear artillery shells deployed with British armor.

In line with the U.S. decision, Britain will remove nuclear depth charges from its ships. Everyone has welcomed the step because this bomb was long considered as posing a risk of severe contamination. In addition, improvements in non-nuclear weapons have rendered its value questionable.

The political opposition criticized the Government's response, arguing that Britain should now join talks on further nuclear arms cuts. Many political and military analysts asked just what the point is of continuing with sub-strategic weapons as a deterrent against a conventional attack, given that the danger of Western Europe being overrun by Soviet land forces has receded.

Opposition Labor Party leader Neil Kinnock called immediately for "an extension of the testing moratorium and even more effective machinery for preventing proliferation. The earlier we are involved, the more likely we are to be able to exercise the necessary influence."

Britain—and France—refused to be included in earlier U.S.-Soviet arms-limitation agreements, arguing that they would only join in the nuclear-disarmament process when the two superpowers reduced their arsenals by 50 percent. Gorbachev has indicated that his next proposal will be for just such a cut.

In fact, discussions are well under way for a conference on additional nuclear force reductions. The United States, Soviet Union, United Kingdom, and France have all agreed on the principle of having a conference, but they have not yet agreed at what level it should be held, on what date, or who is accountable for the nuclear weapons policy in the Soviet Union.

Furthermore, the basic review of NATO strategy and doctrine that was commissioned last year to be presented to next month's NATO summit is now being recast to take into account the unprecedented U.S. and Soviet moves. The events in Europe of the past two years mean that NATO now has conventional superiority and no longer needs to rely so heavily on nuclear weapons. At the same time, the instability in Eastern Europe and the former Soviet Union means it is still necessary to maintain credible forces.

With a general election due before next summer, it is intriguing to see how the position of the Labor Party, traditionally the home of those advocating unilateral nuclear disarmament, has changed in recent years. True to historical

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"Firstly, what has happened today is an absolute vindication of NATO strategy over recent years. Had the West not held to that strategy, I very much doubt that we would have seen the remarkable events of recent weeks. Although these announcements are welcome indeed, I believe we do have to bear in mind that the Soviet Union still remains a very large military and nuclear power, and we would want to look very carefully to see how these matters develop. . . ."

U.S. SECRETARY OF DEFENSE DICK CHENEY

"[President Bush's] initiative makes the world's arsenal of nuclear weapons significantly smaller and the world significantly safer. And it gives the Soviets the incentive they need to shift their country away from the business of producing nuclear weapons and toward the work of building democracy.

• • • • •
"It is the Soviet people, not the United States, that are most seriously threatened by the existence of their battlefield nuclear



form, October's annual Labor Party Conference voted to cut U.K. defense spending by \$10 billion, to the average level of other Western European countries.

But party leader Kinnock, who has been trying to distance the party from this position for some years and convince the electorate that Labor is just as tough on defense issues as the Conservatives, declared point blank that he would ignore this vote as "irrelevant and outdated."

However, Labor recognizes the dramatic changes that have taken place and if voted into power would seek an immediate reassessment of the country's defense needs. A Labor Government, Kinnock said, would enter the next round of strategic-nuclear-weapons reduction talks but would insist on keeping Britain's nuclear weapons until all other nuclear countries agree to destroy theirs.

In reality, events are now moving so fast that by the time next year's election takes place, a whole new nuclear policy most likely will have evolved in Europe. The Continent is unlikely to be nuclear free, but Europe may well be free of the threat of nuclear extinction.

Berlin: Delight and Relief

WANDA MENKE-GLÜCKERT

Germans who for years have lived amid the world's heaviest concentration of nuclear weapons are understandably delighted with President George Bush's initiative to slash unilaterally the U.S. nuclear arms arsenal and President Mikhail Gorbachev's response not only to match but also to exceed the U.S. reductions.

Welcoming the initiatives, Chancellor Helmut Kohl said they constitute "a decisive step on the way to more security and stability in Europe. It is of special importance to us," the Chancellor said, "that the Soviet Union is ready to withdraw and destroy land-based tactical nuclear weapons." The Chancellor was also relieved to learn that the thousands of tactical nukes scattered outside Russia in three Soviet republics—which could have been seized by rebel or dissident groups—would be placed under one central administrative control. The latest Soviet initiative was, in his opinion, a confirmation of his Government's policy, which for years has pursued a balanced arms reduction in the East and West in order to bring about peace with fewer weapons.

Foreign Minister Hans-Dietrich Genscher in welcoming President Bush's initiative said gleefully that *Genscherism*, for many years a four-letter word in the United States, "has finally become acceptable in the White House." He points

out that for years he has been preaching that Gorbachev's Soviet Union and *perestroika* have made the nuclear arsenal superfluous as well as obstructive. Again and again he emphasized that the arsenal would bring no security but would instead strengthen the hard-liners in the Kremlin.

Genscher is happy that events have proved him right. "This is a big, historic event," Genscher said, adding, "The elimination of nuclear short-range missiles and the nuclear artillery shells have cleared the way toward cooperative structures of security in the whole of Europe."

That nuclear artillery shells and warheads on short-range missiles in both Europe and Asia will be destroyed is seen as particularly important here. "The danger of a full-scale territorial war in Europe

has been averted, the short-range missiles have become superfluous," comments the independent *General-Anzeiger* in a lead article titled "A Welcome Race." The newspaper points out that although old thinking is still visible in the strategic nuclear weapons, the proposal is still a step away from the nuclear brink. The two superpowers are instead competing with measures and proposals to bring about greater stability. "The arms race has made way for

the disarmament race," rejoices *General-Anzeiger*.

Experts point out that we are still a long way from a brave new nuclear-free world. Says Christoph Bertram, diplomatic editor of the liberal weekly *Die Zeit*: "U.S. aircrafts will continue to carry nuclear bombs, U.S. submarines will continue to carry ballistic missiles, and the British and the French will continue to maintain independent nuclear forces. Nevertheless a beginning has been made."

There is general agreement that the aborted Soviet putsch of last August and the fear that nuclear weapons could fall into the wrong hands if the Soviet Union continues to disintegrate have accelerated the superpowers' new arms-control proposals. Bush's unilateral initiative has helped Gorbachev to persuade his military leaders to make concessions and cuts. "Gorbachev could now tell his gen-

erals, 'Look here, the class enemy of yesterday is leading the way; now we can, now we must follow suit,'" says Josef Joffe, diplomatic correspondent of the liberal *Süddeutsche Zeitung*.

In Joffe's opinion, the timing is exceptionally favorable: "Gorbachev wants massive economic aid, Bush wants massive cuts in the Soviet armament." Joffe says that "Europe is

weapons. It is in the interest of the Soviet people to lift the burdens of their nuclear program."

Addressing the Atlantic Treaty Association General Assembly, October 9, 1991

MANFRED WÖRNER, SECRETARY GENERAL OF NATO

"We are restructuring and reducing our nuclear weapons in Europe, making them truly weapons of last resort. I salute in this respect the very bold and imaginative initiative by President

Bush to reduce significantly the numbers of United States nuclear weapons. I hope that the Soviet Union will follow suit and thus lay the basis for a truly cooperative relationship with our alliance. But the alliance will retain in Europe a minimal number of air-based weapons to prevent any temptation to use force or wage a war—be it conventional or nuclear. We see nuclear weapons not as war-fighting but as war-preventing weapons."

Addressing the Atlantic Treaty Association General Assembly, October 9, 1991



the main winner since all short-range missiles that would have annihilated our immediate neighborhood will disappear."

A more sober appraisal of the arms-control proposals comes from Norbert Gansel, deputy leader of SDP Parliamentary Group and chairman of the Foreign Affairs and Security

According to Gansel, Bush's initiative and Gorbachev's answer leave many open questions. "It is not clear," he says, "whether the Soviets will stop the development of the small mobile intercontinental missiles immediately, or whether they want to complete the development."

And he considers the announcement to ban nuclear tests

for one year, starting immediately, not the Soviet leadership's concession but the result of the Soviet citizens' resistance to nuclear tests. Nor is the announced measure to destroy an additional 1,000 nuclear warheads within seven years a genuine disarmament concession. These weapons are obsolete and were due to be scrapped anyway.

That the Soviets continue to produce nuclear warheads despite their enormous nuclear arsenal of more than 30,000 finds difficult to understand. Similarly, "the announced reduction of 700,000 soldiers is really not enough in

view of the crippled economy in the Soviet Union," Gansel says.

The German Parliament unanimously welcomed Bush's and Gorbachev's bold plans and asked insistently not only the superpowers but also Britain and France for further drastic cuts.

**SENATOR SAM NUUN,
CHAIRMAN OF THE SENATE
ARMED SERVICES
COMMITTEE**

"I'm very positive on eliminating the ground-based tactical weapons. I think they have no more military utility. I believe taking away the sea-based tactical nuclear weapons, not the big underground missiles, underwater missiles we have, but the tactical nuclear weapons at sea, is something that I have felt a keen interest in for some time

"I have reservations about the question about the bombers going off alert completely

"For years [the United States] said that it did not judge intentions; we observed capabilities of the Soviets. General [Colin] Powell testified before our committee that the Soviet nuclear capabilities had not gone down. So what we are doing now is judging intentions, and I think judging those intentions correctly with this group of people

"I don't think this group of Soviet leaders would [order a nuclear

first strike]. I think the chances are remote, but with these kinds of stakes, I think you need insurance policies"

Speaking on "Face the Nation," CBS Television, September 29, 1991

**REPRESENTATIVE JOHN
SPRATT
MEMBER OF THE HOUSE
ARMED SERVICES
COMMITTEE**

"A nuclear-free Europe at this point lies in the hands of the Europeans themselves. France does not appear ready to give up its nuclear arsenal. England has said they will maintain their strategic nuclear force. It seems as long as Britain and France maintain nuclear arsenals there can be no 'nuclear-free' Europe.

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"What I think can be accomplished is a reduction in the number of weapons that are maintained. I think a large number of nuclear weapons can be taken off alert status and stored in a more secure environment.

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"NATO's role will change, but it won't change overnight. Once again, a reduction in the number of weapons maintained on alert is more likely than a complete withdrawal of all weapons"

In a phone interview with *Europe*, October 16, 1991

**REPRESENTATIVE PAT
SCHROEDER
MEMBER OF THE HOUSE
ARMED SERVICES
COMMITTEE**

"I salute what [President Bush] did. I think it's very important, because the window's open now, and, if we didn't start moving now, we could lose this great opportunity. Obviously, I think there are other things we could do. I would like to see the number of troops come down in Europe. It makes sense to me [the number of troops] should be able to come down if we're bringing that many weapons home from that area, and that would save a lot of money"

Speaking on "Newsmaker Sunday" CNN September 29, 1991

Committee. At the beginning of October, he held talks with arms-control negotiator Victor Karpov and Defense Minister Yevgeny Shapashnikov in Moscow on nuclear armament control and disarmament.

Gansel regards Gorbachev's response to Bush's proposals as "an adequate answer." However, he also points out flaws. In his opinion, "the Soviet leaders did not demonstrate their intent and strength to accelerate the disarmament process by announcing additional unilateral measures." Gansel particularly welcomes the countries' decision to take long-range bombers, parts of nuclear intercontinental missiles, and nuclear submarines off alert. These measures, along with placing all strategic weapons under one operative administration, have reduced the danger of an accidental slip causing a nuclear war.

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Diplomatic Recognition

ON APRIL 19, 1782, A YEAR BEFORE THE Treaty of Paris ended hostilities between the 13 American colonies and Great Britain, the Netherlands became the first country to grant diplomatic recognition to the United States. Although the colonists had considered themselves free since the signing of the Declaration of Independence in 1776, the Dutch recognition of American sovereignty was a sign that the new country across the Atlantic was coming of age.

What was true for the United States in its infancy is true for the Baltic states today as they regain their independence. For both the American colonists aiming to be rid of the British tyranny of taxation without representation, and the Baltic states' desire to regain their sovereignty lost to Soviet annexation in 1940, diplomatic recognition was crucial. Like beauty, independence is in the eye of the beholder: For practical purposes, a state can only engage in the full gamut of foreign relations—signing treaties, engaging in commerce, joining international bodies—when other countries recognize it as belonging to the same club of states.

Although it took the new American nation six years to be recognized, for Lithuania, Latvia, and Estonia it was only a matter of months between their declarations of independence and their first diplomatic recognition by others. There was even something of a race to recognize the three Baltic states, with Iceland being the first, followed by Denmark, Canada, and Argentina. Soon afterward, on August 27, the entire E.C. recognized Baltic independence; the U.S. Government was something of a latecomer, waiting until September 2.

On September 6, the day Mikhail Gor-

*Establishing a New Country
Requires More than Declaring
Independence*



The Soviet Ambassador to the U.N. welcomes Lithuania's President.

UPI/BETTMANN

bachev and Boris Yeltsin made their joint, live appearance on ABC television, the Council of State of the Soviet Union, bowing to reality, formally granted the Baltic states their freedom. Finally, on September 16, the Baltic states took their seats as the three newest members of the United Nations. With this seal of approval, more declarations of diplomatic recognition followed from around the globe.

Still, a U.N. seat is not as powerful a sign of statehood as diplomatic recognition. Switzerland is not a U.N. member, but is recognized as a state by almost all countries. And, despite their U.N. seats, the Ukraine and Byelorussia were not considered legitimate nation-states and did not receive diplomatic recognition from other countries. These two Soviet republics were granted U.N. seats after World War II as part of a deal between Soviet leader Joseph Stalin and U.S. President Franklin Roosevelt. Stalin insisted that the influence the United States exerted in the world body via its Latin American allies needed to be balanced by greater Soviet voting power.

The concept of diplomatic recognition probably originated with the Italian city-state system in the 14th and 15th centuries. To maintain smooth commercial relations and to protect themselves from the many political machinations of the time, the Italians, led by Venetians, devised the first system of foreign offices, which included sending ambassadors to collect information in host city-states. This system became widespread in Europe after the 1648 Peace of Westphalia ended the Holy Roman Empire and the modern world of independent nation-states emerged.

The exchange of diplomats is still a key aspect of recognition. The Baltics are a good case in point. The United States never recognized their absorption by the Soviet Union under the terms of the Hitler-Stalin Pact of 1939. The Baltic states even maintained symbolic diplomatic representation in Washington. So the U.S. Government did not have to recognize the existence of free Baltic states in September. What would actually demonstrate the new U.S. policy? The sending of an ambassador. As President George Bush declared, "The United States has always supported the independence of the Baltic states and is now prepared immediately to establish diplomatic relations with their governments." Once the American flag flies above U.S. embassies in Tallin, Riga, and Vilnius, the process of diplomatic recognition will have been completed in earnest.

Diplomatic recognition is considered a



REUTERS/BETTMANN



For Lithuania, Latvia, and Estonia, it was only months between their declarations of independence and their first diplomatic recognition by others.

Left: The Estonian delegate to the U.N. listens to the proceedings.

political act, not a legal one, under international law and is a bilateral matter between two states. That recognition can be used as an instrument of foreign policy is borne out by recent events.

