

Columbus ♦ Maastricht ♦ Currencies

EUROPE

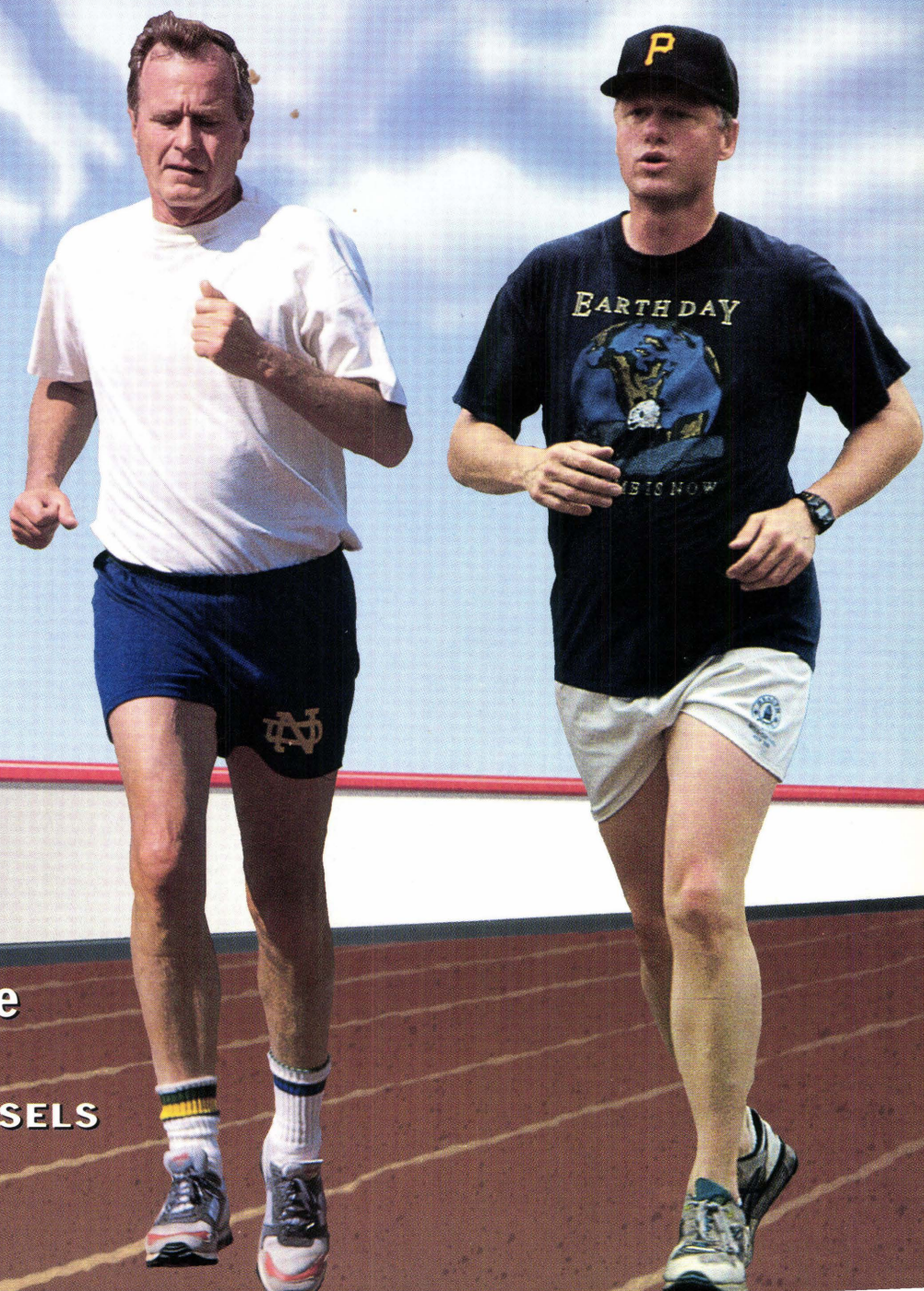
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Racing Toward the White House

EXCLUSIVE:
Bush and Clinton
Speak Out On Europe



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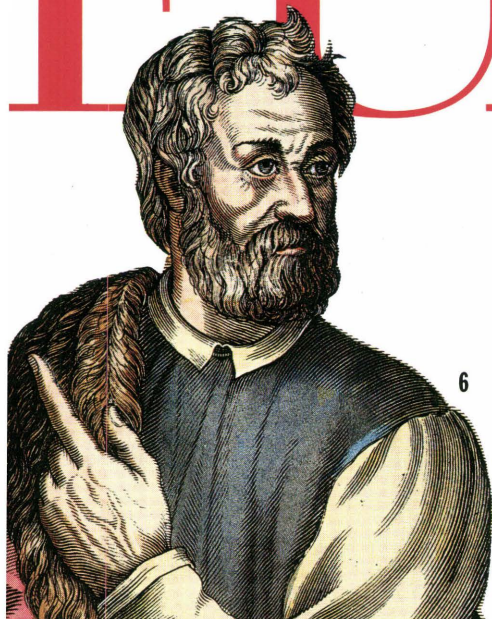
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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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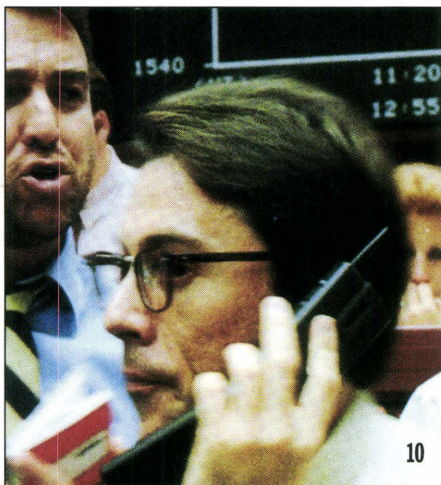
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Letter From the Editor

Presidential candidates George Bush and Bill Clinton, in comments prepared exclusively for *EUROPE*, speak out on a wide range of foreign policy issues affecting the United States and Europe.

The two candidates discuss their views on the single market, the Uruguay Round of GATT, NATO, the situation in Bosnia, American troop strength in Europe, Maastricht, Eastern Europe, Russia, and the other former Soviet republics, U.S. investment in Europe, the North American Free Trade Agreement, German unification, and E.C.-U.S. relations in the 1990s.

Since both candidates are comparing their campaigns to that of Harry Truman in 1948, we asked contributing editor Lionel Barber to write about the presidency of Truman. Barber, bureau chief of the *Financial Times* in Brussels, discusses how Truman and his foreign policy team put together the Marshall Plan to restore the economies of Europe after World War II.

Felipe Fernández-Armesto, author of *Columbus* and a professor at Oxford, presents a fascinating look at the life of Columbus and puts the discoverer of America in the context of his times in Spain and Genoa 500 years ago.

"Chaotic" has been the word for the European currency markets in the last month. *EUROPE* details what has been happening and gives an outline of the European Monetary System.

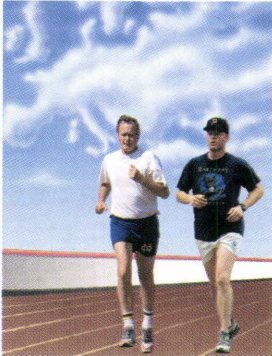
Reginald Dale, writing from Paris, analyzes the French Yes vote on the Maastricht Treaty and its effect on European Union.

BMW is moving into South Carolina. *EUROPE* takes a behind-the-scenes glimpse at how the BMW deal came about and why the German automaker chose to build its first plant outside of Germany in South Carolina.

Carroll Campbell, the Governor of South Carolina, talks to *EUROPE* about the BMW deal and about the large numbers of European firms which are already located in his state.

Our member country report focuses on Belgium. Dick Leonard, formerly with the *Economist* in Brussels, reports on the new government in Belgium. Also, Belgian Ambassador to the United States Juan Cassiers talks about the single market and the Maastricht vote.

And for all the chocaholics among our readers, we present a history of chocolates in general and Belgian chocolates in particular.



Racing toward the White House: Bush and Clinton speak out on Europe.

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Reuters has contributed to news reports in this issue of *EUROPE*.

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E U R O S C E N E E



NEWSMAKERS

French actor **Gerard Depardieu** was busy of late working for the pro-Maastricht Treaty group, Comité National Pour Le Oui. The group, organized by French Culture Minister **Jack Lang**, was comprised of 300 French celebrities who were in favor of French ratification of the Maastricht Treaty.

Currently, Depardieu can be seen as Christopher Columbus in "1492: The Conquest of Paradise." Depardieu is no stranger to historic roles having played French philosopher Danton, nineteenth-century sculptor Rodin, and Cyrano de Bergerac, (for which he won the Best Actor Award at the 1990 Cannes Film Festival).

"He is one among very few actors who would be credible in any historical part," says "1492"

producer **Alain Goldman**.

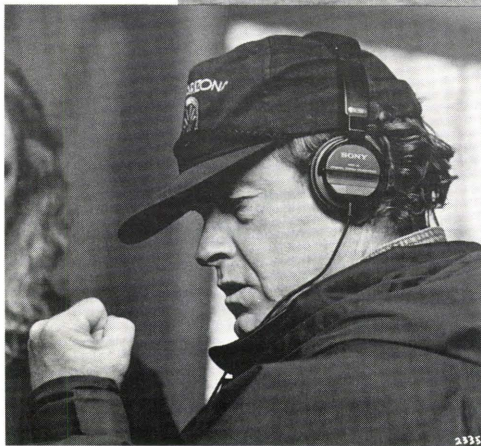
"I identify with all characters who feel the need to see something new," says Depardieu. "And with Columbus, I feel anything is possible."

•••

Accomplished British director **Ridley Scott** gives his version of Columbus' encounter with the New World in "1492: The Conquest of Paradise," set for release October 9. "1492" chronicles more than 20 years in the life



Gerard Depardieu



Ridley Scott

of Christopher Columbus.

Scott is a director who is comfortable working with big-budget films. His work includes last year's academy award-winner "Thelma and Louise," as well as the science fiction thrillers "Alien" and "Bladerunner" (recently re-released with Scott's original ending).

The 55-year-old director currently lives in London.

•••

Milan Panic, 63, was inaugurated as the Federal Republic of Yugoslavia's first Prime Minister. Upon accepting the position, Panic said that his first goal is to stop the fighting in his homeland and work for lasting peace. Panic, originally from Serbia, is a naturalized U.S. citizen.

Currently, Panic is busy trying to convince the United Nations to lift economic and cultural sanctions on Yugoslavia. The cultural sanctions have been challenged recently with the closely watched chess match between former world champions Boris Spassky and Bobby Fischer. Panic has also been urging FIFA, soccer's international governing body, to re-

consider its decision to not allow Yugoslavia to compete in the 1994 World Cup.

•••

Karel Van Miert, the E.C. Commissioner in charge of transportation, credit and investments, and protection and promotion of consumer interests, can add E.C. Environment Commissioner to his list of responsibilities. Van Miert took over the environment position following Italian **Carlo Ripa di Meana's** resignation.

The 50 year-old Belgian joined the Commission in 1989 after serving two years in the European Parliament. Van Miert, who speaks several languages, will be the interim Environment Commis-



Karel Van Miert

sioner until January 1, 1993, when a permanent replacement will be chosen.

•••

Lawrence S. Eagleburger who has replaced **James A. Baker III** as acting U.S. Secretary of State. Eagleburger had been a Foreign Service Officer for 27 years before leaving for the private sector. He returned to the State Department as Deputy Secretary early in the

Bush administration. He says, he has no intentions of remaining in the government beyond January 20.

His health problems, have not kept him from his duties that have included numerous overseas missions to the Middle East, China, Russia, and Europe. Upon assuming the new post, Eagleburger stated that "my objective... is to get as much accomplished as I can, while recognizing that I



Lawrence S. Eagleburger

am not here to try to establish the parameters for the foreign policy of the United States."

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77 Percent Favor E.C.

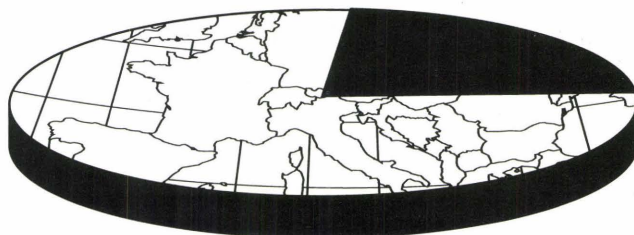
A recent **International Herald Tribune** and **CNN** poll shows that most Europeans favor European political and economic union. Of the 1,073 adults who answered extensive questions in the cross-Europe survey, six out of 10 said they would vote in favor of the Maas-tricht Treaty. Seven out of 10 favor a single European currency, and almost 6 out of 10

said the E.C. should determine economic policy for all members.

The poll also indicated that most Europeans are satisfied with the E.C.—77 percent expressed approval.

Forty-six percent of those polled think the quality of their lives would improve as a result of being in the E.C., while 75 percent believe the Community can solve pan-European environmental problems better than member governments.

Nearly half think that the Community was capable of achieving a better common defense.



WHAT THEY SAID

"When you are faced with speculation, the only thing to do is to make them pay the price for their speculation. During the revolution, such people were known as agioteurs and they were beheaded."

—*Michel Sapin, French Finance Minister, accusing financial speculators of causing the European currency crisis.*

•••

"The guillotine can be an excellent instrument, in limited use. The difference is, in the time of the French revolution, French law prohibited

speculation. Today, European laws permit it."

—*Michel Camdessus, IMF Managing Director.*

•••

"We cannot justify using U.S. taxpayers' money to station troops on German soil to protect Western Europe from potential intra-European strife. The Europeans — thanks in part to our presence for the past 45 years — have the ability to do this themselves."

—*Ross Perot, from his recently published manifesto United We Stand.*

•••

"There sometimes comes a moment when the world looks at a situation and says enough is enough. Maybe this might prove to be it."

—*Lord Owen, the newly appointed E.C. co-chairman of an E.C.-United Nations steering committee on Yugoslavia, referring to an Italian relief plane that was shot down.*

•••

"No one likes being called a bureaucrat without a heart."

—*Henning Christophersen, E.C. Commission vice-president of economic and financial affairs.*

•••

"If we had the Velvet Revolution in 1989, we are now preparing for a Velvet Divorce in our country."

—*Josef Tosovsky, Czechoslovakian Central Bank Governor, predicting that Czechoslovakia will split, peacefully, by the end of the year.*

•••

"Nothing in the events of the last few days should deter our joint efforts to complete the Uruguay Round. It is far better to light a candle than to curse the darkness."

—*Nicholas Brady, U.S. Treasury Secretary, in the opening address to the IMF/World Bank annual meetings.*

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America Discovers Columbus

“Our first immigrant,” Michael Dukakis called him in the last American presidential campaign. Although Columbus never sought a home in the New World and never reached the present mainland of the United States, there is a great truth lurking in the undergrowth of the governor’s misnomer: Columbus came to America to escape from a humble background into a world of opportunity, like so many of the conquistadores who were his immediate successors, like so many of the later immigrants who followed in his wake.

**Five hundred
years later,
we’re learning
that Columbus
has many faces**

Social ambition compelled him to cross the Atlantic. He was born—about 40 years before his great ocean crossing—into the clannish family of a financially unsuccessful Genoese weaver. Ashamed of his origins, resentful, and later, evasive, he looked for a way out. The common avenues of escape from the back streets of his day led through the church, a war, or the sea. Columbus seems to have contemplated all three. Until the end of his life he fancied himself in the roles of ‘a captain of knights’ or a Franciscan friar, but his final choice was natural for a Genoese boy of his era. He moved easily through the Genoese world of his day—a world of merchant-colonies which stretched from Chios to the

By Felipe Fernández-Armesto

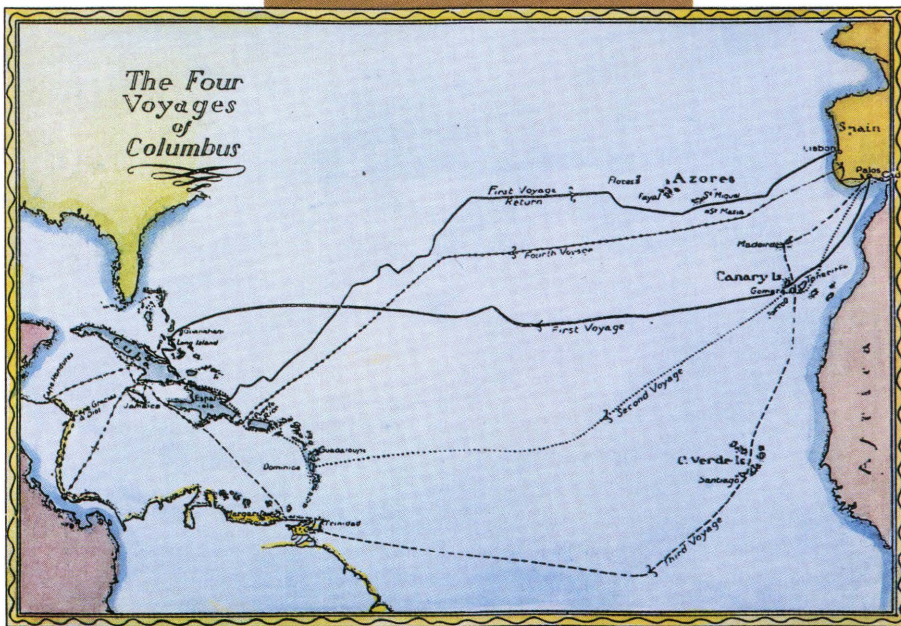
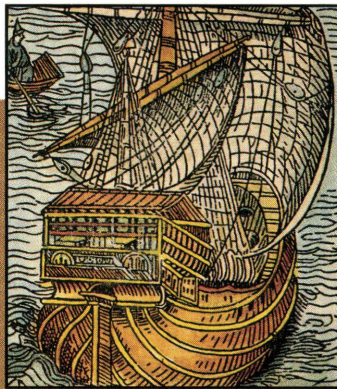


NUOVO MONDO
1492
TOUR

Canary Islands. Like a typical Genoese expatriate, he was able to take service in foreign lands without sacrificing his Genoese identity or his sense of solidarity with fellow citizens. Genoese merchants in Lisbon gave him his first big break, a job trading in sugar and mastic, during the late 1470s when he was a castaway in Lisbon. Genoese backers in Seville helped to put together the consortium that later financed his transatlantic project.

His first role-model probably came from the pulp-fiction of his day: the novels of chivalric romance, with a seaborne setting, in which deeds of oceanic derring-do projected heroes into the stardom of marvelous discoveries and island realms. This was the genre Cervantes satirized in *Don Quixote* when he made Sancho Panza long for an island governorship. Toward the end of the 1470s Columbus acquired a real-life role model in the same tradition when he married Felipa Moniz, whose father—an Italian adventurer in Portuguese service—had joined the Portuguese explorers of the African Atlantic and became hereditary captain of the island of Porto Santo.

In maps of the day the deep Atlantic was an intriguing void, speckled with speculative islands and even with unknown continents. It was often stretched to an unnavigable breadth but sometimes temptingly shrunk to reflect the theories of geographers who underestimated the size of the globe. In the 1480s Columbus was by no means the only adventurer to seek financial backing for a voyage into the recesses of the ocean. In a legend of his own making, which he devised to project a promotional image of himself, Columbus has been seen as an uniquely inspired figure, who clung resolutely—even obsessively—to an unwavering



In maps of the day the deep Atlantic was an intriguing void, speckled with speculative islands and even with unknown continents. It was often stretched to an unnavigable breadth but sometimes temptingly shrunk to reflect the theories of geographers who underestimated the size of the globe.

objective, in defiance of the world's derision. In reality, he was more like a salesman who changes his pitch on every doorstep, as he made his way around the courts and markets of western Europe, seeking patronage for a great voyage. He proposed at least three different projects: a short route to Asia, via the narrow Atlantic of some geographers' imaginations; a journey to discover new islands, such as had frequently occurred in the recent past; and a search for the "Antipodes"—the geographers' name for the speculative continent in the ocean which, in the end, turned out to be America.

By 1492, Columbus' choice of a short route to Asia as the object of his task force was determined not, as he claimed, by God's "palpable Hand," but by the fact that backers in Spain were willing to finance it. He was less concerned about where he was going than about whether, in a social sense, he would arrive.

The success of the voyage, once launched, was due to Columbus' boldness. As far as we know, previous attempts to explore the far Atlantic had been made in the belt of westerly winds, because the explorers were at least as anxious about getting back home as they were about finding anything new. Columbus had the guts to sail with the wind at his back and therefore, perhaps, to face a voyage of no return. Astronauts who travel into the unknown nowadays are changed by the experience. Some go mad; some get religion; some even go into politics. Columbus, too, was changed as he experienced the unrecorded environments of the central Atlantic and its farther shores. He sensed things which weren't there: the air seemed to get purer, the water sweeter, the climate more temperate as he approached the paradise of his dreams, which, in his eyes, was full of lands fairer, mountains

higher, and trees more goodly than any others in the world. Of course, he was writing promotional material for backers at home, but this promotion was also poetry. Above all, he was changed by contact with the people of his New World. We hear a lot about the effects of Columbus on the natives—and rightly so—but what about their effect on him? He was never the same again after his encounter with these naked people who inspired him simultaneously with three conflicting perceptions. In the Franciscan tradition, their nakedness was a sign of dependence on God. In a humanist tradition, they evoked the classical golden age of sylvan innocence. And according to the canons of medieval classification, they resembled beasts, inhabiting the lowest rungs of the ladder of creation, between man and the animal kingdom. The contradictions in Columbus' treatment of the Indians—by turns awestruck, sedulous, and callous—derive from this basic conflict of perceptions, which he was never able to resolve.

As he sailed around the islands of the West Indies, Columbus grew increasingly anxious at the lack of exploitable assets for his investors. Yet he was increasingly impressed with the natives, whom he came to see as the "true wealth" of his discoveries—spiritual ore, wanting only the alchemy of Christian evangelization. This affected his perception of himself. He thought of himself as the agent of Providence, divinely elected to spread the light of the gospel to the parts that other explorers could not reach. On his way home from his first crossing, gripped by a life-threatening storm, fearful that his fame would perish with his life, he had his first recorded experience of God—a celestial voice, which came to console him and later returned in all the trials of his life, sustaining ever more elaborate dialogues with him.

He was hailed by pundits as "a new apostle" and "the sort of hero of whom the ancients made gods." But after his initial success the rest was bound to be disappointing. Neither as cosmogra-

pher nor colonial administrator could he match his achievements as an explorer. His West Indian colony was nearly destroyed by rebellions and by the unprecedented problems of managing race relations in a colonial environment. In the disgrace and distress of the last seven years of his life, Columbus turned increasingly to God, compiling what he claimed were scriptural prophecies of his own achievements.



Columbus proposed at least three different projects, including a search for "Antipodes"—the geographers' name for the speculative continent in the Atlantic, which, in the end, turned out to be America.

His temperament was implacable to the end, condemned by hubris to die in bitterness. Wracked by syphilis, he wrote from his bed to the new King and Queen of Castile in April, 1506, promising, when he recovered, "greater service than ever." Within a few weeks, he was dead. He had or would become: Admiral of the Ocean Sea, Viceroy and governor, rich and famous, sire of a race of dukes, discoverer of the axial route of western civilization—a great girdler of the earth and, for a time, a culture-hero by acclamation. Not bad for a weaver's boy from Genoa.