The E.C., eager to play a lead role in Eastern Europe, took the risk of recognizing the Baltics before its superpower ally the United States did. The E.C. hoped to create an early reservoir of goodwill with the new Governments in Estonia, Latvia,

and Lithuania. The Bush Administration, reluctant to rattle the already shaky foundations of President Gorbachev's rule, waited until it was clear that the Soviet Government itself was likely to grant the Baltic states their freedom. €

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Letter from the Ukraine

Notes from a Decomposing Economy

KIEV, UKRAINE—A UKRAINIAN SCHOOL-teacher must work more than a month to afford a pineapple. If he can find a pineapple. A pack of Marlboros costs more here than a barrel of oil; Marlboro cigarettes trade on the free market while the price of oil is set by a Moscow bureaucrat, 1,200 miles from the nearest well. This situation explains why Azneft, the Azerbaijani oil company, loses \$20 on each ton of oil it produces and owes the state some \$65 million, which it hasn't got and will never pay.

Russia and Azerbaijan have the oil. The Ukraine has the wheat. Russia wants to raise oil prices to world levels and, worse, make the other republics pay in dollars. But the Ukraine, like other republics, is hooked on cheap oil and says realistic prices would raise its oil bills 90-fold. Likely outcome: economic collapse. So Ukrainian officials here are threatening to stop sending wheat to Russia. Likely outcome: starvation in Russia. Possible outcome: civil war.

And more:

There's a factory in Kiev that makes screws and sells them to a factory in Vladivostok, 6,000 miles away in the Soviet Far East. There's another factory in Kiev that buys screws from a factory in Vladivostok.

If the two Kiev factories dealt with each other, shipping could be cut to five miles. But the two sets of factories are run by different ministries in Moscow that control all the factories in their domain and don't seem to talk to each other.

This surrealism is not cited to poke fun at the poor, unraveling Soviet Union and its citizens. Rather, understanding the Soviet plight involves comprehending how awful that plight really is; for Westerners, who think of economic malfunction as a

Ten thousand nationalists demonstrated for greater autonomy, but now that they've gotten it, the economy has suffered.



REUTERS/BETTMAN

recession or 20 percent inflation, the scope of the Soviet collapse may be imagined only via anecdotes.

One rough scale may help. The collapse of East Germany has shown how far Eastern Europe trails Western Europe. Moscow is probably that same distance behind Eastern Europe. And the rest of the Soviet Union lags about as far again behind Moscow.

Deutsche Bank has said that, of all the Soviet republics that want to be independent, the Ukraine has the best chance of building a modern economy. To a visitor, the thought that a place like the Ukraine is Most Likely to Succeed underlines the agony of the rest of the nation.

With the West being asked to devote a multibillion-dollar effort to helping the Soviets reform their simulacrum of an economy, it's vital that we understand what an abyss it is.

In the past, those of us who reported from the Soviet Union could afford to be bemused by the experiment called communism. Under communism, the place worked badly, but it did work. The Communist Party and the central planners produced a botched economy, but at least it was an economy of sorts, under control, plodding on, providing a basic standard of living. The wheels turned, goods appeared, food reached the table. It was the most conservative economy imaginable; no change, no innovation, no risk. The future, like the present, was grim but predictable.

That situation has vanished. The party and the planners may have gummed up the works, but they also glued it together. Now they're gone, or discredited, and there's nothing to take their place.

Plans are floated for privatization or convertibility of the ruble, conversion of defense industries, or other grand projects. These changes certainly are necessary. But the plans imply that the existing economy can be overhauled and made to work. As stupendous as this effort would be, it does not address the entire task.

What is needed first are the ideas of a market economy, such as trust and risk. It's not that these concepts are missing. It's that they aren't understood.

Trust is what we mean when we say, "First State Bank and Trust Company." It's trust that enables you to take my check, honor my credit card, bill me later, shake my hand and say, "It's a deal." Such trust doesn't exist here. The Soviet Union is a cash-only, payment-in-advance, trust-nobody society. It's a place where nothing

is good unless it's written in triplicate and endorsed with a stamp.

Risk means that if I want to start a business, I borrow the money that has to be paid back, find a market for what I do, and compete on quality or price or both. If I

"What is needed first are the ideas of a market economy, such as trust and risk. It's not that these concepts are missing.

It's that they aren't understood."

fail, I'll go broke. Almost all Westerners, businessmen or no, understand this, because it's in the air we breathe. Soviets, breathing a different air, understand none of it—the borrowing, the marketing, the competition, the risk.

European and U.S. leaders, having talked with President Mikhail Gorbachev, are convinced he doesn't grasp any of this either. This incomprehension isn't surprising. I once interviewed Leonid Abalkin, a reform economist who became Gorbachev's economic guru. I asked him where a young Russian who wanted to go into business would find the money. Abalkin and I batted the issue around until I realized he didn't understand the question.

"No young Russian would want to do this," he protested. Clearly, he couldn't see why anyone should. Yet, if the Abalkins of Russia don't grasp market economics, nobody can.

The United States and the E.C. are sending experts laden with technical advice on such topics as accounting, shipping, and personnel policies. But can they teach trust or risk?

For the provinces, like the Ukraine, these agonies are doubled.

First is the isolation. Compared with Moscow, where the opening of a McDonald's was a major event, the Ukraine is a true backwater.

Kiev is a city of 2.5 million people in a republic of 52 million people, which is more than Poland and slightly fewer than France. Yet only one foreign airline flies here. There are a handful of consulates and virtually no foreign business representatives. The entire list of foreign offices in Kiev fills barely two sides of one sheet of paper.

What this means is that, whatever has gone on in the Western world in the past 70 years, the Ukraine has missed it.

This isolation creates the second problem, which is people. Any Ukrainian who wanted to cut a swath in the world—a scholar, bureaucrat, athlete, singer—had to go to Moscow to do it. All decisions in the Soviet Union—like the setting of those oil prices or the shipping of those screws from Kiev to Vladivostok—were taken in Moscow.

"Anybody with brains has been sucked off to Moscow," said a Canadian-Ukrainian scholar here. Consequently, no one here knows how to set up an embassy, manage a currency, run a railroad, balance a budget, handle foreign trade, or do any of the things a government must do. Yet the Ukraine plans to be independent, in the same sense that the Baltics now are, by the end of the year.

The first challenge is to disentangle the Ukrainian economy from the Soviet cobweb and return some control to Kiev. The hope is that the present structure can be dismantled, brick by brick, without a crash or disintegration. The second challenge is to find or train people who can run this economy once they have the chance. The third is to convince them they can do it.

"This is a deformed place," said one foreigner living here. "There is a terrible sense of powerlessness that the people have. For 400 years, long before communism, Ukrainians have been told that they're nothing—not a separate nation, only younger brothers to the Russians, who couldn't survive without Russia.

"Do they believe it? I don't know. No one is used to thinking for himself. There's an unwillingness to think that Ukrainians can achieve anything, a belief that they're a nation of slaves. The past has left a lot of broken souls that have to be healed."

The Soviet economic collapse is continuing. Economists and others may talk about solutions for the Soviet Union in Washington, Cambridge, London, or Brussels, but the fact remains that their economy is in shambles and the people will have to learn an entirely new set of values for a market economy to work. ❧

Richard C. Longworth is the chief European correspondent for *The Chicago Tribune* and a contributing editor to *Europe*.

Ernst-Günther Bröder

Ernst-Günther Bröder, President of the European Investment Bank (EIB), explains the EIB's lending policies, aid to Eastern Europe, 1992 prospects, and overall banking changes sweeping across Europe.

Bröder was interviewed at his office in Luxembourg by Europe's Editor-in-Chief, Robert J. Guttman.

Most Americans have heard of the World Bank and the International Monetary fund. The European Investment Bank, however, receives very little attention. What does the EIB do, and what are its goals?

The EIB was founded in 1958 in the Europe of the Six as a bank for supporting economic development, in particular in the south of Italy. Its main objectives were to support balanced regional development and other Community policy objectives. At a later stage, the ACP (African, Caribbean, and Pacific) and Mediterranean countries also became part of our field of operations, and the French, British, and Netherlands' Overseas Territories were also included. However, the main area is still the European Community.

Italy has been our largest borrower—receiving just over 30 percent of our loans last year—followed by the United Kingdom, Spain, and France almost equally. Spain, for example, doubled its borrowing within 18 months. Last year our lending in the country came to about two billion ECU out of a total of some 13.4 billion ECU that we lent last year. We have raised some 11 billion ECU on the international markets, which puts us in line with the World Bank. As far as sectors are concerned, there was emphasis on infrastructure, transportation, and communications in a very broad sense, including railroads, financing the TGV [high-speed train] systems to a large extent. We lent to telecommunication sys-

tems in many of our member countries. We have financed industry—private and public companies—extensively and last but not least environmental protection projects.

Are you giving many loans in Germany because of unification?

Not enough in view of the need. There is currently not yet enough new investment being carried out in eastern Germany. In the whole of the Federal Republic of Germany, we will probably reach some 1.3 billion ECU this year.

What would that go for?

Largely to the sectors already mentioned, including environmental projects improving water supplies and waste water treatment. In eastern Germany, finance is also going for investment in the automotive industry and for the gas distribution system.

Can American private firms get a loan?

Yes.

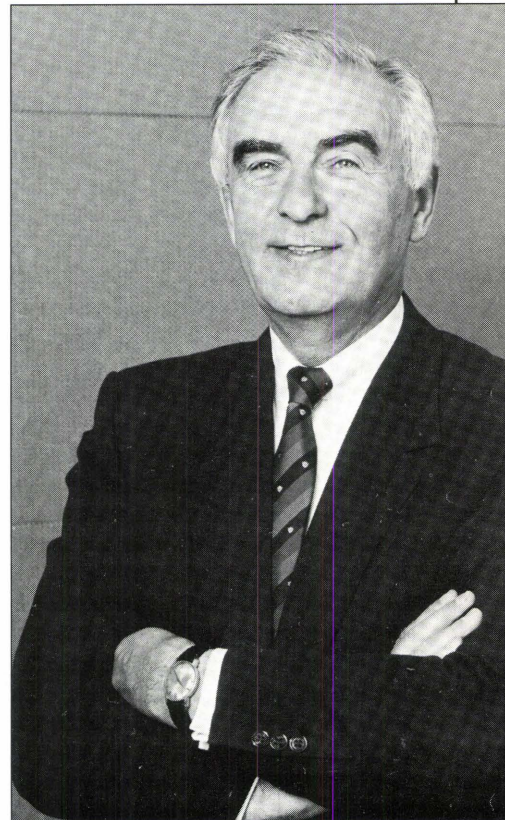
Why would you give loans to an American firm?

Nationality doesn't make any difference. If an investment is created by an American firm in one of the E.C. member countries and it meets one of our objectives, such as regional development, we will consider it.

What are the requirements for EIB loans?

The loans must fit into national and Community policy. This has to be corroborated by the E.C. Commission in Brussels and by the recipient country's Government. The projects are eligible if they meet our lending requirements, whether it be for modernization, rationalization, new products, high-tech, or whatever.

If a large company is going to provide thousands of jobs in a depressed area, would that be an



"We do not finance more than half of a project. Cooperative cofinancing is the rule."

Incentive for giving a loan?

Yes. For example, as far as the automotive industry is concerned, there is no longer a market for the eastern German Trabi, and it had to be replaced by some other automobile manufacturing because there are tens of thousands of trained laborers.

The main way Americans probably know about the EIB is by seeing advertisements for EIB bond issues in *The Wall Street Journal*. Would you explain how you borrow money and go into the capital markets?

We have been in some 15 markets in the last year. We go for public issues and private placements mainly where the market is favorable to our needs. We have triple-A standing, and we do everything we can to keep that.

How are you funded? How much does each of the E.C. countries subscribe? Is there a formula?

The amount of capital subscriptions from the member countries takes into account roughly their economic size. The share ranges from some 19 percent for Germany, France, Italy, and the U.K. to 0.1 percent for Luxembourg. The subscribed capital was recently doubled to almost 58 billion ECU. But this is basically guarantee capital, as only 7.5 percent of this is effectively paid in. The bulk of our funding resources are from our borrowings on capital markets.

What currencies do you deal in?

We borrow and lend in about 15 different currencies including the ECU, which has been our most important currency during the last two years. Last year we also borrowed a total of \$1.95 billion. I should mention that goods and services from American companies can be used in projects we finance.

We provide borrowers with ECU, with their own currencies, with what we call a "cocktail of currencies," or any currency they need.

We make long-term loans, up to 12 years, or in some cases, like the Channel Tunnel, for 25 years. We offer fixed or variable rates.

Do you foresee the ECU being the currency of Europe in the next 10 years?

It could be because it has performed much better than the critics thought it would. The market not only accepted the ECU, but also appreciated it.

Realistically, do you think the Germans will give up the German mark and replace it with the ECU?

The issue is not simple. If the use of the ECU were fostered also outside the private user's area, it would definitely become a European currency. This would then be accompanied by a European Central Bank, which, as it is proposed, would be organized along the lines of the German Bundesbank and the Federal Reserve System.

Do you think the EuroFed will come into being?

Yes. It's just a matter of time.

What role are you playing in Central Europe?

We started [playing a role] a year ago. We have one billion ECU earmarked for Poland and Hungary over three years, and we are financing projects up to this amount. This is not a ceiling for one country or the other; it is a ceiling for both.

Is that going to the governments or to projects?

It's going to public- and private-sector projects that we assess are viable. This year, we have been given a mandate by our governors (the Finance Ministers of the Community) to lend 700 million ECU in the Czech and Slovak Federal Republic, Bulgaria, and Romania within the next two years. This is also the ceiling for the three countries.

By the end of July, Poland had signed loans of 240 million ECU. In Hungary we have lent 120 million ECU, plus 20 million to be signed, which will bring the total to 140 million ECU. In Romania, we have signed a first loan for 25 million ECU, which makes a total of 405 million ECU in Eastern Europe.

These are for specific projects. Can anyone come to you and say, "This is our project for which we need finance," or does it have to go through the Government?

In Eastern Europe, in particular, we have to be in touch with the Government of course, but we are also approached by private borrowers, especially for joint ventures.

Are these mainly joint ventures with E.C. country companies?

For projects in industry, yes.

Do you work with the European Bank for Reconstruction and Development (EBRD)?

We are a shareholder in the EBRD along with some 40 other countries, and like the EEC, we have a 3 percent share. In its start-up phase we provided the EBRD with a credit line and gave it logistical and administrative support, including some EIB staff members on temporary assignment. We

were involved in providing advice on setting up the accounting structure and on personnel policy.

So is there an overlap?

Up until now we have worked very closely, and I have offered EBRD President [Jacques] Attali right from the beginning cofinancing whenever possible. I could imagine that since the EBRD has certain restraints as far as its lending ratio is concerned—40 percent for public sector and 60 percent for private—and we have no such restraints, we could finance the public portion of a project. And as you can imagine, in large industrial schemes, supporting infrastructure investment is crucial to success.

Are you involved with any projects in the Soviet Union?

No, only in the countries I have mentioned.

You mentioned the "Chunnel." Is that one of your larger projects?

It is our largest single project. We have played a key role in the setting up of the Chunnel's complex financing arrangements. We are indeed the single largest lender to this project.

Are you going to do more with it?

When Eurotunnel had to negotiate further lending, we confirmed our confidence in the project by increasing our share in the lending scheme from GBP 1 billion to GBP 1.3 billion. As far as cost overruns were concerned, though disappointing, they were not so surprising. It was something one has experienced before with other large projects. Financing the tunnel fits the EIB's task of furthering the development and integration of the European Community. It forms a key element in the development of the transport infrastructure necessary to meet the challenges of the single market.

Are there any other loans for 1992 single market projects?

Most of our loans, if not all, serve this aim in one way or another. Crucial for the success of the 1992 objective is efficient transport systems—roads, railways, and aviation. In the context of the Channel Tunnel, I would like to mention our financing of the TGV, strengthening rail connections between France, Belgium, the United Kingdom, and other countries.

Other major transportation projects coming up concern improvement of road or rail connections to the Eastern coun-

tries that are not currently part of the Community.

We are also looking at projects to develop more efficient transport lines, such as through the Alps and Pyrennes, and across sea straits.

There are rumors that the Community is going to create its own 24-hour television channel. Will you be involved in that?

If it comes up, I wouldn't discard it.

What about the Lomé Convention, which provides aid to poor countries?

We have a specific role under the Lomé Convention to provide finance for economic development projects in the 69 developing countries that have signed the Convention. We have a similar mandate to help implement the Community's cooperation policy in a number of Mediterranean countries.

As far as the Mediterranean is concerned, I would like to mention also the Mediterranean Environment Program that we have set up with the World Bank.

In general, we have a close relationship with the World Bank; and are both frequently involved in cofinancing projects, particularly in the Lomé Convention countries and in Eastern Europe.

Is environment one of your priorities?

Yes. We assess the environmental impact of all projects we consider, and we finance projects that are specifically designed to improve the environment. In addition to the Mediterranean program, we are also participating with other international financing institutions in schemes to clean up the Baltic Sea and develop an environmental program for the Danube Basin.

Have you been involved with Airbus at all?

Yes, we have financed both production facilities and the purchase of Airbus. Modernization and expansion of airfleets have been supported in many countries. Our loans have gone not only for the purchase of Airbus but also for Boeing and McDonnell Douglas planes.

What do you see for the banking industry in Europe as a result of 1992? Are there going to be a lot more mergers?

It is fascinating to see how quickly the move toward a unified market has gone and how fast the financial barriers within the Community have come down. We are now well on the way to economic and monetary union.

In terms of the single market, the liberalization of capital markets is now virtually complete, allowing for the free flow of capital across borders. The EIB's role has been to help in the process of opening up financial markets and to ease the international movement of funds.

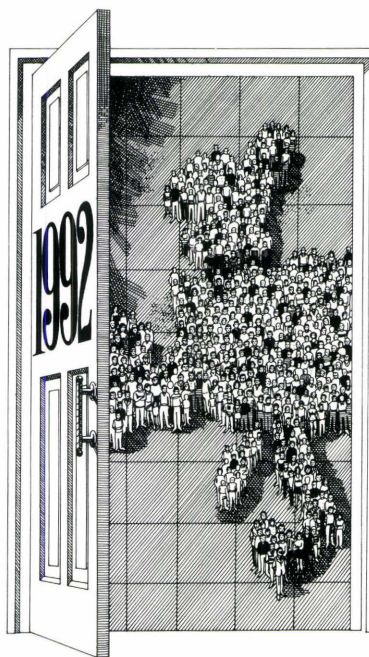
As a bank we operate fully in the marketplace, and in our borrowing and lending activity we are subject to market forces just like any other player. The 1992 changes will bring about greater competitiveness and make us work harder as a complementary source of finance. As such we work closely with the banking community, borrowing funds through banking syndicates. In our lending, we do not finance more than half of a project. Cooperative cofinancing is therefore the rule.

All of your projects have to be cofinanced?

More or less. We can contribute up to 50 percent to the project cost. Our role now is not only to provide funds, but it also is, to a much larger extent, to find cofinanciers. We put together a financing package in order to give projects a sound start. Therefore, we are in close contact with the banking and the international financing community.

Are you worried about banking in the United States today?

I would think that the United States could to some extent be considered overbanked. There will probably be more mergers coming up. But this does not necessarily mean mergers are always the best solution. €



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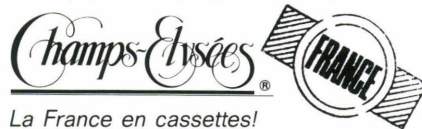
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Stepping Up E.C. Assistance Programs

WHEN THE E.C. ISSUED A REPORT EARLY in October downplaying the prospects for winter famine in the Soviet Union, the rest of the world took note. As the Soviet Union's largest aid provider—roughly \$2.4 billion in E.C. money is in the pipeline—the policy line taken by the Community will influence the positions of other donor countries, most important of all the United States and Japan. The E.C. is beginning to find that its economic wealth, reflected in its substantial development-aid programs, is allowing it to wield added diplomatic power, whether in Eastern Europe, the Soviet Union, or Latin America.

If the aid money coming from strictly Community funds is added to the national development programs of its 12 member states, the E.C. becomes the number one donor in the world, providing 40 percent of all development assistance. This is quite an accomplishment, if it is remembered that the 1957 Treaty of Rome establishing the E.C. makes no mention of development aid. This oversight was quickly remedied with the decision in 1958 by the then six member states to set up a European Development Fund. Five years later, the 18 associated African States and Madagascar—newly independent former colonies of E.C. states—signed the Yaounde Convention with the E.C.—the first step toward a structured, long-term development policy.

The signing of the first Lomé Convention in 1975 with 48 ACP (African, Caribbean, and Pacific) countries announced to the world that in the area of development aid the E.C. had arrived. Lomé has been broadened to encompass 69 countries, the majority of the world's poorest, and now includes the whole of sub-Saharan Africa except South Africa, as well as Haiti and

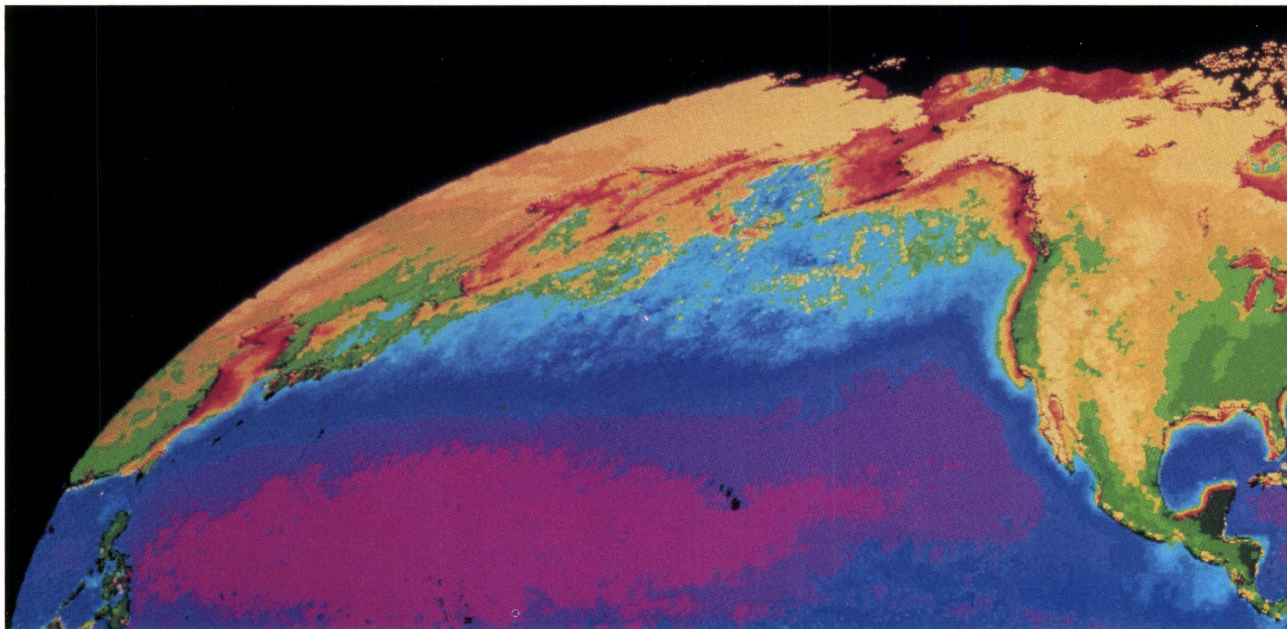
The E.C. Provides a Helping Hand Around the World



ILLUSTRATION BY MICHAEL GIBBS

“We are not only responsible
for what we do, but also for what
we do not do.”

Molière



HILDMANN, SIMON, BEMFEN & SCHMITZ/SMAS

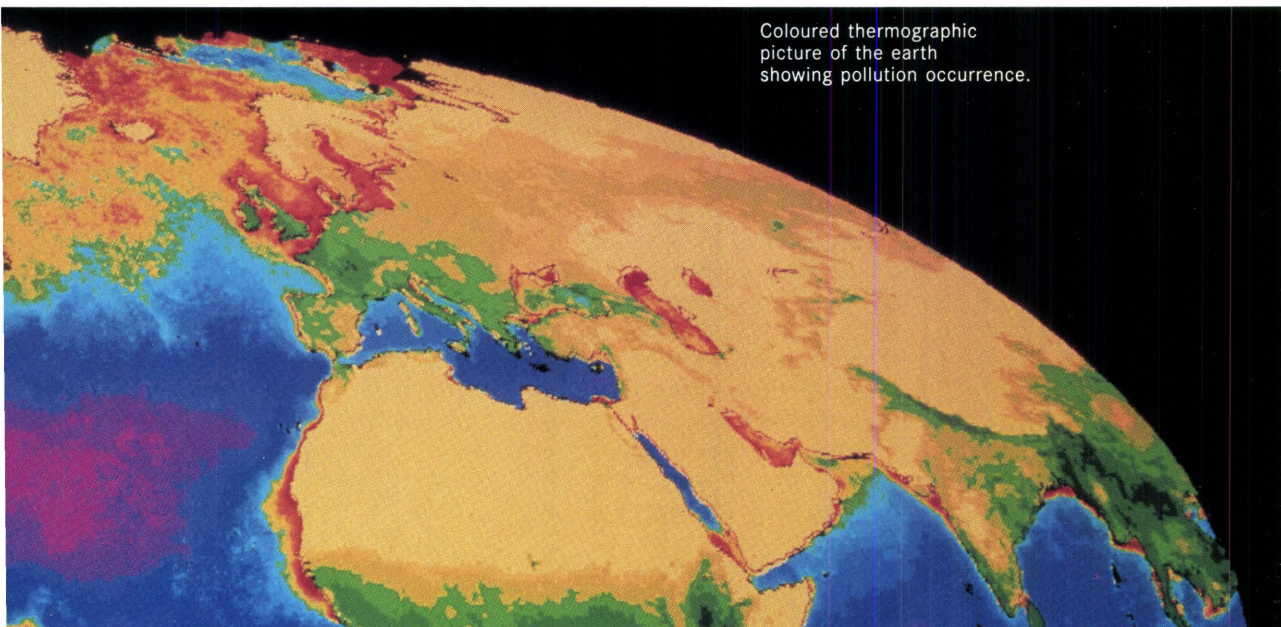
We are only guests on this planet Earth.
And are therefore obliged to leave our
world to our children as unspoiled as
possible.

Nature's balancing powers are not limitless.
So we must learn to conserve our resources

by using the natural energies of sun, wind and water.

We must reduce waste and regain raw material and precious energy from waste products.

With every forward step in technological



progress, we must ensure that our environment does not take a step backward. For it is not enough to simply produce whatever is technically feasible – but only that which is also ecologically justifiable. Today and tomorrow.

DAIMLERBENZ

the Dominican Republic in the Caribbean area. The current Lomé Convention, the fourth, covers a 10-year period, twice as long as the previous three, and provides for 12 billion ECU [at a current exchange rate of \$1.21] of aid in the form of grants, soft loans, and interest-rate subsidies. Lomé also has a trade component: 99 percent of ACP products enter Community markets free of customs duties, while E.C. exports to ACP countries receive most-favored-nation (MFN) treatment. Finally, E.C. aid under the Lomé Conventions can be distinguished from other aid programs by its non-political nature and its emphasis on development cooperation. The Lomé Convention calls for power-sharing and joint decision-making between the E.C. and the recipient countries on aid projects financed by the Community.

Although Lomé has proved a success in the eyes of both the Community and the countries in the developing world with which it is linked, in 1974 the E.C. Commission and Council of Ministers decided that development aid should be extended to countries outside the Lomé orbit—"non-associated" countries, in Community jargon. These countries of Asia and Latin America, roughly 40 in all, now also benefit from E.C. aid programs, but on a more ad hoc basis, without the self-perpetuating, multiyear aspects of the Lomé Conventions. The Community budgets approximately 300 million ECU annually to these countries.

The Community has also maintained close relations since its inception with its neighbors to the south in the Mediterranean basin. The Gulf War has only heightened the sense that promoting economic growth and social development in the region is in the Community's self-interest. Twelve long-standing cooperation or association agreements link the E.C. with Mediterranean states. Most involve trade, industrial cooperation, and technical and financial assistance.

It is in Eastern Europe that the Community has taken on the greatest set of responsibilities. First, a new type of expanded association agreement, called "European Agreements," is being negotiated with Poland, Hungary, Czechoslovakia, Bulgaria, Romania, and Yugoslavia. These will cover not only trade and other economic matters but also foreign policy and cultural cooperation.

Second, at the July 1989 Paris summit of the seven leading economic powers, the Community was given the role of coordinator of all aid to Eastern Europe by the Group of 24 Western countries, or G-24,

for what has become known as the PHARE program. The E.C. itself is a major donor to Eastern Europe: since 1990, Brussels has contributed about 1.3 billion ECU to the region, while 1 billion ECU is earmarked for 1992. In fact, 80 percent of G-24 commitments for Eastern Europe are from either the Community or its 12 member states.

One important emerging theme in the Twelve's development policies is regionalism. What makes the E.C. unique as an aid giver is its experience with economic and now political integration—experience it can share with groups of developing countries seeking greater regional unity. As Abel Matutes, the E.C. Commissioner responsible for North-South relations, put it in an address before the Organization of American States in September, "The Community is the only entity in the world that has the necessary experience to help other regions benefit from what could be called the 'technology of integration.'"

In fact, it is in Latin America that the E.C.'s success at regional integration has had the greatest echo. The oldest relationship between the E.C. and a Latin group is with the five-member Andean Pact (Ecuador, Peru, Colombia, Bolivia, and Venezuela), whose structure is similar to that of the E.C., making cooperation easier. The E.C. signed an economic and commercial agreement with the Andean Pact in 1983 that is managed by a joint committee of the two institutions. Brussels has funded specific projects as well as longer-term sectoral programs in areas such as food, industry, wood technology, and subregional trade.

Another regional group that has benefited from Community assistance is the five-nation Central American Common Market consisting of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. While a bilateral agreement covering economic and political relations was not formally signed until November 1985, the Community has provided more than 600 million ECU in aid to the countries of the Central American Common Market since 1976, with 122 million ECU budgeted for 1991. Central America is the single largest recipient of E.C. financial and technical cooperation.

Brussels also maintains a regular political dialogue with the Rio Group, an eight-member Latin organization that began as a forum to find solutions to Central America's political conflicts and engages in energy cooperation with OLADE, the Latin American Energy Office. The recent signing of the Southern Cone Common Market agreement by Brazil, Uruguay,

Paraguay, and Argentina is leading to stepped-up Community relations with those countries.

The E.C. finances its aid policies in large part from funds in its own budget. But there are two other ways the Community can bring its financial muscle to bear in support of economic development. The European Investment Bank (EIB), with subscribed capital of 57.6 billion ECU, is the E.C.'s financial institution, created along with the other Community institutions by the Treaty of Rome. The EIB has mainly focused on financing projects—roads, telecommunications, power lines—within the member states themselves, particularly in poorer regions or countries in order to ensure balanced Community development. In recent years the EIB has also provided loans for projects to the Lomé Convention states, the 12 Mediterranean countries, and, since 1990, the five countries of Eastern Europe that have established democratic governments and market economies. Unlike European Development Fund money—which constitutes the vast majority of E.C. aid—EIB loans must be repaid, and so are directed at projects that are very likely to be profitable.