The American Myths

In the eighteenth and nineteenth centuries, Americans, engaged in the taming of their own frontiers, made

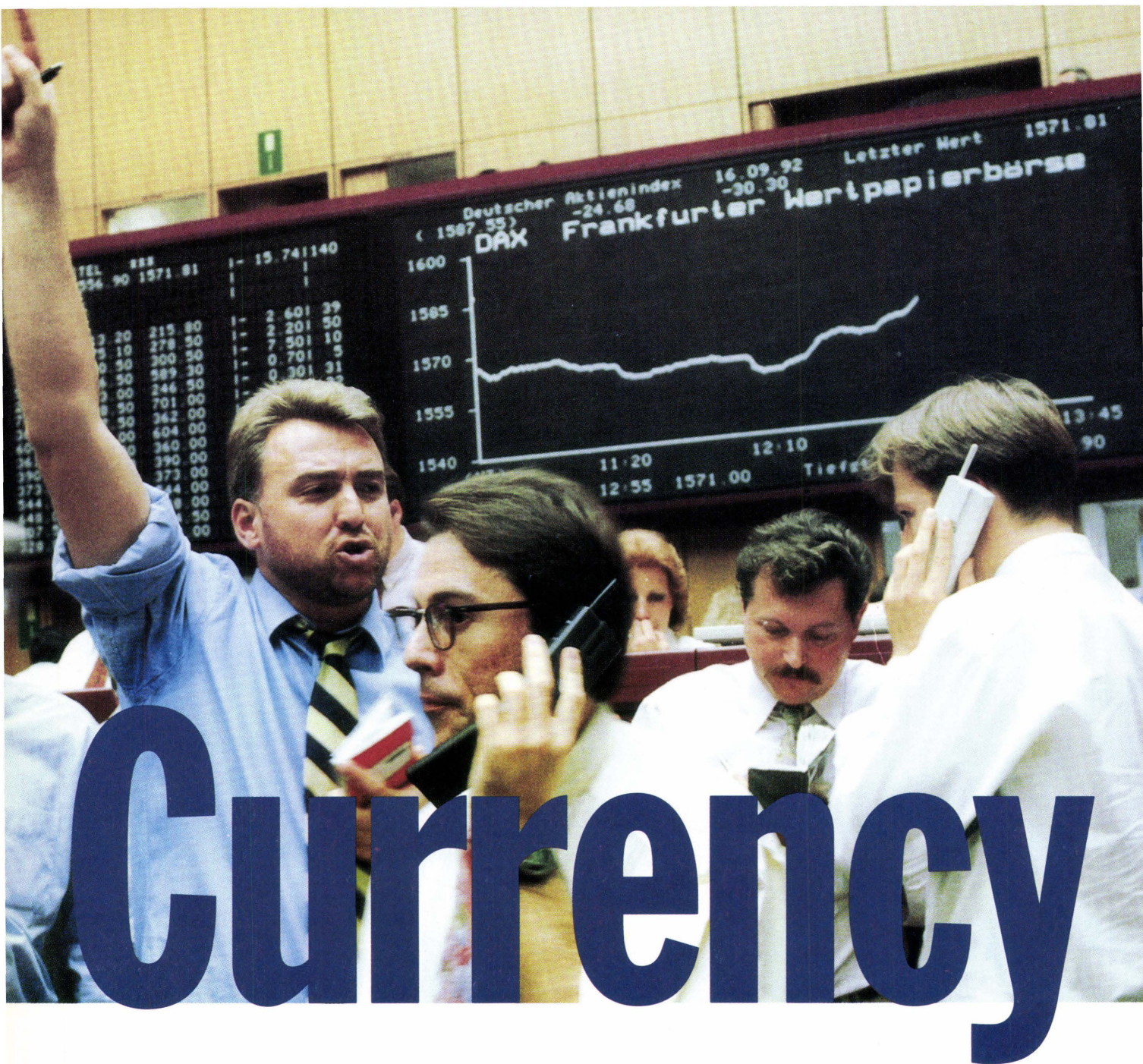
heavy emotional investments in an image of Columbus as a prototype of all-American virtues. Today, the mythopoeia is concentrated on the other side, among the lobbyists for the "Native Americans" descended from the inhabitants of the pre-colonial hemisphere. Both traditions flatter Columbus by exaggerating his importance. If he deserved half the credit for America's achievements he would be a

Prometheus; if he deserved half the blame for the evils of colonialism, he would be a Jove.

Of the two charges on which the attack has been concentrated, Columbus is innocent. As a follower of St. Francis, he was, for his day, exceptionally sensitive to the beauties of the environment he discovered, exceptionally appreciative of its peoples. By introducing European products, he was acting consistently with the best principles of his day. His policy toward the "Indians," as his instructions to his first deputy put it, was "to look after them and see that no harm comes to them." In both respects he inaugurated well intentioned disaster. No one could foresee the consequences of an unprecedented encounter, which exposed whole peoples to conquest by culture-shock and millions of immune systems to attack from indefeasible disease.

"Native Americans" can join the celebrations with pride. Their own sense of identity, like that of their fellow-Americans of European and African descent, is a post-colonial invention. No one could think of himself as a "Native American" until after Columbus. And the civilizations that succeeded the conquest—imperial, civic, monumental—were in the tradition of Aztec and Inca predecessors: born in pain, but sired and mothered by American peoples, with a little help from outsiders. ☹

Felipe Fernández-Armesto is the author of the recently published book Columbus, and is General Editor of The Times Atlas of World Exploration and Director-designate of the Oxford Comparative Colonial History Project.



Currency

The European Community is fighting hard to salvage its grand design for political and monetary union.

By Bruce Barnard

The turbulent currency crisis that engulfed the Community in mid-September, straining the European Monetary System (EMS), has led to a reassessment among government and finance leaders in E.C. countries. While the financial turmoil eased as speculators ran out of currencies to maul, it left behind a trail of anger and recrimination.

Chaos

As EUROPE went to press, E.C. leaders, who staked their political reputations on the Treaty, faced a daunting task at their special summit in Birmingham on October 16—not just to save the Treaty but to restore the faith of ordinary people in the Community's drive for closer union.

Failure to close ranks and tackle the immediate problem of a wounded EMS and to remove the uncertainty surrounding the Maastricht Treaty could split the Community in two, with a hard core of countries led by Germany on a fast track to economic and monetary union, while the others do their best to keep up.

The currency meltdown was a market-driven phenomenon, but its origins were mainly political—first Denmark's rejection, then France's narrow approval of the Maastricht Treaty. The gathering anti-Maastricht revolt in the U.K.'s ruling Conservative Party further deepened the concern across Europe.

Until the Danes dropped their bombshell on June 2, businessmen, bankers, fund managers, and currency investors believed the E.C. was well on the way to economic and monetary union by 1999 at the latest.

The EMS, created in early 1979, was hailed as an E.C. success story. Until the Danish vote it seemed to be working to plan, keeping currencies within narrow fluctuation bands, acting as a springboard for eventual monetary union. Differentials between the D-mark, the EMS anchor, and other E.C. currencies were narrowing on cue.

The Danes changed everything overnight, exposing the fault lines in the EMS, which climaxed in the retreat of the pound sterling and the Italian lira and a five percent devaluation of the Spanish peseta.

The crisis spared only the strongest currencies, the D-mark, the Dutch guilder, and the Belgian franc. The

total collapse of the EMS was averted only by massive, unprecedented German support for the beleaguered French franc.

The turmoil spread beyond E.C. borders, pulling in nations that have applied to join the 12-nation bloc. Sweden raised marginal rates to a staggering 500 percent to protect the krona, Finland cut the markka's link with the European Currency Unit (ecu), and Norway was plunged into its deepest financial crisis since World War II.

The crisis was a long time coming. The warning signs that Europe was to be plunged into its biggest monetary



Speculation about the French vote on the Maastricht Treaty (which turned out to be a narrow Yes) was one of the prime causes of the chaos in the European currency markets.

upheaval since the mid-1970s were submerged in the euphoria surrounding the approval of the Maastricht Treaty last December.

Bond yields began widening after a sustained period of convergence and the ecu bond market withered away amid investor apathy. But the big banks, burned by the global debt crisis and haunted by memories of bad judgment, kept their currency dealers on a leash, forbidding speculative trading in the \$1 trillion-a-day foreign exchange market.

In fact, the EMS was living on borrowed time. The move that sealed its fate was German Chancellor Helmut Kohl's decision in mid-1990 to exchange one powerful D-mark for one puny East German ostmark to massage the unification of his country.

This politically-inspired decision, against the advice of the Bundesbank, coupled with the massive cost of rebuilding the bankrupt East German

"The positive result of the French referendum, even if it was narrow, will give the European integration process a new boost in the other member states."

Helmut Kohl, Chancellor of Germany.

"I breathed a sigh of relief...if the French electorate had not voted Yes, the work of 40 years would probably have been undone—causing irreparable damage."

Giuliano Amato, Prime Minister of Italy.

"At the moment, the financial markets are calling the tune and not the sovereign governments. This situation must be changed."

Albert Reynolds, Prime Minister of Ireland.

"I am in the same position as (French President François) Mitterrand. We both represent populations in which half voted Yes and the other half voted No."

Poul Schlüter, Prime Minister of Denmark.

"We are absolutely at one. The Community needs to move together as twelve. We regard that as very important."

John Major, U.K. Prime Minister

"If you try to rewrite [the Maastricht Treaty] you open Pandora's box and it is finished."

Jacques Delors, the President of the European Commission.

"I think it is justified to go ahead if there is a majority. It is clear the majority in France is a very narrow one but on the other hand, wouldn't it be a rather bizarre thing to say we're not going to follow what the majority has decided?"

Henning Christophersen, European Community Vice President for Economic and Financial Affairs.

THE EUROPEAN MONETARY SYSTEM

The European Monetary System (EMS) is at the core of the E.C.'s ambitious long-term plan to create a single European currency to exist alongside the dollar and the yen.

Its origins were much simpler, fashioned in embryo by a small group of E.C. countries in the wake of the collapse of the post-war Bretton Woods system of fixed exchange rates in 1973.

Some European countries were already shadowing the German mark in the 1970s in a loose system nicknamed the "snake". Their success in stabilizing their currencies and capping inflation prompted the E.C. to refine the system into the EMS in February, 1979.

The goal of the infant EMS was straightforward. It would, said the then German Chancellor Helmut Schmidt, provide greater stability, but not total stability.

The idea was fairly simple—to commit a member government to keep its currency within an agreed upon band of fluctuation in its value. Most member countries agreed to keep their currencies within a "narrow" band of 2.25 percent either way of their values against one another (known as the bilateral central rates). A few member countries agreed to keep their currencies within a "broad" band of 6 percent either way.

Under the rules of the Exchange Rate Mechanism (ERM) each central bank is required to defend its currency—normally through market intervention or interest rate adjustments—when it falls to the floor of its agreed band. Its fellow central banks also are obliged to support a currency under pressure.

Locking a currency into the ERM of the EMS was a major political step because in practice it meant following the policies of the powerful Bundesbank, the guardian of the D-mark, the EMS anchor.

But the potential benefits made the ERM hard to resist, notably its ability to rehabilitate traditionally weak currencies, like the French franc, with a history of repeated devaluations. With exchange rates stuck in narrow bands, E.C. economies eventually would converge, their inflation, output, and growth rates coming more and more in line.

Fixed exchange rates also enabled businessmen to plan ahead and fostered greater cross-border trade.

The EMS offered a middle way between fixed and floating exchange rates with room for realignments when the system came under pressure. As such, it was the perfect springboard for economic and monetary union by the end of the decade.

But the EMS eventually came to be regarded as the closest thing to a fixed exchange rate system. Just before taking sterling into the ERM in September, 1990, the then U.K. Chancellor of the exchequer John Major described it as "a modern day gold standard with the D-mark as anchor."

The system's flexibility was never fully exploited because governments were loath to realign their currencies. The last major realignment was back in January, 1987, giving the system an aura of durability. Realignment had become a "dirty word," according to Bundesbank president Helmut Schlesinger.