In Eastern Europe, the E.C. can also make an impact on economic development through the new European Bank for Reconstruction and Development (EBRD). Although not a Community institution, the financial contributions of the E.C., the EIB, and the 12 member states give them more than half the voting rights in the EBRD. A certain European influence at the EBRD is also exerted in two other ways: its first president is the Frenchman Jacques Attali, and its headquarters are in London.

The E.C.'s aid policies resemble those of most other countries and institutions in that they are based on a combination of humanitarian ideals and enlightened self-interest. But the E.C. is under particular scrutiny. The rest of the world is watching to see whether the 1992 single market project, as well as economic and political union, might turn the Community inward. The E.C.'s growing development-aid programs, and the outward-looking perspective that they reflect, should help to ease such concerns. €

Peter S. Rashish is a contributing editor to *Europe*. His most recent article, "Made in Europe: Europe Influences America on a Daily Basis," appeared in *Europe's* June 1991 issue.

Robert Hormats

Robert Hormats, former Assistant Secretary of State for Economic and Business Affairs from 1977-79 and currently Vice Chairman at Goldman Sachs, spoke with Europe's Editor-in-Chief, Robert J. Guttman, about economic and business issues in Europe today.

Several columnists and economists have said we might need a new Bretton Woods Conference. How do you feel about convening such a conference?

We probably ought to start with a smaller group of countries before we decide to move to a large Bretton Woods-type meeting. The key would be for the Group of Seven [G-7] countries to develop some consensus among themselves on what kind of monetary system the world needs and then decide how to broaden the consensus in favor of it.

If you move prematurely to a new Bretton Woods system without having a real core concept of what you want to get—which means agreement among the Group of Seven—the probability is that a new Bretton Woods would be very disorganized. You need to almost pre-cook the fundamentals among the Group of Seven before you have a broader meeting like a new Bretton Woods.

Forty-five years after Bretton Woods, the United States has a massive deficit. Can the United States still be a major player in the world economy?

It certainly can be a major player, but it will not be the dominant force it was at Bretton Woods for a variety of reasons. One of these reasons is that the Community and Japan play extremely influential roles in the current international economic system. Then you have a lot of smaller countries emerging as economic

powers that also want to play a major role. So the United States would be the pre-eminent actor, but it could only achieve its goals if it did so as part of a consensus with other countries. It couldn't by any means be a lone ranger.

Do you see a tripolar world evolving among Japan, the E.C., and the United States?

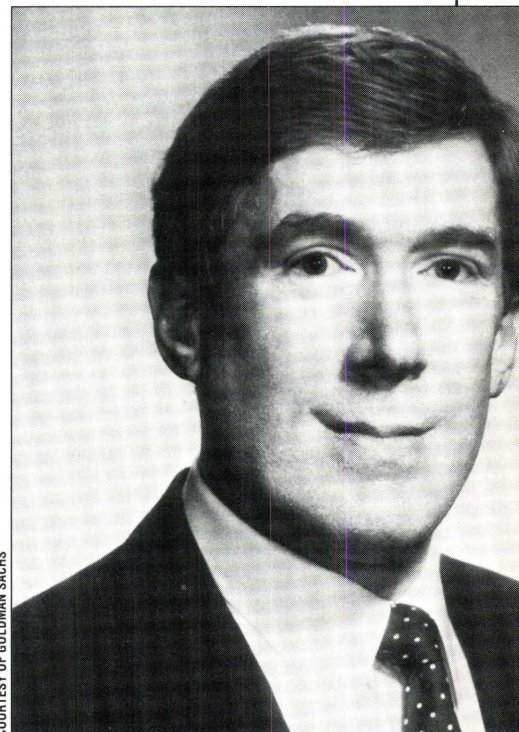
It certainly is a tripolar world in terms of economic power. Even though the United States is still the most significant power, its margin over Europe and Japan is much smaller than it was even 10 years ago. Therefore, the United States can't achieve its goals in isolation. It's going to have to work with these other countries, and it's going to have to increasingly develop a consensus with some of the emerging Third World countries, much as it had to do during the Gulf War, where the United States needed to fashion a coalition. We'll have to do that to get uniformity in the monetary system, too.

Do you see the United States recapturing its competitive lead? How can the United States recapture its competitive spirit?

Our international influence depends increasingly on our domestic economic strength, and the problem is that we've been eating our seed corn.

The reason we have been successful in the 1980s, even though we have these big deficits and all the other problems of financial excess, was we had invested huge amounts over past generations in education, infrastructure, industry; saved a lot; and were living on the basis of what we had done in the past. Every generation had tried to make the next generation better off by investing in education, health care, better roads, and bigger, more modern factories.

In the 1980s we really did not invest as much in schools, infrastructure, health



COURTESY OF GOLDMAN SACHS

Goldman Sachs's Vice Chairman Discusses Current Economic Conditions in the United States and Europe

care, or industry and certainly did not save as much as in past decades. What troubles me most, therefore, about our competitive influence in the generations ahead is that we'll have a much weaker economic base and a much more divided society, divided along racial and generational lines. And that means a society that is a lot less able to exert international influence.

What's the solution for the United States to get back on track?

The solution is to go back to first principles. It's clear that education is central to everything we're planning to do and want to do. It's clear that we're going to have to increase our level of investment and savings and invest a lot more in human capital. All of these things are expensive, and that means assessing our priorities and using our resources more efficiently. And that's what we really haven't done.

The big problem with the United States is not pure overstretch—it's domestic underperformance.

Do we need an industrial policy?

We don't need an industrial policy; we need an investment-oriented set of policies, which is to say investment in human capital and fiscal capital. You can't do that without a high savings rate, unless you borrow the money perpetually. That's what we're doing now. Actually, there's nothing wrong with borrowing a lot from others, as long as you use the money productively. The problem is that, in the 1980s, we borrowed a lot of money and didn't use the money productively.

What would be a productive use?

Education, infrastructure, and R&D [research and development]. All these things slowed in the 1980s.

Does the United States have the political will at the moment to straighten out its economy?

At the moment, not only does it not have the will, [but] there's not a general recognition of the problem's dimensions and urgency, or of the need to address the problem frontally.

How will this be changed?

To start addressing these issues would be a worthy objective for the presidential campaign. However, if you're asking me whether the presidential campaign's going to do that, there's a high probability it won't. But a campaign is normally where one would address these things. The problem is that the campaign is largely

going to be about symbols and probably very little about substance.

The Treuhandanstalt said it's going to open an office in New York because only about seven U.S. firms have bought into eastern Germany.

"[Germany will] certainly be the most powerful economy in Europe. The point, however, is that they'll be part of a European entity, so I have no concerns about Germany playing a negative role."

Why aren't Americans investing in eastern Germany and in Eastern Europe?

They're not investing there in part because they have not done the homework needed to make the investments and because there's been a feeling—an incorrect feeling in my judgment—that somehow the best deals are reserved for western German companies.

But I don't think that's right. There's an opportunity for Americans to invest there. One role investment banks can play is to help American companies understand the opportunities in eastern Germany. Germany is going to do extremely well once it gets over this difficult period—this valley of uncertainty—it's going to do very well.

Do you see a united Germany as the next economic and political superpower?

It will be a powerful economy once they get through [this difficult period] because they will integrate the eastern states, but it's going to take time. It will be a powerful economy within a very powerful economic zone. They have attached their destiny, their star, to Europe. Their power will augment Europe's economic power, and Europe's economic power, in turn, will augment theirs.

They'll certainly be the most powerful economy in Europe. The point, however, is that they'll be part of a European entity, so I have no concerns about Germany playing a negative role. If anything, their economic philosophy is similar to ours.

Do you see the E.C. becoming better known among average Americans, or is it still only known to the business community?

Over a period of time, more and more

Americans will realize that the E.C. is a major player in the game, both economically and politically. It's an educational process.

Do you see the center of Europe moving farther east?

It's inevitable. Just as in the United States, the geographical center and economic center have progressively moved from the east coast to the west, that's going to happen in Europe. Certainly the geographic center moves as you add more countries to this E.C. economic zone.

How do you think that will affect the Community?

Czechoslovakia, Hungary, and probably Poland will ultimately be a part of the Community. Czechoslovakia is as much a part of Europe as most of the other countries that are now in the Community. It just had a bad stretch under the Soviet boot. If you go back to the turn of the century, however, Czechoslovakia's and Bohemia's GNP per capita was higher than Austria's. Prague is a European city, as much as is Berlin, Vienna, or many other cities in Europe.

How do you think the single market will affect the world economy?

A strong, united Europe with a market-oriented system is certainly a plus for the world economy. The United States and the world benefit from it. The alternative of a weak, fragmented Europe would be very negative for the world economy.

What are you telling clients who want to invest in the Soviet Union?

To wait a little, to be cautious.

Do you see a Soviet Union existing a year from now?

There'll be a Soviet economic zone, but the Soviet Union will be different from what it was. I haven't a clue what it will look like.

Are you surprised at the breakup of the Soviet Union?

It's astonishing. For people who have lived much of their lives during the cold war, the demise of the Soviet state is just astounding.

Do you expect any of the Soviet republics to join the Community?

It's conceivable that the Baltics will join, and it's conceivable that a country like the Ukraine could [join].

—Continued on page 46

Lobbying, European-Style

Many Europeans who have not directly observed the E.C.'s institutions in operation will deny steadfastly that lobbying occurs in Brussels or in the national capitals of the E.C. member states. Lobbying, they will insist, is a uniquely American phenomenon that owes its origin to special-interest groups.

*Low-Key Presentations Are
the Secret for Success*

Others will admit, with no small measure of embarrassment, that lobbying does take place in the Community. But in the same breath they will add, "One does not speak of such things publicly in Europe." European lobbying, they will say, occurs out of the public view, in the hunting lodges and country retreats of the rich and powerful.

Only when one discusses the topic of lobbying with the Eurocrats in Brussels and the elected members of the European Parliament (MEP's) does one begin to hear straightforward acknowledgments of the existence, indeed legitimacy, of lobbying in the Community.

Webster's defines "lobbyist" as a "person who tries to get legislators to introduce or vote for measures favorable to a special interest that he represents." By this definition, Brussels is brimming with lobbyists.

As *The Wall Street Journal* recently observed, "One of the fastest-growing industries in the emerging more-common market consists of the many lawyers, consultants and lobbyists seeking to sway the rule writers."

Leading the most recent wave of arrivals are large U.S. law firms with strong Washington, D.C., lobbying experience. They join an international armada of advocates already active in Brussels, including specialized offices of the "Big Six" accounting firms, branches of large European law firms, public relations groups,



ILLUSTRATION BY STEPHEN RASKIN

confederations of European trade associations, representatives of U.S. states, German *länder* and British municipalities, small "boutique" consultancies, in-house representatives of individual U.S., European, and Japanese companies, European trade unions, agricultural groups, and a growing number of public-interest associations.

The magnet drawing these diverse groups to Brussels is, of course, the E.C. and its ongoing process of European economic and political integration. This harmonization effort sometimes raises special concerns for non-E.C. businesses. While the goal of the 1992 process is to make internal E.C. trade truly free, fewer trade restrictions within the Community do not lead automatically to a lowering of barriers between the E.C. and non-member countries.

The evidence is beginning to mount that intensive European lobbying can help reduce or possibly eliminate non-tariff barriers. The E.C.'s withdrawal of a proposed banking reciprocity rule and of proposed restrictions on certain franchiser-franchisee contractual provisions are good examples of recent lobbying successes by non-E.C. interests.

What qualities distinguish effective E.C. lobbying? This question is critical for both E.C. and non-E.C. companies because the accessibility of the post-1992 single market will inevitably be affected by the many new directives and regulations now under consideration in Brussels, Strasbourg, and the 12 national capitals.

European lobbying has special characteristics that derive partly from the E.C.'s complex institutional structure and partly from the distinctive culture of legislative advocacy in Europe.

Political action committees, for example, play no role in Brussels—at least so far. Low-key, fact-based presentations that stress the consistency of a viewpoint with the larger goals of European integration tend to be well received. On the other hand, swaggering hardball played by foreign interests is usually doomed to failure.

Some critics fear that a rapid proliferation of special-interest lobbyists in Brussels could lead to political paralysis. This scenario is unlikely, however. The E.C.'s legislative process operates in a tradition of civility and accommodation unlike that which special-interest politics brings to the U.S. Congress. It seems improbable that more E.C. lobbying will disrupt that tradition.

Indeed, many of those who are most knowledgeable about the art of political

persuasion are firmly convinced that skillful lobbying on E.C. issues will benefit not only the special interests represented in Brussels but also the recipients of such advocacy—the civil servants of the European Commission, the members of the



"...knowledgeable advocacy by a wide range of public- and private-interest groups is not merely tolerated but actively encouraged in Brussels and Strasbourg."

European Parliament, and the ministers who serve on the European Council—and ultimately the European public at large.

The Commission's own Cecchini Report, for example, asserts that successful completion of the E.C.'s internal market depends on the quality and vigor of private-sector lobbying in Brussels and in the national capitals of E.C. member countries.

It comes as no surprise, then, that knowledgeable advocacy by a wide range

of public- and private-interest groups is not merely tolerated but actively encouraged in Brussels and Strasbourg. Most E.C. officials recognize that they have neither the time nor the expertise to master every nuance of the myriad technical issues that must be resolved before the internal market is completed.

Moreover, because a primary goal of the 1992 exercise is to make European goods and services more competitive in world markets, E.C. officials are normally open to informed opinions from non-E.C. corporations and trade associations. These diverse viewpoints can provide valuable insights into a proposal's merits as well as its potential impact on the competitive position of E.C. exporters.

To be sure, some U.S. and other foreign interests have experienced difficulties in the E.C. legislative environment. Part of the trouble can be attributed to differences between the style of E.C. lobbying and the Washington, D.C., variety. As one British lobbyist put it, "You Yanks do tend to pound the table a bit harder!"

There may be a deeper source of frustration, however. Many non-E.C. companies, trade associations, and even governments refuse to believe that Community institutions can be lobbied successfully. For this reason, they tend to escalate disputes over product standards or domestic-content requirements into government-versus-government battles without first exhausting private-sector legislative remedies. Such an approach is counterproductive because it polarizes the attitudes of E.C. officials unnecessarily.

A better strategy is to approach the situation in the same way one would confront a lobbying challenge on more familiar terrain—identify and activate potential allies, attempt to persuade those who are undecided of the merits of one's position, and try to dampen the fervor of an implacable foe. Such an approach is well suited to the E.C.'s extremely fluid political environment, which is characterized by a multitude of competing ideologies and interest groups and a constantly shifting pattern of institutional alliances and rivalries. €

James N. Gardner is the author of *Effective Lobbying in the European Community* (Kluwer Law and Taxation Publishers, 1991) and a partner in Gardner, Cosgrove & Gardner, a law and government relations firm in Portland, Oregon.

European Entrepreneur

THERE WAS A YOUNG FRENCHMAN NAMED Tapie, Who found winning's what made him most happy.... Limericks are not widely known in France, but the man described in that verse certainly is. Bernard Tapie, 48, makes headlines with whatever he does, be it business, sports, or politics.