Devaluation had become a symbol of political and economic failure. Governments also feared investors and speculators would figure that once a country had devalued its currency it might do it again. Thus interest rates would have to rise to offer investors a risk premium for holding "suspect" currencies.

The EMS came of age last April, when Portugal put the escudo into the ERM, leaving the Greek drachma the only E.C. currency outside the system.

The D-mark-dominated ERM has spread its influence across Europe. The Swiss copy Bundesbank policy, the Austrian schilling has tracked the D-mark since 1979, and the Swedish krona is pegged to the European Currency Unit (ecu).

The EMS faced an uncertain future as E.C. governments haggled in the run up to the Birmingham summit on October 16. Analysts, however, figure the system will return to its roots, becoming a zone of exchange rate stability with frequent exchange rate changes by mutual consent.

Whatever pans out, the EMS is here to stay. Karl Otto Pohl, the former Bundesbank president, says a freely floating exchange rate isn't an option for any European country. A "free" currency would simply lead to a "vicious circle" of depreciation, inflation, and more depreciation.

—Bruce Barnard



economy, produced a towering budget deficit and nudged inflation to over four percent, unbearably high by German standards.

The Bundesbank, with a constitutional obligation to consider only the interests of Germany, sought to tame inflation with short term interest rates of between eight and nine percent, the highest since the 1930s.

Meanwhile, the United States had progressively lowered its interest rates to three percent, the lowest level since 1963, in a bid to jump start its stalled economy.

This huge transatlantic spread spurred investors to pile into the D-mark, strengthening the German currency in the EMS at the expense of other European currencies and pushing the dollar to new lows. The U.S. administration's benign neglect of the dollar, the tardy half-hearted attempts by central banks to lend it support, and the Bundesbank's refusal to bow to intense international pressure for a cut in interest rates put the EMS under immense strain.

The EMS cracked when Germany traded a minuscule quarter point cut in its key lending rate for an inadequate seven percent devaluation of the lira, the weakest currency in the system. The markets pounced, finally calling the bluff of E.C. finance ministers who had sworn allegiance to the EMS and the defense of their national currencies. The markets won, as did Germany, which finally got what it wanted, an inflation-taming revaluation of the D-mark against other EMS currencies.

But Germany's victory became a rout for its E.C. partners. The exit of sterling and the lira from the Exchange Rate Mechanism of the EMS severely damaged the idea of economic convergence paving the way for a single currency, policed by a European Central Bank by the end of the decade.

Although unnerved by the crisis, all E.C. governments, with varying degrees of enthusiasm, declared their support for the EMS. France and Germany claimed events had underlined the need for a single currency, while the U.K. called for a reform of the system.

The EMS had become a victim of its own success. It had held steady for five years after the last major realignment in January, 1987, and had sold the idea of fixed exchange rates, thus underpin-

ning the E.C.'s post-1993 single market and paving the way to monetary union. It took a set of extraordinary circumstances to topple it.

The EMS also created sound money. The U.K.'s inflation rate, for example, tumbled from 10.9 percent when it joined the ERM in September, 1990, to just 3.6 percent on sterling's exit.

But high German interest rates were pushing up the ERM pain threshold by forcing other countries to respond in kind. The price of keeping pace with the D-mark—declining growth and rising unemployment—was too high for the E.C.'s weaker economies. Germany was exporting deflation to its neighbors, locking the whole of Europe into recession.

The U.K. cracked when a record one day five percent hike in interest rates to 15 percent failed to halt sterling's slide.

E.C. leaders are slowly coming to accept reality, abandoning the pretense that Europe's national economies will eventually converge to create the conditions for monetary union. France and Germany, the political and economic architects of the E.C., could proceed to monetary union together with Belgium, the Netherlands, and Luxembourg—an inner core comprising five of the E.C.'s six founding members. E.C. applicants Austria and Switzerland are ideal candidates to join this club.

While E.C. leaders were still keeping afloat the notion of a One Speed Europe, their finance ministers and central bankers were bracing for the inevitable split between the E.C.'s strong and weak currencies. The strict conditions to join the third stage of Economic and Monetary Union laid down in the Maastricht Treaty are coming into play much sooner than planned.

The currency turmoil could yet prove to be a blessing in disguise by injecting equal doses of realism and humility into future E.C. debates. The bottom line will be more democracy, openness, and accountability in E.C. institutions, bringing Europe closer to its peoples. ☹

Bruce Barnard is a contributing editor to EUROPE and the Brussels correspondent for the Journal of Commerce. His story, "U.S. Firms Diving into Europe," appeared in the September issue.

German Economics Minister Jürgen W. Möllemann

Does the German government accept any responsibility for the currency crisis in Europe?

The German Bundesbank is responsible for the stability of the D-Mark, and it is fulfilling this responsibility to the utmost degree possible. The causes for the recent turbulence in the European Monetary System (EMS) lie in the diverging economic developments in the member states not in actions attributable to individual member governments or their central banks. Despite this turbulence, the EMS will continue to play a key role in European cooperation and stability.

Do you see Europe progressing on two currency tracks, with the first track centered on countries tied to the D-Mark?

Future European monetary policy will continue to be determined by the EMS, in which the currencies of the member states may only fluctuate within narrow bands.

Does Europe really need a Eurofed or Central Bank? Isn't the Bundesbank really acting as a Bank of Europe?

The Bundesbank is by no means a kind of a central bank for Europe. Although the D-Mark's stability and strength have given it the function of an anchor currency, and although the monetary policies of the EMS member states are coordinated, the sole responsibility for the stability of the various currencies remains with the individual member states, that is, with their central banks. This will only change when we enter the final phase of European Economic and Monetary Union. Only then will we need a European central bank that sets a common monetary policy for a common currency of the participating member states.

Does the German government feel it necessary to have the European Central Bank located in either Bonn, Berlin, or Frankfurt?

Indeed, we believe that the European Central Bank should be located in Germany. The Bundesbank's long tradition of solid and independent monetary policy-making is a key reason why the central bank should be brought to Germany. Moreover, no important E.C. institution has its seat in Germany.

Are Germany's high interest rates and America's low interest rates an example that economic coordination is not working?

Due to reunification there is a high demand for capital and relatively strong M3 money supply growth. In order to carry out its responsibility for the stability of the D-Mark, the Bundesbank had to raise the key interest rates. However, this only affects the short-term interest rates, and the differences between Germany and America are large only with regard to these short-term rates. For long-term rates, which are much more important for the allocation of investment capital, the differential is much, much smaller. Moreover, there is an active process of economic policy coordination aimed at bringing down long-term interest rates in the U.S. and Germany. This has been laid out in the Munich Declaration, which calls on all G-7 nations to cut their budget deficits in order to create the maneuvering room necessary to reduce long-term interest rates. In Germany we have already prepared the appropriate measures. By 1996 total public debt is to be brought down to 1.5 percent of GNP.

—Answers prepared exclusively for EUROPE.

By James D. Spellman

Chocolate cognoscenti in Brussels dote over new creme fraiche fillings at Wittamer's or debate the eccentricities and superiority of hand-made confections sold in dozens of chocolatier's boutiques. Like winemakers who gossip in Bordeaux, secrets are traded over how the most luxurious chocolates are crafted, such as Manon's two-inch, space-capsule-shaped bonbon. Locals are bemused at tourists buying solid chocolate European Currency Unit coins at Godiva's on the city's Grand' Place.

Nowhere else in Europe but in Belgium are there the variety and exquisiteness of pralines. Whether it is a berry-shaped dark chocolate shell with strawberry-vanilla sweet cream filling or an austere trapezoidal shape with an orange-liqueur-flavored marzipan, the Belgians defy the bounds of confectionery creativity and chocoholics' dreams.

Belgians approach chocolates with a passion reminiscent of that of the court of the Aztec emperor Montezuma II. During his reign in the early 1500s, ground cocoa beans were mixed with snow brought down from the mountains, honey, and spices and drunk by the ruler out of goblets made of gold and shells. Legend says he drank fifty cups of xocoatl (pronounced chocolatl) daily, while his court guzzled down 14,000 pitcherfuls weekly.

Sweet Belgium

Central American tribes are said to have mixed cocoa with pepper or wines and other alcohols. Cocoa beans were also used throughout the region as a currency.

The passion for chocolate quickly spread throughout Europe, its allure fueled in part by its alleged aphrodisiacal powers. Spanish royalty mixed the cocoa paste with combinations of honey, orange or rose water, cinnamon, vanilla, nuts, and cloves. They served the drink hot or cold. Monasteries developed new recipes, including creating pure chocolate blocks that could be melted as needed, much as cooking squares are today. Maria Theresa, the Spanish princess and wife of the French Sun King, Louis XIV, cherished the sweet. Casanova lured lovers with chocolates—not champagne. Chocolate was also seen as a medicine and its drinks as health tonics. One English historian wrote in 1648 that five cups of chocolate daily were responsible for his good health.

Legend points to Christopher Columbus as the first European to have tasted the bitter chocolate concoctions in what is now Nicaragua, during his fourth voyage to the New World in 1502. But the Spanish Conquistador Hernando Cortes, encountering Montezuma's drink during his conquest of the region that is now Mexico, is credited with

**Belgians
passion for the
new world bean
knows no
bounds**

bringing chocolate to Europe. In a letter to King Charles I of Spain, Cortes wrote, "The divine drink...builds up resistance and fights fatigue. A cup of the precious drink permits a man to walk for a whole day without food."

The industrial revolution dramatically improved the quality, use, and availability of chocolate. New grinding and processing methods brought such inventions as cocoa powder, which was patented by the Dutch chemist Coenraad van Houten. In the late 1800s, Rodolphe Lindt, a Swiss, refined the blending of chocolate liquor, cocoa butter, and sugar. Henri Nestle and his partner Daniel Peter, also Swiss, blended condensed milk to make milk chocolate.

Historians differ on the creator of the filled chocolates that have made Belgium famous. One attributes this discovery to a Swiss chocolatier Jules Sechaud in 1913. Another points to a Belgian, Jean Neuhaus. Beginning in 1912 in a family drugstore (where his grandfather had been prescribing chocolate as a medicine), Neuhaus pioneered bonbon recipes and started what became one of Belgium's legendary luxury chocolate producers. Today the company uses the site of the former drugstore as its flagship store in Brussels. Neuhaus is also said to have created the cardboard box, the "ballotin," in which chocolates are usually packed.

Good chocolate starts with the finest cocoa beans available. Decades of experience are said to give Belgian producers an unrivaled insiders' knowledge for obtaining the highest quality supplies. The beans are roasted close to when they will be used and then ground into a paste, which is pressed to remove the cocoa butter, thereby creating a powder. Belgian cocoa

powder is particularly fine—the particles are only 12 or 16 microns compared to the 36-micron size found in American products. The powder is then mixed with refined cane sugar, milk, cocoa butter, and other ingredients before undergoing a process called conching. Shovel-shaped pieces of metal sweep the mixture back and forth within a long, narrow, heated trough.



Belgian chocolatier, Jean Neuhaus is said to have created the cardboard box, the *ballotin*, in which chocolates are usually packed.

By rubbing the mixture against itself, the gritty concoction is refined into a silken, melt-in-the-mouth chocolate. If the liquid is poured into molds, it is usually shaken by a *tapoteuse*, or vibrator, to remove the bubbles.

Chocolate is one of Belgium's main food exports. In 1990, chocolate exports totaled \$604.5 million, a major contributor to the country's trade balance surplus (\$411.5 million). More than four-fifths of Belgium's chocolate sales abroad are within the European Community. Another ten percent are in the United States, Canada, and Japan.

At the turn of the last decade, the lucrative outlook for the chocolate and food business in a unifying Europe spurred a wave of takeovers throughout the European Community. Belgium's beloved Godiva and Corne de la Toison d'Or were bought by the American company Campbell Soup. Switzerland's food conglomerate Jacobs Suchard first absorbed Callebaut (near Brussels) before selling it to Philip Morris, which also took over Cote d'Or. Neuhaus, however, remains under Belgian ownership, running about 2,100 shops in the country. ☺

James D. Spellman is a chocolate connoisseur and a writer based in Washington, D.C. and Geneva.

Where to Get the Choicest Chocolates

Wittamer's 12/13 Place du Grand Sablon

Chocolates are displayed alongside pastries, ice creams, and sorbets at this store, which became instantaneously legendary when it opened in 1910. One autumn window display featured a cornucopia—gourds, fruits, and nuts spilled from a wicker basket, all entirely made of ice cream. About 60 different bonbon varieties are offered. The ganaches are exceptional—particularly those filled with *creme-fraiche* that is flavored with everything from passion fruit to pear liquor. A simple, foil-lined box

is luxuriously wrapped with a pink ribbon.

Manon 9A Chaussee de Louvain

As many as 80 different pralines are made during the summer and sold in this tiny shop. Christian Vanderkerken is the master, and chocolate aficionados engage in amusing debates over whether he is the presiding king of Brussels' chocolate emporiums. The store's name is said to refer to a legendary dairy maid, Manon Lescaut, though no one seems to know why she is so famous. Antique molds, some handed down from Vanderkerken's grandfather, provide a variety of shapes—chil-

dren's heads, pinecones, leaves, and—oddly—snails, which are unseen elsewhere in Brussels.

Mary's 73 Rue Royale

Simply the displays of this store's chocolates are worth a visit, all displayed like precious jewels in a Louis XV salon. The store's namesake has long since passed the business to Jean Lamberti. His dark chocolate is said to be the most potent in Brussels, using a formula with a 70 percent cocoa ratio. Classic blue and white packaging.

Corne de la Toison d'Or 24-26 Galerie de Roi

The name means golden

fleece. Even though they are a bit sweeter and less refined in flavor than the others mentioned above, the chocolates are still exceptional, lacking only snob appeal.

Neuhaus Galerie de la Reine

Since 1857, this company has been one of Belgium's most inventive. Today, the firm makes about 75 different varieties. Among its classics are: kirsch-marinated fruits blanketed with dark or milk chocolate; almond, walnut, and hazelnuts finely chopped and blended into a confection called *Gian-duja*; and "manons," which are chocolates with butter cream fillings.

By Janet Bennett

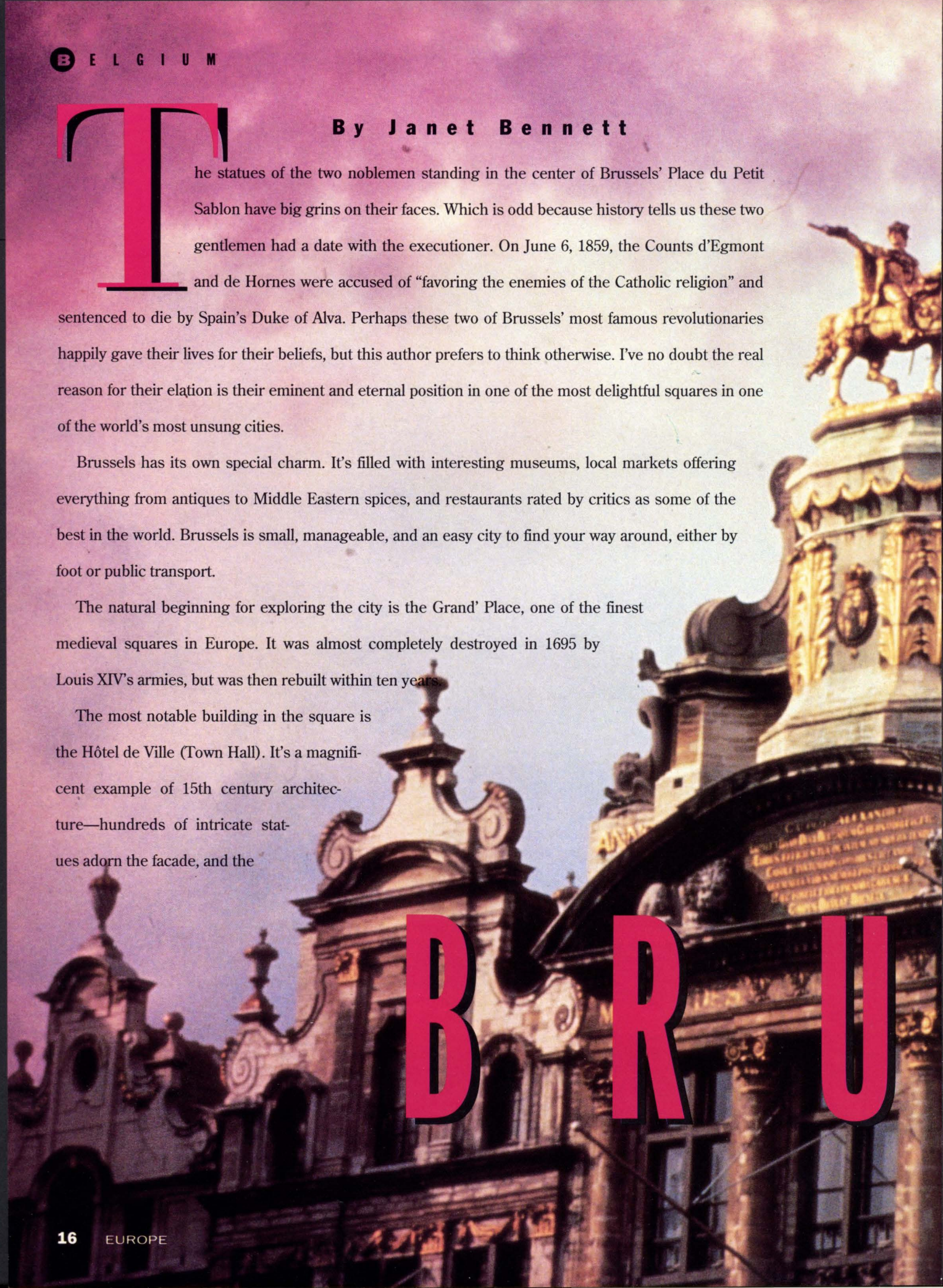
The statues of the two noblemen standing in the center of Brussels' Place du Petit Sablon have big grins on their faces. Which is odd because history tells us these two gentlemen had a date with the executioner. On June 6, 1859, the Counts d'Egmont and de Hornes were accused of "favoring the enemies of the Catholic religion" and sentenced to die by Spain's Duke of Alva. Perhaps these two of Brussels' most famous revolutionaries happily gave their lives for their beliefs, but this author prefers to think otherwise. I've no doubt the real reason for their elation is their eminent and eternal position in one of the most delightful squares in one of the world's most unsung cities.

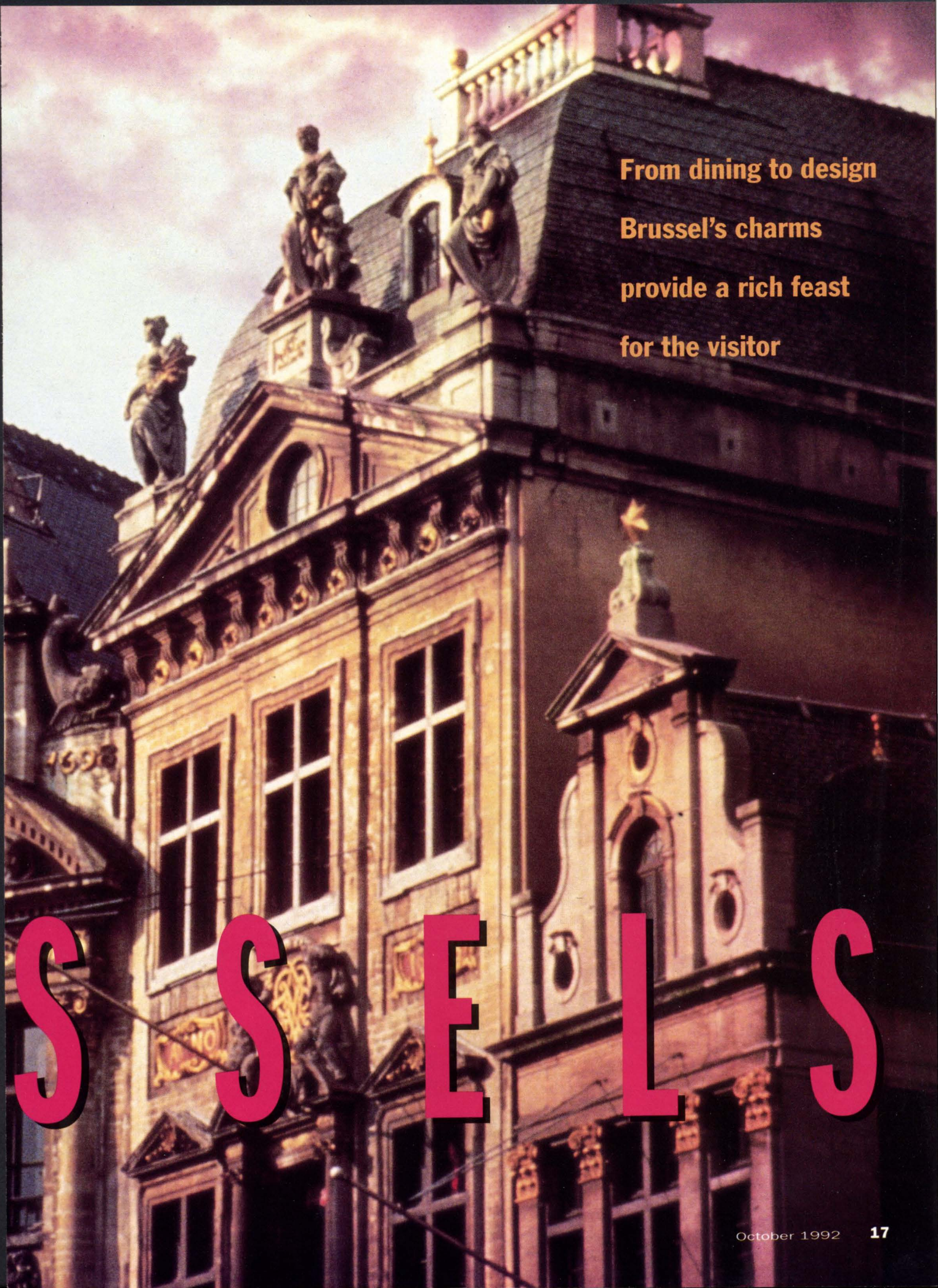
Brussels has its own special charm. It's filled with interesting museums, local markets offering everything from antiques to Middle Eastern spices, and restaurants rated by critics as some of the best in the world. Brussels is small, manageable, and an easy city to find your way around, either by foot or public transport.

The natural beginning for exploring the city is the Grand' Place, one of the finest medieval squares in Europe. It was almost completely destroyed in 1695 by Louis XIV's armies, but was then rebuilt within ten years.