Head of a business conglomerate, president of the Marseille soccer club, and parliamentary representative of the Bouches-du-Rhône *département* surrounding Marseille, he is bold, charismatic, and controversial. He flies his own personal jet, owns a yacht, and lives in a sumptuous 18th-century mansion on the Left Bank in Paris.

Tapie is not a French Donald Trump, however. It is his latest business deal that is avidly discussed around French dinner tables, not his latest mistress. In fact, he is such a public man that little is ever said about his private life. He is married and has four children.

His directness and undeniable gift of gab have helped to win him admirers. His rugged good looks—including an open, boyish grin and an unruly shock of wavy hair—have not hurt him, either. On the other hand, his unrelenting drive to get what he wants and his no-holds-barred way of doing business have also earned him a few adversaries. But Tapie's faith in himself is unshakable. He is convinced that he was born under a lucky star, and, as proof, he simply points to his unflinching track record.

Born in 1943 to humble working-class parents in the north of Paris, young Bernard went to the Industrial Electricity School of Paris and then worked as a consulting engineer. In 1978, he created his own enterprise, the Groupe Bernard Tapie. By 1990, through a quick series of

Every Endeavor Turns Golden for Frenchman Bernard Tapie



acquisitions and sales that earned him a reputation as a wheeler-dealer *extra-ordinaire*, Tapie was ready to make his big move.

He bought a 95 percent stake in Adidas, the German sports shoe manufacturer. To come up with the \$270 million needed to close the deal, Tapie had to borrow \$170 million, in large part from the French state-controlled bank Le Crédit Lyonnais. To pay back the loan, of which the first \$100 million payment fell due in August, Tapie at first tried, unsuccessfully, to sell off his stake in the handful of other, smaller com-

panies that he controls: Donnay, the Belgian tennis racket maker; Tournus, a kitchen-equipment supplier; Testut and Terrailon, the weighing machine manufacturers; and La Vie Claire, a chain of health food stores. Only Donnay found a buyer. Then, at the 11th hour, Tapie's proverbial luck came through. A group of "friendly" investors, headed by none other than his main banker, the Crédit Lyonnais, agreed to purchase 46 percent of Adidas, still leaving Tapie hanging on to his 50 percent majority interest.

So much for Tapie the businessman.

Tapie the soccer club owner is equally daring and determined. In 1986, he bought the flagging Olympique de Marseille team, vowing that within five years he would hoist it to the top in Europe. He has kept his word. Marseille has won the French Cup for the last three years running, and in May, the club played Red Star Belgrade for the European Club Champions' Cup. Its overtime defeat plunged all of Marseille, and a good part of France, into mourning, but Tapie remains a shining hero to French soccer fans for having brought the club so achingly close to victory.

How did he do it? He hired the most expensive five-man technical staff in soccer history. When the celebrated German coach "Kaiser" Franz Beckenbauer, who had been lured to Marseille with an astronomical salary, failed to get results, Tapie obligingly kept him on as general technical manager. He then promptly went out and—hang the expense—hired Belgian coach Raymond Goethals.

No wonder the team and the fans love him. In February, when he was suspended for eight months for having

insulted the umpires once too often, the team went on strike, and its supporters took to the streets chanting "Tapie for President!" The suspension has been lifted, confirming that Tapie is a man of the people and also has friends in the right high places.

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Not content with business and sports, Tapie now also has added politics to his agenda. "I want to stick my fingers into all the jam jars," he once admitted. Parachuted to the south of France as the Socialist Party candidate in 1988, he was elected, in spite of considerable hostility from local party members, to represent Marseille and the Bouches-du-Rhône *département* in the French National Assembly.

Tapie is now lusting after the regional council presidency of Provence-Alpes-Côte d'Azur, which comes up for grabs next year. He will be running against an old opponent: Jean-Marie Le Pen, the leader of France's extreme right-wing party, the Front National.

Tapie has the distinction of being the only person in France to have outtalked Le Pen, in a debate that was nationally televised. For Le Pen, the upcoming electoral battle is a chance to settle that humiliating score; for Tapie, it is an opportunity to whip Le Pen soundly a second time.

If Tapie manages to win control of France's second-most wealthy and powerful region, he feels certain he could become one of the country's most influential politicians. From there, given Tapie's temperament, it might not be long before the slogan "Tapie for President" reappears, this time for more than the Marseille soccer club. **€**

Ester Laushway is a contributing editor for *Europe* based in Paris.

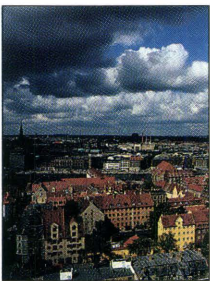
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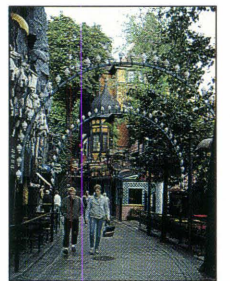


Copenhagen is the home port for 85 percent of the ships sailing Baltic waters.

DANISH TOURIST BOARD/SMALL PHOTOS: © LEE SNIDER/PHOTO IMAGES



WHEN THE DANES VOTED TO JOIN THE E.C. in 1973, one of the most potent arguments against the union was that Denmark would be far away from Europe's economic growth centers. Indeed, fear of marginalization was perhaps the decisive factor in Norway, where the people turned down E.C. membership in 1973 and where recent local election results indicate they may do so again, delaying membership indefinitely.



Gateway to the E.C.'s Newest Growth Center

DENMARK

Far from being marginalized, the Danes now see themselves as the gateway to the newest economic growth rectangle of the European Community. The so-called growth banana of the E.C., stretching from the southern counties of England over the Ruhr in Germany to the industrial heartland of northern Italy, with growth satellites in the Ile de France with Paris and another in the south of France, will be challenged by the Baltic in the latter half of the 1990s, perhaps before then.

The population of the countries and regions bordering the Baltic may not be large—a little more than 44 million—but the area holds all the textbook ingredients for very strong economic growth. Free access to much larger markets and a strong will to succeed are two key assets.

On one side of the Baltic Sea, from Finland over Sweden and Denmark to the province of Schleswig-Holstein, are found some of Europe's richest and most mature industrialized countries. Labor costs are among the world's highest, markets are saturated, and capital is relatively plentiful.

On the other side, from the new German state of Mecklenburg—former East Germany—over Poland and the Baltic states to St. Petersburg (previously Leningrad), you find nearly the opposite. Economies there have very low labor costs; markets are screaming for any kind of product, and there is a dearth of capital.

If barriers between the two sides are broken down, nothing can stop a dramatic increase in trade and interdependence.

Although the transportation infrastructure is in a sorry state in most of the former communist fiefs, save eastern Germany, sea transportation provides the Baltic region with natural and very cheap communications.

Although the Baltic is not an economic region in any formal sense today, the intertrade among the countries bordering the Baltic Sea was considerable even in communist times.

Success in the Baltic will not only shift E.C. gravity from the center to the northwest, but it may also have far-reaching repercussions for the Mediterranean E.C. countries. The balance of power could tilt toward Anglo-Saxon nations in terms of financial flows and future institutional development.

Even before the collapse of communism, Denmark, Sweden, and West Germany were making major commitments to develop infrastructure in the western part of the Baltic. Denmark and Sweden will be linked by a bridge from Copenhagen to Malmoe before the end of the century,

providing a broader business base for an expanded Copenhagen Airport.

Denmark and Germany will almost certainly be linked by a new bridge or tunnel within a decade. Railways are being upgraded, and Sweden—the industrial power-

“Even before the collapse of communism, Denmark, Sweden, and West Germany were making major commitments to develop infrastructure in the western part of the Baltic.”

house in the region—will not only have much easier access to the E.C. heartland, but also to the former East Germany and Poland.

Longer term, there are plans to create a Via Baltica to provide upgraded road links from Finland through Scandinavia to the E.C., and a proposal for a privately financed toll expressway from St. Petersburg through the Baltic capitals, Kaliningrad and Gdansk, to the German expressway network. But most of this will take place in the 21st century.

In the meantime, the Danes hope to play a part in developing a free-trade area in Kaliningrad, the former German port of Königsberg. Now a fluke of history and an enclave locked away from Russia by Lithuania and Poland, the city's almost one million inhabitants will need alternative employment when the present dominant employer, the Soviet armed forces, moves out, which it presumably will do soon.

Although German-speaking inhabitants are now surfacing in Kaliningrad and there are speculations about moving ethnic Germans from elsewhere in the defunct Soviet Union to the area, it is not likely that the rewriting of history will see the city returned to Germany.

The Germans are taking care of former East Germany, and the Russians will be expected to take care of themselves, with a little help from their friends. So will the Poles. The Baltic states of Estonia, Latvia, and Lithuania are in an entirely different position, however. They have been singled out by the Nordic countries for special attention and aid, not by chance.

Several hundred thousand Baltic refugees have maintained their national identities in Sweden while the Soviet Union occupied their countries. Estonians and

Finns speak similar languages, and through Finnish television, the Estonians had an open information window to the West while subjugated. With doubtful historical evidence, the Danes claim the origination of their national flag can be traced to divine intervention in a battle more than 700 years ago near Tallin, the capital of Estonia, whose name translates as the City of the Danes.

More recently, the liberal and outspoken Danish Foreign Minister Uffe Ellemann-Jensen has been the champion in the E.C. of the Baltic cause, and only Iceland beat Denmark in setting up official diplomatic ties with the Baltic states. Before the failure of the communist coup in the Soviet Union in August, the three Baltic states were preparing to set up governments-in-exile in Sweden and Denmark.

With a total population of only eight million, about the same as Sweden, the three Baltic states qualify as an aid project that is not only very popular and highly visible, but also manageable. The efforts of the Nordic countries will make a difference to the future of the three countries, while any imaginable aid they give to, say, Russia, will not.

On the business level, the smallness of the three Baltic markets may provide some protection for Nordic corporations establishing themselves there. It will be some time before all the major multinationals find it worth their while to put in a presence.

The state-owned Nordic Investment Bank has proposed a sister Baltic Investment Bank, and private corporations are moving in by the hundreds. The task of setting up a modern business environment is stupendous, even though the Baltic states have traditionally been regarded as the most Westernized and, in some specific fields, industrially most advanced of the former Soviet Union republics. And as the Red Army prepares to leave, the states may also be willing to become a catchment area for investments into Russia, White Russia, and the Ukraine.

Strong private-sector investment with a high-risk profile and a long-term view will be needed to fulfill this ambition. It is an uncommon combination of business approaches. And E.C. aid, money, and even more important, much freer access to E.C. markets will be required for a viable market economy to make the Baltic the Community's new growth center. The medium-term odds are good. The long-term odds are even better. ☛

Leif Beck Fallesen is the economic director of the *Borsen* newspaper.

PROFILES

Not only does **EDGAR SAVISAAR**, the 40-year-old Prime Minister of Estonia, have to revive the economy of the smallest of the three Baltic states after more than 50 years of Soviet occupation, but he also has to deal with a Russian minority that makes up almost one-third of Estonia's 1.8 million inhabitants.

He is a historian—a distinct advantage, because Marxist economists are out of fashion.

He has worked for the Estonian Planning Committee of the Communist Party of the Soviet Union, and he also held office in the youth organization Komsomol. As a founding member of the Estonian Popular Front for Perestroika, he was initially a strong supporter of Soviet President Mikhail Gorbachev, but the alliance did not survive the Estonian call for independence.

Despite this background, Savisaar is still considered a moderate nationalist, willing to seek compromise with the Russian minority.

He is a strong proponent of a revival of old Baltic economic ties, especially with Denmark. Before the Soviet occupation in 1940, Denmark was Estonia's third-largest market, surpassed only by Great Britain and Germany. His experience with the market economy is limited. But as one of the four Estonian politicians who prepared the 1987 plan for an independent Estonian economy, he has more experience than most of his colleagues in Eastern Europe. —LBF

Conflict was the title of a book she wrote in 1979, and 50-year-old **RITT BJERREGAARD**, chairperson of the Danish Social Democratic Parliament Group, thrives on political controversy. A strong personality with a very international outlook, she is considered by friend and foe alike to be the obvious candidate for Foreign Minister in a future Socialist Government in Denmark.

Even the present Foreign Minister, Liberal Party leader Uffe Ellemann-Jensen, publicly says Bjerregaard will make an eminent Foreign Minister. He acknowledges that she has worked hard across party affiliations to create a broader consensus on E.C. and NATO issues. Definitely on the right wing of her party, some observers give her an outside chance as future Prime Minister of Denmark, if the present party chairman, Svend Auken, falters.

Knowledgeable and often brilliant in a political debate, her personal lifestyle, however, is no asset to her career at the moment. Some years ago she shocked the party faithful and her Prime Minister when, as a Min-

ister, she stayed at the Ritz in Paris and allegedly used the Government expense account too liberally. She also provoked some by saying that there is no reason Socialists should not enjoy good French wine.

This year her new apartment in Copenhagen has

become a political issue of a more serious scale. Bjerregaard, married to a historian working at the University of Odense, this summer moved into a very large apartment in Copenhagen, near the Tivoli. The apartment was even enlarged by being merged with a smaller, adjoining apartment. The City of Copenhagen, with a Socialist Mayor, claims that she is not entitled to such an apartment—rental housing is still regulated in Denmark—and non-Socialists are miffed by the modest rent she pays.

Characteristically, Bjerregaard refuses to allow her politics and personal lifestyle to mingle. She was fired after the Ritz incident but made a successful comeback. This time the City Council may evict her, but if it cannot do this legally, the odds are that Ritt Bjerregaard will dig in and survive to fight another day.

—Leif Beck Fallesen



RITT BJERREGAARD

ILLUSTRATION BY BILL ALLEN

CAPITALS

Growing Concerns

PARIS—Fall is the gripe season in France. Chock-full of energy after their long summer holidays, the French criticize everything that displeases them about the way their country is run. This year, the fall grumbles are particularly loud and widespread. Jostling for position on what remains of the 1991 calendar are strikes and demonstrations by France's firemen, doctors, nurses, teachers, transportation and social workers, postal employees, and, most serious of all, farmers.

France has long thought of itself as an agricultural nation. The image of the happy peasant, wearing a beret and a weatherbeaten smile, is a popular one. But France's farming population is dwindling at an alarming rate, down from three million in 1950 to one million today. Two-thirds of its farmers are more than 50 years old and have no one to succeed them. Predictions for the future are grim: By the year 2000, large stretches of rural France could be an uninhabited wilderness, with 90 percent of the people living on 10 percent of the land, and only half a million farmers left struggling to survive.

There are plenty of reasons for the steady erosion of farming in France: dropping prices (by as much as 15 percent in the last two years for beef), increasing competition from Eastern Europe, three consecutive years of drought, and

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the looming reform of the E.C.'s Common Agricultural Policy, which last year subsidized the Community's farmers to the tune of \$134 billion.

Add the fact that modernization has quadrupled productivity in the last 30 years—creating huge surpluses of meat, grain, and dairy products—and it becomes clear why French farmers are fast becoming an endangered species.

Abroad, they are not viewed with a lot of sympathy. The United States would like to see farm subsidies eliminated altogether: the E.C. Commission, under pressure to salvage the currently stalled round of international trade talks, is also proposing radical cuts, such as a 35 percent drop in grain prices over the next three years.