The most notable building in the square is the Hôtel de Ville (Town Hall). It's a magnificent example of 15th century architecture—hundreds of intricate statues adorn the facade, and the

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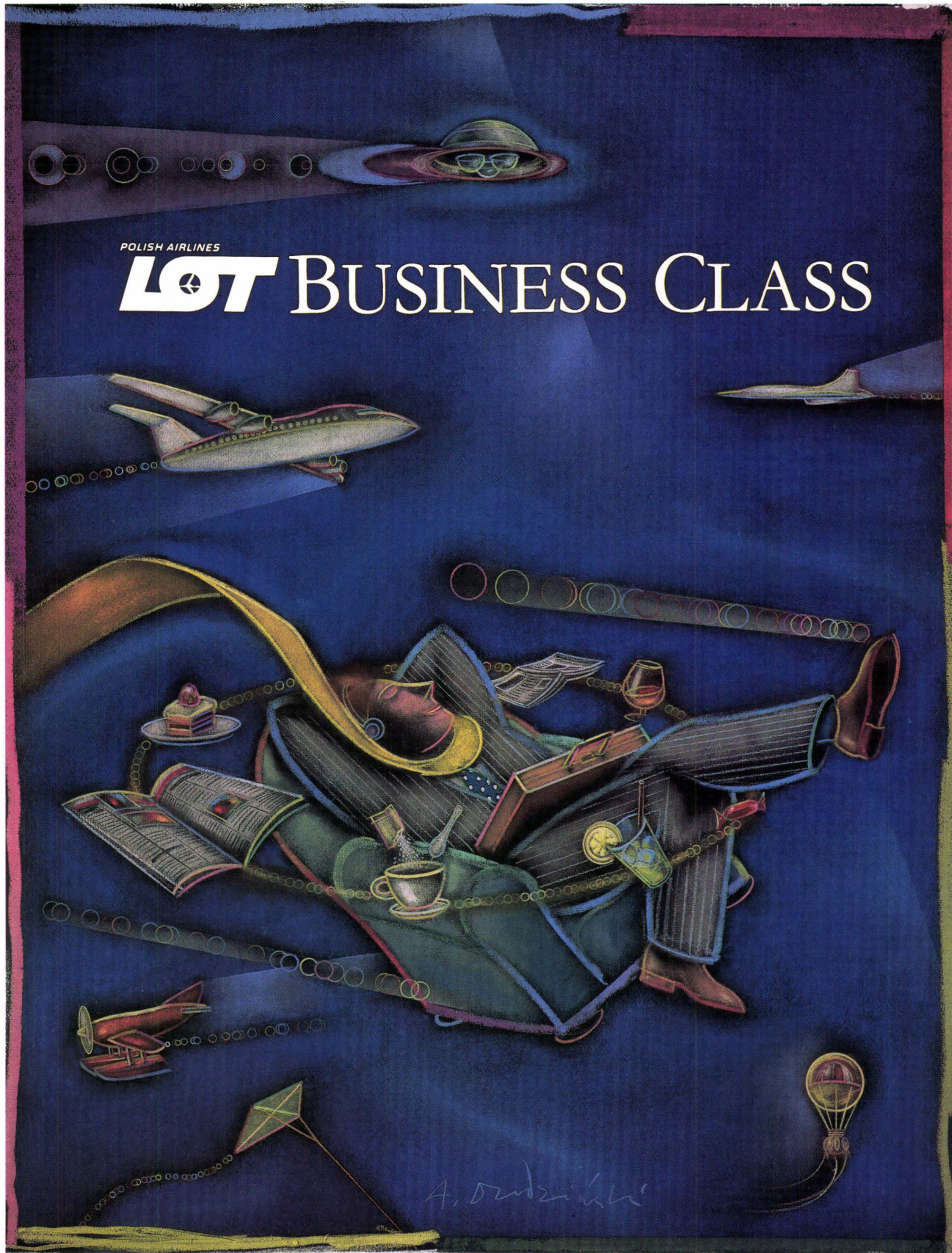


From dining to design
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provide a rich feast
for the visitor

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330-foot tower crowned by a statue of St. Michael crushing the devil is all grace and elegance. It still functions as a town hall today, and marriage processions can often be spotted leaving the premises. The building also features a fine collection of paintings and tapestries that can be seen on guided tours that leave regularly from the main entrance in the courtyard.

Many of the guild buildings on the square now house restaurants and cafés. The Roi d'Espagne (King of Spain), formerly the guild of the bakers, is a warm and cozy spot for an afternoon pick-me-up or for an evening aperitif. The house of the guild of the butchers, La Maison du Cygne (House of the Swan, tel. 511-82-44), is now one of Brussels' premier restaurants, specializing in classic French cuisine. In the last century the Swan was a popular cafe, and it was here in 1885 that Marx and Engels founded the Belgian Labor Party.

A far cry from the elegance of the Swan is the sound of the cocks crowing that can be heard every Sunday morning in the Grand' Place at the city's one-and-only bird market. If you're on the lookout for a green parrot or two turtle doves, this is the place to be from 7 a.m. to 2 p.m. There's also a lively flower market that takes place on the square every day from 8 a.m. to 6 p.m.

Brussels does not lack for good hotels, and there are several choices close to the Grand' Place. You could hardly get closer than the Amigo (rue de l'Amigo 1-3, tel. 511-59-10), only one block away. However, restoration is in the offing, so check before booking to see if it's returned to its former glory. The Royal Windsor (5-7 rue Duquesnoy, tel 511-42-15) is a 300-room Tudor style hotel offering excellent service and a first-class restaurant, Quatre Saisons. The Metropole (31 place de Brouckere, tel. 217-23-00), a beautifully renovated turn-of-the-century masterpiece, features one of Brussels' most splendid cafes filled with polished teak, marble, copper, and gold. Jacques Brel and Albert Einstein are former clients; French movie stars are part of the current clientele. Going north from the Metropole toward the Gare du Nord is the Sirù (1 place Rogier, tel. 217-21-25), a more off-the-beaten track choice, where every room is dedicated to a different Belgian painter.

A fifteen minute walk from the

Grand' Place, at the end of the rue du Midi, is the city's most famous culinary jewel, Comme Chez Soi (23 place Roupepe, tel. 512-29-21). From the outside, it's an inconsequential-looking townhouse in a less-than-lovely part of town. Inside this temple of gastronomy (a Michelin three-star) is resplendently Art Nouveau and a prime spot for a *dejeuner a puissance* for many well-heeled tourists. Order the filet of sole with Riesling sauce and gray shrimp and be sure to book a table well in advance.

When dining isn't the evening's entertainment, take in an opera or ballet at the internationally acclaimed Théâtre Royal de la Monnaie, behind the Metropole (place de la Monnaie, tel. 217-22-11). The original building dates from the 17th century and was built on the site of the old mint. The present building, which dates from 1817, is an important part of Brussels' history. In

The Grand' Place still functions as a town hall, and marriage processions can often be spotted leaving the premises.

1830, at a performance of Auber's opera *La Muette de Portici*, one of the patriotic songs so stirred the audience that they started a rebellion that eventually led to Belgium's independence.

Le Vieux St. Martin (38 place du Grand Sablon, tel. 512-64-76) is a lunch and/or snack favorite. Even on a somber day the ambience is lively, and the fare is excellent ranging from traditional Belgian specialties like waterzoi (stew) to chicken sandwiches. Do order the frites (like no French fries you've ever tasted). Across the street, near the church, is L'Ecailler du Palais Royal (rue Boedenbroeck 18, tel. 512-87-51), which rates two Michelin stars, and serves seafood exclusively. Close to the headquarters of Brussels' two biggest banks and Parliament, it is the site of many a power lunch. Upstairs is an intimate dining room; downstairs the best oyster bar in Europe.

A couple of doors down is the recently opened Jolly Hotel (tel. 512-88-00), conveniently located for weekly

business and weekend relaxing. Speaking of weekends, every Saturday and Sunday established antique dealers set up stands with attractive red and green striped awnings on the square. While toasting their feet at propane heaters, they try to tempt would-be buyers with Belgian family silver, old prints, fountain pens, lace, and paintings. Prices are not for the faint-hearted. Furniture, African masks, and Art Nouveau glass can be found in the shops on the surrounding streets of the Grand Sablon.

At the top of the Sablon, across the street from the church, is the Place du Petit Sablon, where the previously mentioned counts stand watch. Surrounding the noblemen is an iron grating topped with 48 statues, each representing a different medieval craft. Half the fun is trying to guess which statue represents which profession—it's not so easy.

Down the slope from the Petit Sablon, turn right on the rue de la Regence and you'll quickly arrive at the Museum of Fine Arts at number three. If time is limited, go directly to the room where five of Breughel the Elder's masterpieces are hanging. *The Fall of Icarus* is particularly enchanting. (The museum is closed Mondays and holidays.)

It's an easy walk from here (take rue de Namur) to the uptown part of the city (haut de la ville). And nothing could be more uptown than the Boulevard de Waterloo, lined with exquisite clothing boutiques and fine jewelry and antique stores. Located at number three is the Hilton International (tel. 513-88-77), well known for service to business clients. The excellent Maison du Boeuf in the hotel specializes in shellfish and beef. There's also a coffee shop for more mundane repasts. Another hotel with uptown prices and style even though it's not exactly uptown is the one of the newest additions to Brussels' hotel scene, the Stanhope (rue de Commerce 9, tel. 506-91-11). Its 50 rooms are all luxuriously and individually decorated, such as the duplex suite by Viscount Linley, Princess Margaret's son. The Stanhope also lays claim to the city's first caviar bar.

The above is just a small sample of Brussels' many charms, but gives you a clue why those two gentlemen at the top of the hill are smiling. ☺

Janet Bennett is a writer who has lived for the past two years in Brussels.

BELGIUM GETS A NEW LEADER

By Dick Leonard

There was a new and unfamiliar face among the 12 heads of government who met at the Lisbon summit in late June. Belgium's new Prime Minister, 51-year-old Jean-Luc Dehaene, was the new arrival, and he may well never before have met any of his 11 colleagues, his previous career having been strictly confined to Belgian domestic politics.

On March 7, he replaced Wilfried Martens, who had headed nine governments over a period of 12 years and who, though only 55, was the longest-serving Western head of government. Like Margaret Thatcher's, his retirement in favor of a member of his own party was involuntary, but the circumstances of his downfall were rather different.

Martens was the pioneer of the federalization process which is transforming Belgium, previously one of the most centralized of European states. He was convinced that this was the only way to save the country from the paralysis threatened by constant conflict between the Flemish-speaking majority and the French-speaking minority.

For years this conflict had centered on the tiny mixed-language commune of the Fourons (*Voeren* in Flemish), consisting of six agricultural villages just south of the town of Maastricht. Disputes over the mayoralty of this commune, whose population is less than 4,500, led to the downfall of three Belgian governments.

The last such occasion, in 1987, led to the replacement, after a general election and six months of post-electoral maneuvering, of a right-center government led by Martens. It was succeeded by a left-center grouping of five parties, also led by Martens, but which had been patiently assembled by Dehaene, the leader of the left-wing faction of the Flemish Christian Democratic Party (CVP).

This government had a three-stage program of constitutional reform, designed to complete the federal process and to take the heat out of linguistic disputes. Each stage required a two-thirds majority in the Belgian Parlia-



Belgium's new Prime Minister, the 51 year-old Jean-Luc Dehaene, may well make his mark on the wider European stage.

ment. The first two stages were adopted with surprising ease within a year of the government assuming power.

Stage one assured power-sharing in mixed-language communities like the Fourons, and stage two carried forward the regionalization process by adding an elected regional government for Brussels to the existing self-governing regions of Flanders and Wallonia. The third stage, which was intended to provide for direct elections to the Flemish and Walloon assemblies, while reforming the composition and powers of the Belgian Senate, was never introduced due to renewed conflict between Flemish- and French-speaking ministers.

The government broke up in disorder in the fall of 1991 over a dispute concerning arms sales to Saudi Arabia by a Walloon-based firm, the Flemish-speaking ministers having sought to block an export license. In the ensuing general election, on November 24, all the government parties lost ground.

The main opposition, the right-wing Liberals, did not however benefit. The gainers were the Greens, the racist Vlaams Blok, and an anarchist grouping led by a convicted fraudster, Jean-Pierre Van Rossem, whose main motivation appeared to be to secure parliamentary immunity from further fraud charges he was facing.

The CVP invested heavily in Martens's popularity in the election campaign, using his portrait on every one of the 500 giant posters that the party was entitled to display under the strict new electoral regulations. Had they won more seats, his authority would have been greatly strengthened, but their heavy losses, which continued a 30-year trend during which their support in Flanders had declined from over 50 percent to well under 30 percent, were more than the party could bear.