Back home, the French Government, eager for votes in next year's regional elections, is trying to prove its loyalty to the farmers. In September, it opposed an E.C.

move to allow more meat imports from Poland, Czechoslovakia, and Hungary and then held up all imported meat with protracted customs controls, supposedly checking for the presence of illegal hormones. Agriculture Minister Louis Mermaz has promised French beef growers \$8.8 million to help them wait out the present price crisis.

But the farmers are not saying thank you. They can see no real solutions in the gestures the Government has made, gestures not borne out by next year's budget for agriculture—chopped by 4 percent. On September 29, 2,000 farmers from all over France gathered for a mass demonstration in Paris. Public officials feared the worst: a messy, militant stampede of livestock and pitchforks, leaving a wake of cow pies and destruction.

Instead, the farmers came peacefully, with bells and accordions, carrying banners with ecological slogans like

"France is a tree, and we are its roots." Knowing that the unfailing way to any Frenchman's heart is through his stomach, they set up stands of regional cheeses, sausages, wines, and other produce in different parts of the city. And Parisians, who had expected an invasion, found themselves having a picnic. By nightfall, the last of the demonstrators were making their orderly way back to the 2,400 buses waiting to take them home.

The French Government will now have to try to follow the farmers' example and bring as much imagination and intelligence to finding a solution to their plight as the farmers have shown in presenting it.

—ESTER LAUSHWAY

Speaking the Same Language

BERLIN—One year after German unification in October 1990, the German language has also become unified. For 40 years, East and West Germany had separate editions of the standard dictionary of the German language—Duden Leipzig in East Germany and Duden Mannheim in West Germany. The all-German edition is the 20th since the dictionary's first publication 111 years ago. The united Duden enriches the Germans in eastern Germany with 35,000 words; in western Germany with 5,000 words.

For 40 years, numerous words were hushed up, suppressed, or manipulated by the state in East Germany. In the 17th edition of the Leipzig Duden (1976), for instance, "strike" is defined as "downing tools, mostly organized by trade unions in capitalism." We also learn that a "prostitute" is "a woman who sells her body in capitalist countries." A peculiar explanation is given for *Nostalgie*: "an uneasy feeling with the present situation glorifying social conditions of the past in a reactionary and manipulated manner."

Many words in East Germany were taboo and therefore suppressed in the Duden: *Meinungsfreiheit* (freedom of expression); *Republikflucht* (fleeing from the East German state); *Weltreise* (world tour); *Freizeit* (leisure); *Königsberger Klopse* (meatballs); and even the commonly used word *Stasi* for "secret service." According to Duden East, "aggression" was an "imperialistic attack."

The Leipzig edition was poorer in colloquial German and, of course, in Anglo-American terms, which are abundant in daily use in western Germany. Eastern Germans wear *jeans* and *T-shirts*, *sweatshirts* and *pull-overs*. They talk about *jobs* and *bosses*, but unlike West Germans, they don't eat *fast food*, nor do they have *long drinks*. They do not belong to the *jet set*, they don't *cancel* their *first-class* or *economy tickets*, and *stand-by* is alien to them. All Germans know about *love* and *sex*, of course, but *Telefonsex* is a new term for eastern Germans. *Joggen*, *Surfen*, and *Relaxen* are common only in western Germany.

To make western Germans more aware of the eastern German situation, Duden lists all the communist organizations and party abbreviations that existed under the old East German regime. Some commonly used terms in East

Germany that were totally unknown in West Germany have found entry in the united Duden, such as *Toni* (police squad car), *Dispatcher* (overseer), *Broiler* (fried chicken), and *Grillette* (hamburger).

Günther Drowdowski, the Mannheim publisher of Duden, thinks that many terms still used in eastern Germany will have little chance of surviving West German competition. "McDonald's," he says, "will see to it that the *Hamburger* quickly replaces the *Grillette*."

Eastern Germans are learning fast about *marketing*, *joint ventures*, and *holdings*—words that were totally alien to them before unification. "Students of economics at Leipzig University," says Professor Kurt Biedenköpft, now Minister-President in Saxony, "had no idea what I was talking about when I referred to a *balance sheet*."

Compared with the 4,500 commonly used Anglo-American terms in West Germany, the number of Russian language imports is modest—and most of them were known in West Germany before unification, such as *Sputnik*, *Kosmonaut*, *Dissident*, *Exponat*, *Glasnost*, and *Perestroika*. Eastern Germans have adopted the Russian meat soup *Soljanka* and a small summer house *Datscha*, and he who belonged to the *Reisekader* (allowed to travel to Western countries) was much envied.

German unification has also increased interest in learning German abroad, especially in Eastern Europe. Hans Heigert, president of the Goethe Institute, and Dietrich Weirich, director of the Deutsche Walle, speak of a "German language boom." So far about 20 million people have learned German as a foreign language, and Heigert expects this number to increase considerably.

—WANDA MENKE-GLÜCKERT

Winning Race Relations

LISBON—Portugal has seen a massive but undocumented influx of clandestine black migrants in the past five years, but the racial problems that have torn into other parts of Europe recently are unlikely to affect Portugal.

Portugal prides itself on being tolerant of foreigners, the

former African colonies looking for work.

Portugal's fast-paced economic growth has sparked a critical labor shortage in many areas. In fact, most illegals are rapidly absorbed into the booming construction industry, where they work without proper contracts or conditions. They are often hired by fellow African



João de Deus Pinheiro, Foreign Minister of Portugal, summed up the attitude of his countrymen when he told reporters that racial problems that have bothered other parts of Europe are unlikely to affect Portugal.

result of a long colonial history where miscegenation was commonplace and accepted.

The steady flow of Africans coming in is unlikely to spark any widespread racial tensions or domestic backlash, given the close and growing ties Portugal has with its former African colonies.

The Portuguese, for instance, were stunned by televised scenes of Italy's brutal summer police action against Albanian would-be refugees.

Foreign Minister João de Deus Pinheiro told foreign correspondents recently, "Nothing like that could happen in Portugal. Our policy is to absorb clandestine immigrants or repatriate them only after full case-by-case investigation." He said the vast majority of illegals now entering Portugal are from

intermediaries—many of whom have gotten rich quickly from doing so.

Police recently cracked down on a scheme that involved Portuguese drug addicts selling their personal identity cards for 3,000 escudos (\$21) to black illegals, who, after falsifying the photograph, were able to slip across E.C. borders and become "legal" E.C. citizens.

The Foreign Minister admitted Portuguese obligations under the Schengen common frontiers accords would require tighter immigration procedures, but denied that Portugal was a weak link in the system.

Although no official numbers are published, police readily admit to a major inflow in the past five years that some even describe as "un-

controlled.”

The immigrants have organized themselves into lobbying groups and, with the help of their embassies, are clamoring for legal status before the 1992 single market is fully implemented.

The United Kingdom and others have already expressed concern to Lisbon about another aspect of its immigrant problem: the steady arrival of hundreds of Chinese, ostensibly on Macau passports (Portugal's last remaining administered territory, soon to be returned to China). This year three major Asian real estate and manufacturing investments in Portugal have reportedly come tied to working and residential rights in Portugal for considerable numbers of Macau passport holders.

—KEN POTTINGER

Italians Put Up Faith and Money

ROME—Investments in the Soviet Union are probably still the biggest business of the 1990s. Now, however, after the failed coup and the dissolution of the old system, the enthusiasm of many potential investors has cooled off. Numerous Westerners are frightened by the lack of money and entrepreneurial mentality and by the confused situation in the Soviet Union. Not Italian businessmen, though, who are second only to their German colleagues in their faith in the new Russia of Boris Yeltsin and Mikhail Gorbachev.

They pay no heed to the reasonings of the politicians who would dampen their enthusiasm. Even Foreign Minister Gianni De Michelis, for example, who is a firm believer in the importance of international relationships, has become suddenly cautious. “The risk involved in investing

in the Soviet Union right now is the power vacuum that will not help the West sustain the Soviet Union systematically for a certain period of time,” he warns.

From a political point of view, the reasoning is understandable. But industrialists and entrepreneurs, who follow a different logic and who trust in “antennae” that are tuned to different sensibilities than the politicians’, don’t see it that way. And so, Fiat, Italy’s most powerful industry, openly declares its faith in the Soviet Union. It will take over 30 percent of Vaz, the largest Soviet automobile maker.

Its participation won’t resemble those that were formerly undertaken with the groups from countries representing real socialism, however. The Italian company will participate directly in managing Vaz, which will undergo a capitalist and Western revolution.

Vaz will work in symbiosis with the nearby factory of Togliattigrad, the result of Fiat’s first collaboration in Russia; this symbiosis is virtually unthinkable for the Soviet state economists, who were nurtured in Leninism.

Olivetti, Ferruzzi, and other big Italian groups, like Fiat, are insisting on taking the road that leads East. The figures of the Italian-Soviet exchange are a measure of Italian faith. In the two-year period 1989–90, despite the difficulties of the Soviet economy, Italian exports of chemical products to the Soviet Union grew 140 percent, the export of textile machinery (one of Italy’s traditional strong points in exports), grew 113.1 percent, machine tools were up 73 percent, and so on.

Even small companies, which suffered the most recently during the race “over the Wall,” are returning to the attack. In Moscow, the Milan Trade Fair organized the

largest show of Italian consumer goods ever, bringing in small and medium-sized companies. It also sent 50,000 questionnaires to Soviet companies and, on the basis of the answers, organized the first data bank of potential Soviet clients and their tastes regarding consumer goods. This is unequivocal proof that Italy intends to invest in the Soviet Union’s future.

—NICCOLÒ D’AQUINO

Newspapers and Banana Skins

ATHENS—The international furor over the jailing of seven Greek newspaper editors this fall might make one imagine that the country’s press was in the iron grip of censorship. But the reverse is true. It would be hard to find a more unfettered press anywhere in the world. From the scurrilous populism of some pro-PASOK (socialist) opposition newspapers to the no-holds-barred partisan approach of the most loyal pro-Government press, almost anything goes.

Add to the print media more than 60 commercial radio stations in Athens alone, some of them also fiercely partisan in their politics, and you have 24-hours-a-day, wall-to-wall carpeting of commentary. In the worst instances the media show a pronounced pattern of demagoguery alternating only with abuse.

Threats of libel suits are constantly being made, but seldom end up in the courts. What the seven editors fell foul of was an anti-terrorist law passed a year ago that allowed the public prosecutor to ban the publication of specific terrorist statements. Because the Greek Constitution forbids “censorship and any other preventive measure,” however, the editors regarded the law as unconstitutional. So when the 17th November terrorist group

issued a proclamation in June claiming responsibility for a series of bomb and rocket attacks on business interests, the editors defied the prosecutor’s ban and printed it.

All seven were found guilty, and the law provides for a mandatory sentence of at least three months. Even then they would not have ended up in prison if Prime Minister Constantine Mitsotakis had not unwisely commented on the trial in public the day before the verdict. The editors construed his remarks as prejudging the case and in protest refused to appeal. Off they went to jail.

As it happened, they were out again in 10 days—having bought off the remainder of their terms as allowed under Greek law—and the situation was temporarily resolved.

But in those 10 days they had become martyrs for press freedom, which is jealously guarded in Greece since the crude censorship imposed by the military dictatorship after 1967.

The row occurred during a period when Mitsotakis was perceived as making one gaffe after another, abroad as well as at home, so even the most respectable newspapers were little disposed to let him off lightly.

The satirical weekly *Pontiki* (“Mouse”) reproduced on its cover the opening paragraphs of a major speech by Mitsotakis on the troubled Greek economy, with the caption: “We insist—we continue to print terrorist statements.”

The political cartoonists had a field day, too. One portrayed Mitsotakis, on returning from a meeting with his Turkish counterpart in Paris, as emerging naked from his aircraft to tell the waiting dignitaries: “I conceded nothing to the Turks, I swear it.”

After another apparent Mitsotakis gaffe, a cartoon showed three of his senior ministers in discussion, with

one saying: "Gentlemen, this cannot go on. We shall simply have to ban the import and sale of bananas."

Yes, press freedom is alive and only slightly bruised in Greece, and, as usual, the Government is most properly bearing the brunt of it.

—PETER THOMPSON

reading reports in the non-specialized press could figure it out, no great questions were settled at the summit. Most of the modern-day philosophers seemed to agree that time is not symmetrical, making time-travel impossible. An informal poll was taken at the end of the gathering about the existence

Argentina chose Madrid as the location to re-establish diplomatic relations, and Guatemalans decided to meet in Madrid to resolve differences between guerrillas and the Government.

In fact, the same day the cosmologists closed their summit, delegates from the 40

the airport. Barcelona has revamped its majestic convention facilities, and the Guadalquivir River island where Seville's Expo is to take place will house officials of the World Trade Center, among others.

—RICHARD LORANT



Spain, which has such attractions as the Barqueta Bridge in Seville, is attracting more than tourists these days. World-class conferences on such varied topics as agriculture, physics, copyrights, and standardization have been held in Spain, not to mention the most recent Mid-East peace conference.

Conferring in Spain

MADRID—Mazagón, deep in the southern Spanish province of Huelva, seems an unlikely place to discuss weighty issues. But for a week this October the unremarkable found itself at the vortex of a most remarkable debate when 41 renowned cosmologists gathered there to discuss the nature of time.

Billed as the most illustrious summit of physicists in the last quarter-century, the Mazagón meeting included Stephen Hawking, quark specialist Murray Gell-Mann, and John Wheeler, the man who coined the term *black hole*.

As best as a non-specialist

of time as a basic concept. The result: 19 said time is a human invention, 10 said it exists on its own, and 13 abstained.

But the point is not so much what happened as that it happened in Spain. Because, although the magic year of 1992—with the Seville Expo, the Barcelona Olympics, and Madrid's turn as European Cultural Capital—is still a ways off, Spain has already found its way onto the world's agenda.

In the last few months, Spain has hosted world-class gatherings on agriculture, mystery writing, species preservation, copyrights, and several kinds of medical specialists. Earlier, Britain and

nations of the Antarctic Treaty System signed the Madrid Protocol establishing the fragile continent as a natural reserve and banning mining for at least 50 years.

Also that day, Madrid hosted the first summit of the International Electrotechnical Commission and the International Organization for Standardization—the people who set standards for everything from film speed and road signs to microchips and shipping containers.

And the trend should continue.

Madrid, which already has an exposition complex and a convention center, is building a giant area for trade fairs near

Belgium Turns Its Back On Mobutu

BRUSSELS—"Zaire wishes you farewell." Thousands of Belgians, French, Lebanese, Italians, and Portuguese saw this small poster as they hurried through the gates of Kinshasa harbor in September, fleeing the capital of Zaire for Brazzaville, just across the river.

Few showed any intention of ever returning to Zaire. With only their ID's in hand, these refugees left everything behind them: their houses, cars, clothes, friends. "The only thing I have managed to take with me is my little dog," sobbed an old woman.

These expatriates were the victims of two days of mutiny among the elite soldiers of Zaire's President Mobutu Sese Seko. The revolt was led by the 31st Parachute Brigade, which had not received any pay (already low) in a long time. Starting September 23, the mutineers smashed shops, houses, and offices in Kinshasa, occupied its airport, and encouraged civilians to do likewise. France and Belgium sent in troops to protect their nationals. In the meantime, riots erupted in Kolwezi, Lubumbashi, Kamina—other towns of Africa's second-largest country.

No fatal violence against Zaire's expatriates was reported, but for many of the 10,800 Belgians living there, the situation was bad enough. For example, their houses were gutted of possessions.

Even the electrical appliances were stolen. As witnesses told reporters in Brazzaville, they see no future in a country where the telecommunications do not work, where hospitals have no medical supplies, and where the only fuel available has been taken away to the army barracks.

Belgian newspapers were full of detailed accounts of the rioting. Once again, Belgium's attention was focused on its former colony Zaire, a country four times the size of France that became independent in 1960. President Mobutu has been in power for the last 26 years. He has been saved at least twice, in 1978 and 1988, by Belgian and French troops who arrived on the scene to restore calm. But this time, the newspapers said, neither Brussels nor Paris would give President Mobutu a hand to keep his grip on Zaire.

Even Etienne Davignon, former E.C. Commissioner and now president of the Société Générale de Belgique (SGB), publicly predicted "the end of Mobutu." Once the commercial arm of Belgian colonial policy, the SGB has strong interests in Zaire's diamonds, banking, and plantations. It refines half of the copper mined in the province of Shaba. But the Belgian holding company, which is now controlled by French investors, sees no long-term policy in President Mobutu's country. At a time when African countries are reshaping their political system to make room for democracy (adjacent Angola is a good example), there is pressure for a new government in Zaire.

President Mobutu tried to respond to that pressure after the riots. One of the main opposition leaders, Etienne

Tshisekedi, was named Prime Minister. His task will be to revive the "national conference" that has made no progress since its formal opening on July 31. But in the streets of Kinshasha, people are asking if this really means the "end of Mobutu" and his state party. They have good reasons. Mobutu has often shown he can turn a messy situation to his advantage.

—CHRISTOPHE LAMFALUSSY

A Less Federalist Political Union?

LUXEMBOURG—The focus of the E.C.'s intergovernmental conference on political union shifted back to Luxembourg after 10 of 12 countries rejected a treaty proposed by the Netherlands, which now holds the E.C. presidency.

E.C. Foreign Ministers overwhelmingly said they preferred a draft treaty proposed during the first half of the year by Luxembourg when it held the rotating E.C. helm.

"The presidency cannot be deaf," said the Dutch Foreign Minister, Hans van den Broek, after his treaty proposal was emphatically shot down.

The Luxembourg proposal took a far less federalist approach, by keeping foreign policy and police cooperation matters outside the central treaty, while the Dutch tried to lump all areas of E.C. jurisdiction together.

Luxembourg's Foreign Minister, Jacques Poos, did not gloat over the turn of events, but he was obviously pleased when he left a crucial meeting of Foreign Ministers in Brussels on September 30.

The Netherlands said its 96-page draft would now be a

Digging Up Ireland's History

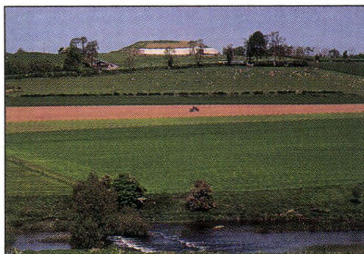
DUBLIN—Archaeological work has been yielding some fascinating evidence of the various waves of invaders who were attracted to this offshore European island, from neolithic peoples back in 4000 B.C. through to subsequent Celtic, Viking, and Norman settlers. The everyday habits of these folks are being revealed thanks to urban renewal projects in Dublin and other cities and towns.

As E.C. structural funds become available to restore rundown inner-city areas, archaeological finds are increasing so dramatically that the space for sorting and storing them is said to be fast running out.

The alarm was sounded recently by Professor Peter Woodman of the Department of Archaeology at University College, Cork, who said he knows of cases where archaeologists have been forced to keep items of historical importance under their beds.

It has gone to the stage, according to the professor, where "we are asking developers to avoid disturbing potential archaeological sites if possible because we simply do not have the manpower to conduct the necessary digs." Historical sites have been throwing up as many as 200,000 objects, including pottery shards, but there is no coordinated approach to conservation, packing, and storage, he said.

From the private sector, it is pointed out, however, that while storage of the "less-glamorous finds" was an increasing problem, there is no shortage of archaeologists to advise developers on how to deal with valuable historical ruins and artifacts unearthed during building work.



After excavations in Boyne Valley are finished, archaeologists will move on to the Hill of Tara.

Prime Minister Charles Haughey is known for his enthusiasm and support for the excavation of Ireland's historical heritage. He told his party's last political conference that the Hill of Tara, where Ireland's High Kings had their courts, would soon be excavated after work was completed on the impressive neolithic burial chambers at Newgrange and Knowth along the Boyne Valley, 30 miles north of Dublin.

But critics now say he has not followed up his encouraging words with the extra storage space promised for the National Museum beside the new Financial Services Center at Dublin docks.

Meanwhile, the ordinary citizen is enjoying the chance to offer amateur theories about what lies under Dublin's streets as the new projects dig deep into the city's history. The recent discovery of what appears to be an ancient well near the capital's financial district has led to arguments as to whether it was a holy well, a municipal water source, a hiding place for persecuted monks, or just the local bath house. The owner of the pub beside the find wants to have it preserved as a tourist feature.

Bones discovered in a burial site beside an old monastery in Drogheda have confirmed for some experts that the monks there were of Friar Tuck dimensions, probably from overeating rich foods. A new technique can determine if the skeletons show signs of a person's obesity during life. The experts writing in *Archaeology Ireland* comment: "Monks in the Middle Ages probably did not adhere to the strict diet laid down in the monastic rule but enjoyed a rich variety of food with a tendency to gluttony."

—JOE CARROLL

“quarry” from which ideas could be mined, but it acknowledged that the earlier Luxembourg draft was now the number one document in the E.C. conference on political union.

“We’ve wasted a lot of time,” said Danish Foreign Minister Uffe Ellemann-Jensen, and other Foreign Ministers were also highly critical of the Dutch for introducing such radical treaty changes so late in the process.

Belgium was the only country to prefer the Dutch draft to the Luxembourg version.

—CHARLES GOLDSMITH

Judging a Book by Its Cover Price

LONDON—A price war has erupted in Britain’s bookshops, putting an end to 100 years of price fixing by the publishers. “New fiction for a fraction,” and “The getting of wisdom gets cheaper,” were just two of the advertisements in the national press as the cover price of some hardback titles were slashed by 25 percent.

Even as legal writs began to fly in all directions, the book-buying public delightedly began comparison shopping through the shelves of the 3,000 bookshops in Britain. Not only best sellers, but also children’s and reference books were being discounted.

The price war between the big chain bookstores plunged the normally staid and conservative publishing industry into turmoil. “It will mean the end of the small bookstore,” wailed the traditionalists. “This will mean more books sold, which must be good for everyone,” countered the revolutionaries.

For more than a century, publishers set the minimum retail price of a title, and booksellers were prohibited from selling for less than the cover price. The Net Book Agree-



Dillons is one of the chains that would like to be able to compete on price in Britain.

ment (NBA), as this cozy cartel administered by the Publishers’ Association is called, was one of the last bastions of price fixing in British retailing.

“For far too long we have been denied the opportunity to use price as a marketing tool,” proclaimed Terry Maher, chairman of Pentos, whose 100 bookstores include the up-market Hachard and Dillons chains that sell more than one in 10 books in Britain. Long a campaigner for liberalization, Maher was taken to court last year by publishers when he first tried price cutting.

Injunctions were obtained again this fall, but the 7 percent drop in book sales this year because of the recession clearly divided authors and publishers on the effect the economic downturn will have on the book trade. Consequently, attempts to block Pentos this time were less vigorous.

Supporters of the NBA were reluctant to enter into the price war, but found holding out increasingly difficult. Sir Simon Hornby, chairman of

W.H. Smith, which accounts for a quarter of all books sold here, argued that without set prices the overall price of books would rise to pay for the cost of discounting a relatively small number of best sellers and fewer titles would be published.

He and other members of the Publishers’ Association support the argument that heavy book buyers are relatively well educated and well-off and that price is not the main issue in deciding to purchase a book.

Publishers’ Association spokesman Ian Taylor says that “ending the NBA means that big book stores, in effect, dictate what [is] published.” However, 10 percent of the U.K. publishers have already stepped outside the NBA and have been allowing retailers to price competitively for some time.

A recent study of who buys books in the United Kingdom showed that 53 percent of sales were to women and that women spent up to nine hours a week reading, compared

with the seven hours men devoted to the written word. If other studies, which have indicated that women are better at comparison shopping, are correct, the advocates of abandoning set retail prices look certain to gain from leaving the cartel.

—DAVID LENNON

A Testament to Religious Tolerance

AMSTERDAM—In Amsterdam, a campaign is going on for funds to restore the 316-year-old Portuguese-Jewish synagogue, which stands as one testament of the Dutch tradition of welcoming those persecuted for religious reasons. Financial contributions for the synagogue, the Esnoga, also have already come from the Dutch Government, the Amsterdam Municipal Council, the Association of Old Monuments, and the Dutch Lottery. A group called “American Friends of the Portuguese Synagogue in



The Esnoga, built as a Sephardic synagogue, can hold more than 1,640 people.

Amsterdam” is also raising funds.

The Esnoga was inaugurated in 1675 and made an overwhelming impression with its size, overshadowing the Great Shul of the Ashkenazis across the street. It fulfilled the wish in the Talmud for the House of Prayer to rise high above its surroundings. The synagogue can accommodate more than 1,200 men and 440 women. Of all the surviving synagogues in Amsterdam, the Esnoga is the most accurately oriented toward Jerusalem.

The building’s 72 windows bathe the interior in a sea of light. Its galleries are supported by 12 separate stone columns. Originally these columns were made of wood, because stone was hard to come by at the time. When King Stadholder Willem III of Orange paid a visit in 1690, he decided that wooden columns were unworthy of such a magnificent building, and through his efforts stone was found.

The Esnoga used to be strictly for Sephardic Jews, but now anyone can attend services. Sephardic Jews are all descendants of the Jews

driven out of Spain 500 years ago.

When Christian rulers took over in the 12th century, the inquisition and persecution of the Jews followed. Many Jews became what was called “new Christians.” However, in 1491 the Catholic Monarchs, Isabelle of Castille and Ferdinand of Aragon, signed the Edict of Expulsion, which forced many Jews and new Christians to flee to Portugal. Even there the clouds of persecution gathered. From there, Jews and new Christians fled to Amsterdam, London, Venice, and Istanbul in the 15th century.

Unlike other European countries, the Dutch Republic never imposed a religion on its citizens. The Union of Utrecht, drawn up in 1578, is the first official document signed in Western history to guarantee freedom of conscience, although only members of the official Reformed Church could hold public office.

In 1616, the city of Amsterdam passed a statute that established two rules regarding the separation of Jews and Christians: (1) Jews must make no converts, and (2) there

were to be no sexual relations between Jews and Christians.

The second point referred to the fact that there was a surplus of men in the Jewish community and that Jewish families often had Christian servant girls.

The Dutch with the Jews, the new Christians, and a breakaway group, Beth Israel, established a lucrative trade route covering Lisbon, Portuguese colony Brazil, and Amsterdam. They covered the ports of Bayonne in France, St. Jean de Luz, Bordeaux, Nantes, and Antwerp.

To this day, the customs of the Spanish and Portuguese Jews reflect Iberian origins. The prayer for the Royal Dutch House is still said in Portuguese. The ties between Dutch royalty and the Jewish community have always been close.

Until 1850, even the sermons were written in Portuguese, and Jewish merchants would entertain each other with literature in the Portuguese language speckled with Spanish words. For 300 years, the descendants of the Portuguese traders and the diplomats and bankers have cared

for and maintained their synagogue. The history of this small group of Portuguese, new Christians, and Jews forms a unique chapter in Jewish history, made possible by the religious tolerance in the Netherlands.

—NEL SLIS

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E.C. NEWS

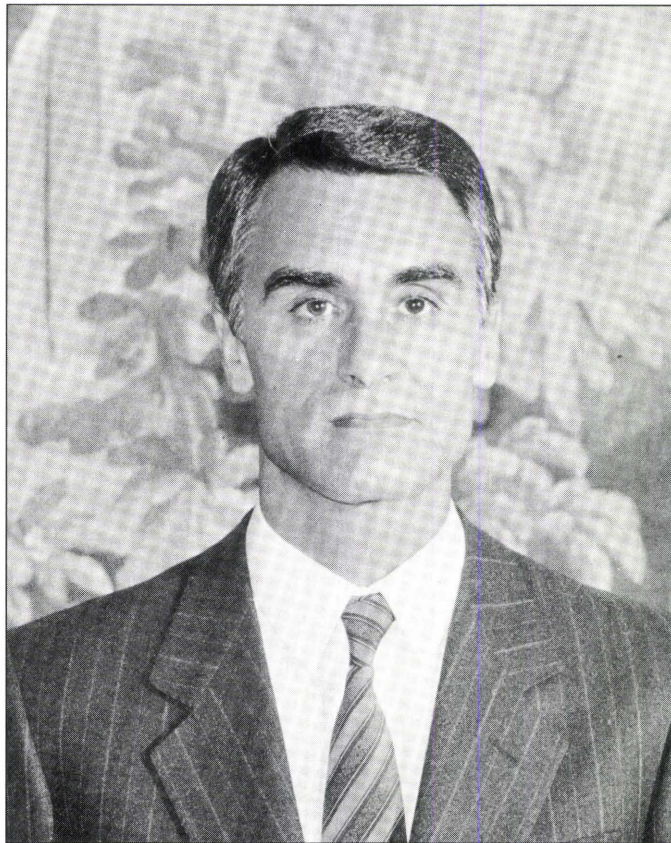
TRADE

E.C. AND EFTA: EUROPEAN ECONOMIC AREA

The European Community and the European Free Trade Association (EFTA) have, after tough negotiations, reached an agreement to form the world's largest single market of 380 million consumers. E.C. President Jacques Delors calls it "an important trial run for countries hoping to join the E.C.," and the Finnish Foreign Trade Minister Pertti Salolainen, whose country holds the current presidency of EFTA, said, "It opens the way to creation of the largest and most integrated common market in the world."

The European Economic Area (EEA) will account for more than 40 percent of world trade and will be composed of the 12 E.C. countries and the seven EFTA countries—Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

The agreement, which has to be ratified by the national parliaments and also by the European Parliament, will include the free movement within the EEA of labor, goods, services, and capital by 1993. EFTA also agreed to adopt most of the E.C.'s competition rules and will implement E.C. rules on company law. EFTA countries, however, will maintain their domestic farm policies.



Anibal Cavaco Silva, incumbent Prime Minister of Portugal, won another term by a landslide.

Early snags in the negotiations involved fishing rights and truck emissions. Both sides eventually agreed that Norway and Iceland will be able to sell some species of fish duty-free in E.C. markets beginning in 1993. In return, Spanish and Portuguese boats may catch up to 11,000 tons of cod in Norwegian territorial waters before 1997.

On the issue of truck emissions, Austria agreed to decrease truck pollution by 60 percent over 12 years, and Switzerland will use railways to transport most of its goods.

Both sides agreed that the EEA will be governed by a spe-

cial Council of Ministers composed of representatives from the 19 nations. Additionally, EFTA agreed to pay \$1.8 billion in soft loans and \$600 million in grants aimed at helping poorer E.C. countries.

POLITICS

ELECTIONS IN PORTUGAL

Incumbent Prime Minister Anibal Cavaco Silva won a landslide victory in the recent Portuguese general elections.

Running on a platform that emphasized Portugal's political stability and economic growth during his last four years in office, Cavaco Silva and his PSD party won an absolute majority with 130 of a possible 230 seats in the National Assembly.