Martens was fingered as the scapegoat, and the party leadership let it be known, within hours of the election results, that it would not be putting forward a candidate for the prime ministership, even though it was still the largest party. It eventually had to go back on this, as it soon became apparent that the only visible government would be another left-center coalition between the two Christian and the two Socialist parties (one for each language group).

The Socialists did not produce a can-

Belgian Ambassador to the United States

Juan Cassiers

In an interview with EUROPE, Belgian Ambassador to the United States Juan Cassiers gives a time line for the upcoming single market and comments on the French vote on Maastricht.

What's your view on the French vote on the Maastricht Treaty?

It wasn't an extraordinary victory, but the French vote is very good news for European unity. Maastricht will be implemented. Europe is back on track again. However it is too early to say what will happen. Belgians oppose any renegotiation of the Maastricht Treaty. It has already been ratified by the Chamber and will probably be ratified by the Senate.

What do you think of the currency chaos in Europe?

The financial markets have been going through difficulties in the past several weeks. The European Monetary System is alive and will continue. However, the British will be taking a vacation from EMS.

How would you characterize the status of the single market at this time?

Basically everything is on track. Of course you have some technical problems with the national parliaments. The single market has its own momentum. It has benefited from the confidence of the business circles who have invested in the single market.

didate and effectively blackballed a contender from the French-speaking Social Christian Party, Melchior Wathelet. This put the ball back into the CVP's court, and when King Baudouin invited Dehaene to form a government, his own party reluctantly fell into line.

Martens, who had upset the CVP by being too accommodating to the French-speakers, was left out in the cold. He would have liked to be foreign minister or president of the Senate. In-

stead, he became a simple backbencher.

Dehaene's government faces a difficult task. It is committed to pushing through stage three of the constitutional reform program, but it lacks the necessary two-thirds parliamentary majority. It is negotiating with the opposition parties, but it seems unlikely that it will be able to persuade the Liberals to vote for the package, without simultaneously inviting them to join the government, to which Dehaene's Socialist allies would be vehemently opposed. The Greens might prove more amenable, but their votes alone would be insufficient to overcome the two-thirds threshold.

The CVP, deeply divided and with a substantial minority which would prefer to go into opposition, is in a fractious and unpredictable mood. It has threatened to pull the rug from under the government if stage three is not legislated within a few more months. Other acute problems face Dehaene. Belgium is strongly committed to entering EMU at the earliest possible date, but its budget deficit, at five percent of GNP, is well above the three percent maximum permitted by the Maastricht Treaty. It faces four years of economic stringency if it is to meet the target.

The 1992 budget, introduced in April, is the first step on the way. It increased VAT to 19.5 percent, and slapped a new social security tax of one percent of gross earnings on all but the lowest paid. The draft 1993 budget is tougher still. It is highly unpopular and has increased speculation that the Dehaene government may not last out the winter.

This may well under-rate the ingenuity and tenacity of Dehaene, who has proved himself a tough and resourceful operator, notably more decisive than Martens. He is unlikely to rival the longevity of his predecessor, but he will not easily be swept aside and may well make his mark on the wider European stage. ☐

Dick Leonard is European Community correspondent of The Observer, of London. He is author of The Economist Guide to the European Community, of which a new revised edition will be published in October. He was previously an assistant editor of The Economist, and from 1970-74 was a Labor MP in the U.K. Parliament.

BUSH AND CLINTON SPEAK OUT

President **George Bush** and Governor **Bill Clinton**, speak out on the European single market, the European Community, GATT, NAFTA, the new role of NATO, the fighting in the former Yugoslavia, Russia and the former Soviet republics, Eastern Europe, Maastricht, U.S. investment in Europe, and their overall foreign policy in statements prepared *exclusively* for EUROPE.

The European single market will become the world's largest market on January 1, 1993. Do you view this as a plus or minus for American business? What are your views on the European single market?

BUSH: The U.S. has strongly supported the single market's goals of increased competitiveness and removal of national barriers to trade. We believe the single market can enhance opportunities for U.S. business by permitting them to operate more efficiently throughout the European Community.

What is most important is that the single market provide U.S. firms an equal opportunity to take advantage of its benefits. While we view E.C. 92 as promising overall, we do have concerns about legislation which imposes quotas or otherwise discriminates against non-E.C. businesses, such as in broadcasting, public procurement, and data protection and privacy.

The single market will, of course, make European enterprises more competitive worldwide. But Americans don't fear tough competition—we think we can hold our own as long as markets are open and rules that affect trade are fair. So as long as European national trade barriers are not replaced by a wall around Europe, we are all for the single market.

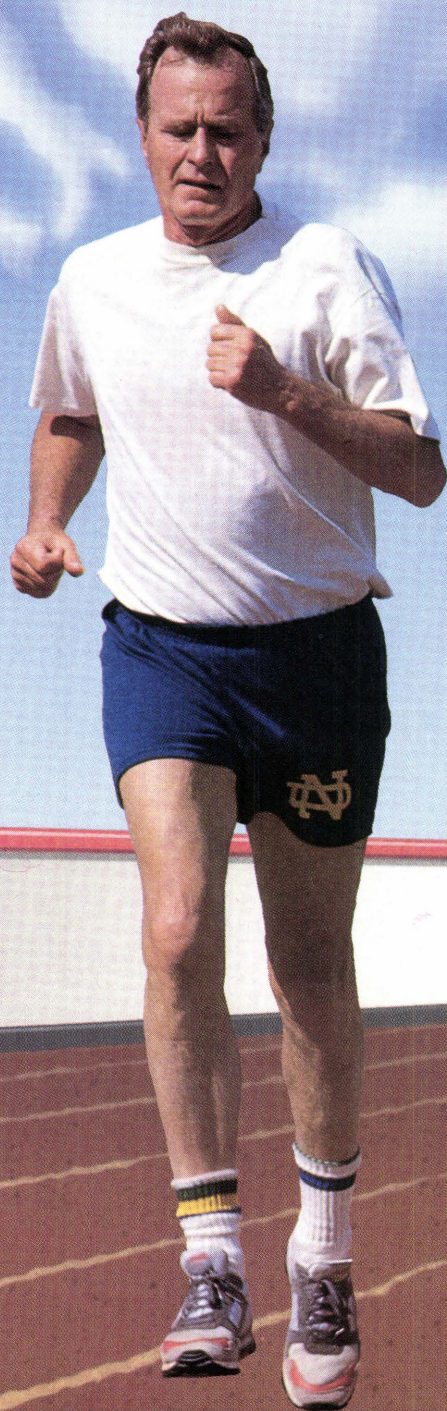
CLINTON: The member states of the E.C. took bold steps at Maastricht in 1991 to finish its single market and move by decade's end to a common currency. We believe these steps are in our interest. They create a larger, more uniform market

• for our exporters and investors who, I believe, can compete effectively. The single market will also provide a stronger European base for reaching out to Europe's East.

• **Speaking of establishing new trading areas, what are your views on NAFTA? Do you favor three distinct trading zone: Europe, North America, and Japan/Asia?**

• BUSH: NAFTA is a great achievement for the U.S., Canada, and Mexico. Once approved, it will create one of the largest and richest markets in the world. By raising income levels and unifying the market in North America, NAFTA should provide new investment and trade opportunities for European firms. Further, NAFTA will be a free trade zone, not a customs union. It will expand trade among our three nations, not restrict trade with other countries. We are going to eliminate barriers to trade among ourselves, but we are not going to raise barriers to others. The United States is and will remain the leading advocate of an open global trading system. We believe that the NAFTA is consistent with and will contribute to the strengthening of that global system. NAFTA is no substitute for a successful Uruguay Round. Indeed, we hope it will encourage efforts to conclude this critical agreement. The U.S. will keep working as energetically to achieve a Uruguay Round agreement as we have the NAFTA.

ON EUROPE



CLINTON: From the outset of this campaign, I have stated that I will support a free trade agreement with Mexico so long as it provides adequate protection for workers, farmers, and the environment on both sides of the border.

We must have strong transition strategies that ensure that workers benefit from a more open world trading system.

I intend to review the details of the agreement and follow closely the expected Congressional hearings on the issue.

I am for an open world trading system, but that requires cooperation from every nation and group of nations that has a significant role in the world economy.

The Uruguay Round of GATT has been dragging in negotiations for years. How important is a successful GATT negotiation to world trade? What would you do as President to bring the trade negotiations to a successful conclusion?

BUSH: A successful Uruguay Round is a critical issue on our international trade agenda. The entire world would benefit from the substantial boost in global trade in goods and services that a good agreement would stimulate. All countries can gain—from the most advanced to the least developed. We're convinced that an accord would add great force to economic recovery in Europe and North America. The developing countries would benefit substantially from the trade expansion of a successful Uruguay Round—much more, I believe, than they can expect to benefit from developmental aid. Developing country exports now amount to about \$1 trillion, a nearly 30-fold increase since 1960. Clearly these countries have a major stake in further trade liberalization.

The U.S. will continue to press for a Uruguay Round accord as one of our top priorities. My colleagues and I agreed at the G-7 Summit in Munich that the Round should be concluded by year's end. We can only accomplish this if the E.C. resolves its problems with respect to agricultural subsidies, especially on exports—a sticking point not only for the U.S. but for many trading nations. We very much desire an agreement that would allow everyone to reduce subsidized agricultural exports, and participate in freer and fairer agricultural trade. Simultaneously, we want to resolve remaining differences on non-agricultural issues. We have made significant progress; the gap can be closed this year. Settling U.S.-E.C. differences will be a key factor.

CLINTON: A successful GATT is very important. European-American agreement is central to a GATT accord that will keep global trade from closing and help head off a world of protectionist trading blocs.



The key to such an agreement is agriculture. The E.C.'s Common Agricultural Policy subsidizes not just farmers, but also their exports. This constitutes unfair competition for American farmers and encourages overproduction. It also freezes out of Western European markets those imports from the East that are vital to economic re-

- construction. Recent reforms by the E.C. to cut subsidies hold
- the promise of progress on this vital issue in the GATT negotiations.

• **What are your views on the European Community? Do you see it as a positive development for peace or as an exclusive club with limited membership?**

- BUSH: This administration, and every U.S. administration since World War II, has strongly supported economic and political integration in Europe. The European Community has contributed to peace and stability in Europe by transforming rivalries in Western Europe, which were at the center of two world wars, into genuine cooperation.

European Community membership is for Europeans to decide. That said, because the E.C. has played such a vital role in European stability, I hope it is not an exclusive club. It is now preparing to enter into accession negotiations with Sweden, Finland, and Austria. The E.C. is creating strong links with the fledgling democracies of Eastern Europe, which could lead to eventual membership. This will help in the transformation of these societies into strong free-market democracies.

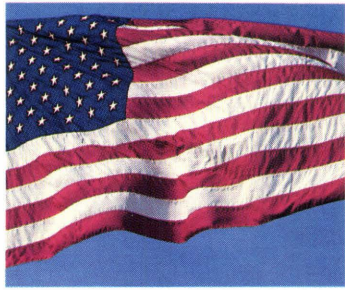
In sum, as long as the E.C. pursues policies consistent with an increasingly open and free world economic system, we are quite comfortable with its expansion.



- CLINTON: I see the European Community as a positive development for peace. We seek a partnership with our allies and friends in which the U.S. remains engaged and committed to European security and the growth of a more open world economy.

• **Do you favor the Maastricht Treaty which would change the role of the European Community? Do you favor the E.C. having its own foreign and defense policy?**

- BUSH: In December 1991, when the European leaders agreed to the Maastricht Treaty, I welcomed the conclusion of the Treaty. I believed then and I believe now that a strengthened European Community has a vital role to play in assuring a stable and prosperous Europe and, as a partner of the U.S., in fostering a more humane world. I have consistently maintained that European unity is good for Europe, for America, and for the world.



As for European foreign and defense policy, my views are well known. We want Europe as an effective partner in the world because, after all, we have common values, common interests, a common outlook. Europeans and Americans alike have learned this century's lesson: that our security is indivisible. European unity doesn't eliminate the need for the Atlantic link. Indeed, rather than a more united Europe reducing the importance of the Atlantic Alliance, we think it can strengthen it. We look forward to working with our European partners to realize that common objective.