In his victory speech, the Prime Minister said the country had voted for "stability, progress, and development." To the opposition Socialist Party, Cavaco Silva offered that he was open to a "constructive dialogue." The Prime Minister emphasized that continuity would be the theme during his second term and that he and his Cabinet looked forward to Portugal's E.C. presidency, which begins January 1, 1991.

PARLIAMENT

UNITED GERMANY GAINS MEP'S

The European Parliament has voted to increase Germany's delegation by 18 raising the total number of German Members of the European Parliament (MEP's) to 98.

The measure, although passed, faced significant opposition. Many in the European Parliament say that a larger German delegation would create an imbalance that would hinder negotiations for E.C. political union.

Originally, Britain, France, Italy, and Germany all had 81

MEP's. Unification, however, increased the German population to 80 million people, with each member representing almost a million constituents. The numbers in Germany contrast sharply with those in a country such as Luxembourg, which has six members for about 420,000 people.

BUSINESS

COMMISSION BLOCKS DE HAVILLAND DEAL

The E.C. Commission blocked an Italian-French bid to buy de Havilland, a Canadian subsidiary of the U.S. aircraft manufacturer Boeing. The decision marks the first time that the body has exercised its new anti-trust powers to block a merger.

The Commission's statement said the proposed deal would have given Italian manufacturer Alenia and Aérospatiale of France "a powerful and unassailable dominant position in the world market for turbo-prop aircraft."

Had the deal been approved, the Franco-Italian joint venture, named ATR, would have accounted for 50 percent of the world market and 67 percent of the E.C. market for commuter aircraft. Without competition from U.S. or Japanese firms, ATR would have had a significant advantage over its European competitors, mainly Fokker of Netherlands and British Aerospace.

In defense of the Commission's decision, competition Commissioner Sir Leon Brittan argued that "the deal would not so much have led to economies of scale or investment in research and development as acquisition of market share."

The ruling is seen by many

in Brussels as a sign that the Commission will be an even more effective force at maintaining fair competition within the Community in the future.

FOREIGN AFFAIRS

E.C. PROPOSES SOVIET AID PACKAGE

The European Community has proposed an aid package to help the Soviet Union fight off winter food shortages. Although Soviet President Mikhail Gorbachev's original request was for a staggering \$15 billion in aid from the West, the Community has designed a package that would cost \$7 billion.

The E.C. has agreed to fund one-third of the amount, and other industrialized countries have pledged the rest. The United States has already said it would allow the Soviets \$2.5 billion in grain credits with additional credits possible after further analysis. The Japanese, ending a long-standing ban on aid to Moscow, pledged \$2.5 billion in guaranteed loans for food and medical supplies.

Many problems remain in the distribution of the food. In addition to the inefficiencies of Soviet infrastructure, long lead times are required to get the massive aid projects started. Bureaucratic red tape on both sides also contributes to the delays. Because of these difficulties and the turmoil in the Soviet Union this summer, much of the E.C. aid allotted to the Soviets for food and technical assistance last year has yet to be delivered.

E.C. officials say they hope the knots holding up the aid shipments are beginning to

loosen. Brussels has sent teams of experts to evaluate the problems and look for ways to speed up the aid process.

MADRID HOSTS MID-EAST PEACE CONFERENCE

Madrid had only 10 days to improvise arrangements when it was named the Mid-East peace conference site by Secretary of State James Baker. Baker said Spain's good relations with all the Middle East parties involved and its extensive connections in the region were factors in its selection.

The Middle East peace conference, sponsored by the United States and the Soviet Union, included Israel, Syria, Lebanon, and a joint Jordanian-Palestinian delegation. Egypt, the United Nations, and the E.C. attended as observers. The conference was opened by Presidents George Bush and Mikhail Gorbachev.

DEFENSE

FRANCE AND GERMANY PROPOSE DEFENSE ALLIANCE

German Chancellor Helmut Kohl and French President François Mitterrand have proposed the formation of a collective European foreign policy toward Moscow and Washington and the formation of a European defense force. The force would encompass current members of the Western European Union (Britain, France, Germany, Spain, Italy, the Netherlands, Luxembourg,

Belgium, and Portugal); Ireland would be given observer status. The alliance would provide the basis for a common E.C. defense policy.

Until now European defense concerns fell under NATO's jurisdiction. But with the dissolution of the Iron Curtain and E.C. economic union coming at the end of 1992, France and Germany appear ready to step up pressure for political union by means of a defense alliance.

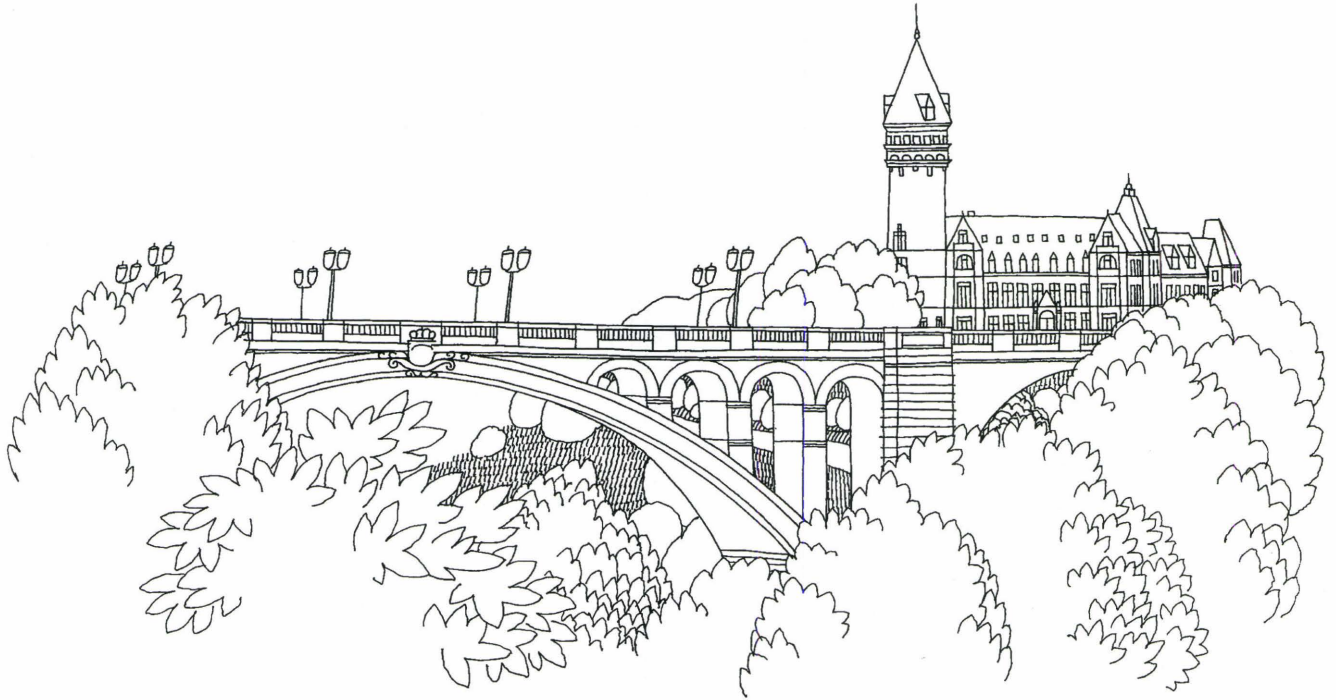
The joint proposal calls for the formation of a force consisting of troops other than those already committed to NATO. The French and Germans currently have a 5,000-man joint brigade stationed in Baden-Württemberg.

Officials from the other E.C. member countries say the proposals will require further study. Britain and Italy have already proposed a plan that would create an all-European rapid reaction wing within NATO. Both support maintaining NATO's strong presence on the Continent.

British Foreign Secretary Douglas Hurd said that a duplication of NATO's role would be "useless and dangerous." French spokesmen reiterated that it was a "long-term" proposal and emphasized the long-standing U.S. position that Europe take on more of the burden for its defense.

It appears the proposal will spark much debate on a wide range of related topics, including how a multinational force with varying command structures and languages would integrate effectively. Also, the question of how the E.C. would determine its collective foreign policy remains unresolved.

With the upcoming NATO summit in Rome, analysts point out that, if nothing else, the timing of the proposal will focus the discussion on the E.C.'s political future.



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Working to Keep Pace

Brussels—Western Europe's business community is facing its biggest challenge in more than 50 years.

The priorities for European businessmen were clear two years ago—to prepare for the European single market in 1993 and to match their American and Japanese rivals in an increasingly global marketplace.

Now they have to turn their attention to a totally unexpected task, transplanting capitalism to the former command economies of Eastern Europe and bringing the Soviet Union into the world economy.

Leading businessmen are well aware that they, and not Western politicians, bear the responsibility to revive the ossified eastern half of the European continent. None more so than Carl Hahn, the chairman of Volkswagen, Europe's biggest car manufacturer. Eastern Europe faces "an acute transformation crisis," he says. "But its revival is little more than a warm-up exercise" in comparison with the challenge of the upheaval in the Soviet Union.

Western business capital and know-how must address "a complex of tasks such as has never before occurred in the history of the industrialized nations," according to Hahn. Europe can't afford a permanent geographic demarcation between the have's and the have-not's. "The Oder-Neisse line must not become the Rio Grande of Europe."

Hans Rausing, head of Swiss-based Tetra Pak, the world's biggest packaging group, has called financial assistance to the Soviet Union a moral imperative and an economic necessity.

Hahn and Rausing still have to persuade their business colleagues they should take action. Apart from the automobile industry and a few viable firms that withstood 45 years of communist mismanagement, Western European companies have shown little

interest in the East. In fact, some sectors, notably steel, textiles, and agriculture, view with horror the prospect of cheap imports flowing in from Eastern Europe.

Even eastern Germany, the most promising former communist nation, is a no-

percent of ABB's expected turnover in 1995, but it will put the company in pole position to exploit the potentially lucrative Eastern European market.

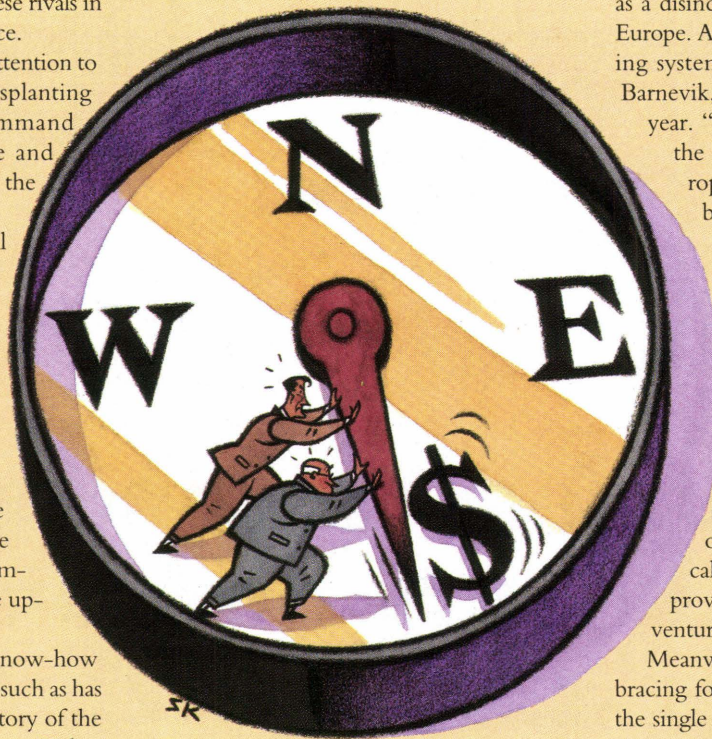
ABB isn't fazed by the shortage of foreign currency often cited by Western companies as a disincentive to investment in Eastern Europe. A company can create its own trading system, ABB's chief executive, Percy Barnevik, said at a conference earlier this year. "When we sell Polish turbines in the Third World or in Western Europe, the hard currency earned can be used to import air-pollution equipment from ABB in Sweden.

Tetra Pak has invested 1.5 billion Swedish krona [\$244 million] in three joint ventures in the Soviet Union and plans to invest two billion more. Rausing says that investment in the Soviet Union makes commercial sense because a relatively small sum can yield a large share of a potentially huge market. He called for Western Governments to provide hard-currency loans for joint ventures repayable in rubles.

Meanwhile, European businessmen are bracing for D Day—the official launch of the single market on January 1, 1993. The prospect of a frontier-free market of 340 million consumers has changed the Continent's business culture, spawning cross-border mergers and strategic alliances that were unthinkable just five years ago.

The business community is rushing to keep up with the frantic pace of events in the countdown to 1993. Austria and Sweden have applied to join the E.C., and Finland is expected to follow suit in the spring. Eastern European nations are knocking on the door. All these developments are forcing businessmen to continually update their manufacturing and marketing strategies.

—Bruce Barnard is Brussels correspondent for The Journal of Commerce.



man's land for outsiders. Of the nearly 8,000 state firms privatized by the Treuhandanstalt by the end of July, only 115 were picked up by foreign companies. Tiny Switzerland topped the league, buying 21 small engineering and chemicals concerns; France accounted for 14 companies, Britain, only 8.

Some pioneering companies are, however, taking the plunge. The most committed is Asea Brown Boveri (ABB), the Swedish-Swiss electrical engineering group, which plans to have sales of \$1.5 billion in Eastern Europe by the mid-1990s. That would account for a paltry 4 percent to 5

—Continued from page 28

But here's the problem. If you bring in a lot of the Soviet Union's former republics, do you marginalize Russia? Do you create the notion that Europe is being built at the expense of Russia?

That's a question Europe's going to have to answer. Does it want to pull all these countries into the E.C. and not have Russia in there? And if it absorbs Russia, it's a far different Community than it was in the past.

I think there'll be two economic zones

and there'll be some countries that have association agreements with the E.C. and association agreements with or be a part of an economic zone centered in Russia. There'll be a gray area in between. €

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A Walk Around the Block

The success of the LEGOLAND theme park in Billund, Denmark, is proof of LEGO's popularity in Europe. More than one million visitors visit the park each year—half from outside Denmark—making it the largest tourist attraction in Denmark outside the capital of Copenhagen.

The park used 35 million blocks to create models of various settings, such as "Legordo Town," which replicates an Old West mining town complete with a Mount Rushmore monument. Plans



DANISH TOURIST BOARD

in closing...

are in the works for a U.S. park, at a still-to-be determined site, to open by 1994.

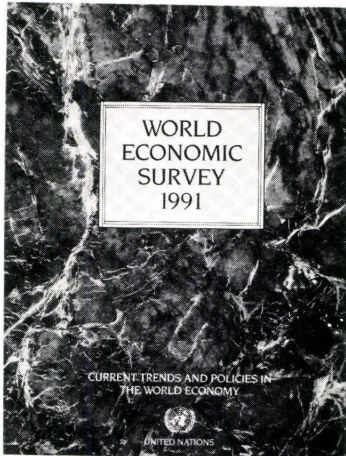
The LEGO Group of Denmark was founded by Ole Kirk Christiansen in 1932 and produced its first brick in 1949. The company has since expanded to annual sales of \$900 million in 115 countries. It is estimated that 70 percent of U.S. households buy at least one LEGO item a year, while the same percentage of households in Europe buy six or seven items annually.

The LEGO company derived its name from a contraction of "leg godt," which means "play well" in Danish. Coincidentally, LEGO also means "I put together" in Latin. Approximately 300 million children have "put together" LEGO bricks since they debuted.



Business in the USSR and Eastern Europe

World Economic Survey 1991



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