CLINTON: We have little to fear and much to gain from a stronger, more cohesive Europe. My administration would welcome that kind of Europe and confront the challenges that lie ahead.

Intra-European cooperation can support a crucial, central principle: to keep Europe's defenses robust, to act with us beyond Europe, and to act when we cannot or should not do so. Throughout the campaign, I have stressed the importance of our NATO commitment. European defense should evolve to meet new needs in the East, not out of concern for U.S. constancy or fears of abandonment. Neither should its success lead to a diminution of American-European military ties. I see no inherent inconsistencies between the American commitment to NATO and the special role of the Western European Union under the Maastricht Treaty. But I also believe that the military structure in place on the continent must be effective, which means that their capability for joint operation be protected.

Many U.S. presidents of the past have had a special relationship with the United Kingdom. Do you foresee any special relationship with the United Kingdom?

BUSH: That the U.S. and the U.K. have a special relationship is no secret nor hard to understand—it is rooted in our common language and heritage, shared values and interests. The quality of our cooperation, on issues ranging from Iraq to the Balkans, from trade negotiations to the future of NATO, is indeed special—I would say as good and as important as ever, for both countries. I don't see the end of the cold war, further European integration, or any other development altering this enduring relationship.

Like many presidents before me, I have enjoyed excellent relationships with my British counterparts, Margaret Thatcher and

Prime Minister John Major, for whom I have great respect and warm personal regard.

CLINTON: Our historic ties to the United Kingdom, of language and common heritage, should not diminish as the U.K. moves toward Europe's mainstream. Our tradition of military cooperation can continue

- in the context of NATO and of developing European capacity for self-defense. I look forward to cooperating with Britain as I do with all of our European allies.

Now that Germany is re-united and the cold war is over, what are the main areas of concern in U.S. foreign policy with regard to Germany?

- BUSH: We see the U.S. and Germany as partners with a common agenda. Germany has now emerged as a major power with a full share of responsibilities for maintaining peace and stability and promoting the democratic values we hold in common. We welcome steps by Germany to accept these responsibilities

and to accept the accompanying burdens—burdens which the U.S. has had to bear a particularly heavy share in the post-war period. I believe the German government agrees with this goal, and I am gratified by the constructive role Germany has been playing on a range of international issues. For example, the German-American partnership has, in our view, been pivotal in fashioning an energetic Western response to the opportunities and challenges of creating free political and economic systems in the former Soviet bloc.

- CLINTON: For the last 40 years, West Germany has been a strong, dependable ally. Our close partnership will continue with a unified Germany. German democracy is one of the proudest accomplishments of the last half century. The more engaged we are in Europe, the more likely it is that German policies will be compatible with our own.

The U.S. has a substantial military presence in Europe. Do you favor such a large presence? How many U.S. troops would you withdraw from Europe?

- BUSH: The end of the cold war and the Soviet menace does not mean an end to the need for U.S. forces to be stationed in Europe. The basic reason for the U.S. to stay engaged in Europe, committed to European security, transcends the ex-



tence of a Soviet threat. Three times this century we discovered that European peace requires American involvement (World War I, World War II, the cold war), just as American security requires European peace. Moreover, the wisdom of providing for defense with close allies in a multinational framework is obvious. The Gulf War showed that such forces may be needed even in the new strategic environment. Desert Storm was easier to plan, execute, cheaper to run, and more successful in every way because of the continuing presence of U.S. military forces and equipment and supporting infrastructure in the European theater and because of the interoperability which the Allies have developed over the years. We don't know what the future will hold—indeed, uncertainty itself argues that we be prepared for instability. Our allies in the West and our new friends in the East have reiterated to me on many occasions the necessity for a continued American presence in Europe through NATO. NATO remains the keystone of Europe's security, and a significant American presence is indispensable for NATO's vitality.

Yet obviously, the security situation in Europe has changed dramatically, and our military presence is changing with it. U.S. troop levels will be cut by more than half by 1995, falling from about 325,000 in recent years to about 150,000. The draw-down is being conducted in a way that will harmonize with the streamlined NATO command structure and the new NATO strategic concept. This strategy emphasizes smaller, more flexible, more mobile multinational forces. We plan to leave an Army corps structure, two divisions, slightly more than three Air Force fighter wings, and some Navy personnel in Europe.

CLINTON: A U.S. military presence remains an element of the American commitment to NATO and Europe's security. U.S. troop levels can be safely reduced below the 150,000 planned by the Bush administration to a force in the range of 75,000—100,000, together with a policy for prompt and effective reinforcement.

What is the new role for NATO now that the cold war is over? Where do you see the U.S. in that new role?

BUSH: One of the highest priorities for me and my Administration has been to help transform the NATO Alliance to meet the new conditions of Europe.

We have had some notable successes:

—In November of last year, the Alliance published the new Strategic Concept outlining a broad approach to security. On the basis of the new Strategic Concept, NATO will have smaller, more mobile, multinational forces able to protect any ally from any threat.

—At that same Rome Summit, we approved guidelines whereby European security and defense cooperation will

strengthen NATO, as opposed to becoming an alternative to NATO.

—The North Atlantic Cooperation Council founded last November has provided a way for NATO to cooperate on security matters with its former Warsaw Pact adversaries.

—At the Helsinki Summit, my CSCE colleagues and I agreed to use NATO for CSCE peacekeeping, under the overall political authority of the United Nations. We are convinced that NATO's expertise and resources can be invaluable in responding to the growing need for peacekeeping.

NATO provides one of the indispensable foundations for a stable security environment in Europe, and the essential transatlantic link between the United States and Europe.

—Two hot wars and one cold war in this century have convinced us of the importance of European security to our own vital interests.

—My administration remains committed to a stable and secure Europe, and to a strong, vibrant NATO.

—While Americans are understandably debating their nation's role in the post-Soviet world, all signs are that they will support a continuation of NATO and the U.S. role in Europe that goes with it.

CLINTON: NATO remains the foundation of European security, and it is the foundation of America's military and political commitment to Europe. We in the United States will not turn our back on this commitment, for peace and security in Europe continues to be fundamental to U.S. national security. The war in the Persian Gulf demonstrated that the pattern of cooperation developed in NATO can be important in confronting threats to the peace in other regions of the world as well. We see such multilateral action as a part of the burden-sharing required to deal effectively with common security problems.

Residual concerns remain about the military capabilities and future events in the area of the former Soviet Union. NATO provides insurance against political reversals in Russia and the infrastructure for taking action to handle any dangers that might arise from instability to Eastern Europe.

Will your administration do more economically to help Russia? Do you think Russia is getting too much attention? What about Ukraine, the Baltics, and other republics?

BUSH: We are committed to supporting Russia as well as the other newly independent states of the former Soviet Union in their efforts to promote both economic and democratic reform. The Freedom Support Act, which is currently working its way through Congress, will allow us to provide critical economic and technical support to Russia as well as Ukraine and the other new states. We are currently working with Congress to ensure passage of this vital piece of legislation.



The Act provides for an increase of approximately \$12 billion in our IMF quota to help finance structural adjustment, and it includes a provision that would allow currency stabilization funds for the new states. In addition, the bill authorizes \$620 million to support economic reform initiatives in the newly independent states and to ease the transition to democracy and market-oriented economic systems.

Because of Russia's size and importance, both strategically and politically, it will indeed receive a major portion of assistance funding. We believe that events in Russia will have a major impact on what happens in the other newly independent states. I must emphasize, however, that our assistance programs, described in the Freedom Support Act, apply to all of these countries. We intentionally do not earmark funds for individual states so that the U.S. government will have the flexibility to move funds to meet changing developments in these states as well as to respond to changing assistance priorities within each state.

The U.S. is also providing substantial commercial food credits to Russia and Ukraine, and granting food assistance to other states. We have provided \$4.85 billion in credit guarantees for food purchases since January 1991.

But more than aid, Russia and the other states need American, European, and Japanese trade and investment. These countries have the potential to be very important markets for us. The technical assistance provided through the Freedom Support Act will help create the structures of a market economy, but it is only through private initiative and entrepreneurship that they can assure their prosperity. We are working with reform leaders to promote the role of American business in the development of the region.

CLINTON: I've been a strong supporter of assistance to the former Soviet Union urging both the White House and the Congress to take action. Having spent trillions containing the Soviet threat, our grandchildren would rightly judge us harshly if we fail now to assure that such a threat does not rise again. I am pleased that the aid package has finally passed the Congress.

Russia is a key to the stability of the former Soviet empire. But we must deal with Ukraine, the Baltic states, and the other new republics as fully independent and sovereign nations, not as dependents of Russia. The problem and prospects of all the states that once made up the Soviet Union differ, and our policies must take account of their differences. Their success, however, will depend on their own actions. We cannot do it for them.

But we can make a difference, particularly working together with our friends and allies. Help for the new republics illustrates a fundamental tenet of my foreign policy—the seamless connection between domestic and foreign policy. We must rebuild America in order to provide the necessary leadership on these issues. And our task of rebuilding at home will be

- much more difficult if we face a renewed military threat
- brought about by our own unwillingness to help the forces of
- democracy at this crucial moment.

- **Currently, the situation in the former Yugoslavia is chaotic.**
- **What can the U.S. do to stop the killings and bring peace to the Balkans?**

- BUSH: The U.S. has worked relentlessly to relieve the
- tragedy in the Balkans. We're cooperating very closely with
- the United Nations and the European Community to find a
- peaceful solution to the conflict. We're supporting political ne-
- gotiations among the parties in conflict. The London Confer-
- ence on Yugoslavia, which ended on August 28, produced a

framework for negotiations in Geneva. It has long been our view that a lasting solution can only be achieved through political dialogue. We'll support those negotiations strongly. We're working to isolate the aggressors diplomatically and to make them pay economically with a tough package of sanctions. In fact, we led the U.N. effort to put sanctions in place and are pressing for full compliance through international monitoring missions on Serbia's borders.

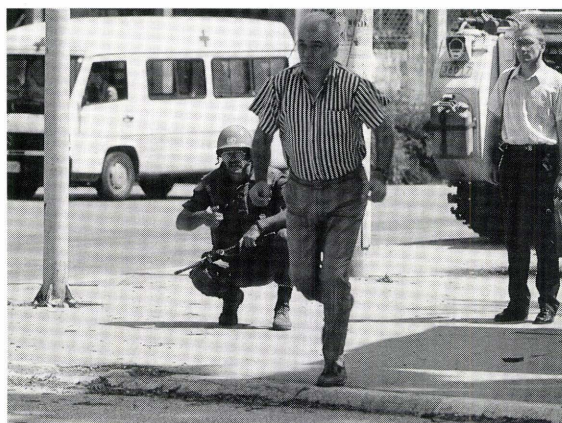
We have taken steps to end the barbaric practice of "ethnic

- cleansing," the seizures of cities, and abuses in detention
- camps. We're insisting that these camps be closed expedi-
- tiously and that those held be permitted to receive adequate
- care and shelter. We're working aggressively to achieve this
- end. Finally, we're determined that the international commu-
- nity not be prevented from delivering food, medicine, clothing,
- and shelter to the people of Bosnia. We're working closely with
- the U.N., NATO, and the E.C. on this problem. Our air power
- and sea power are available if need be to help ensure that relief
- supplies are delivered.

- The conflict in the former Yugoslavia won't be resolved eas-
- ily, but we will work unceasingly to find a solution that will
- bring peace to the troubled Balkans.

- CLINTON: I support a strong American role in the U.N. and
- with the E.C. to end Serbian aggression and provide a peaceful
- solution to this tragic conflict. I have supported the use of mul-
- tilateral military force, if necessary, to ensure that U.N. relief
- efforts are protected.

- We cannot ignore the human agony of what has been tak-
- ing place in the very heart of modern Europe. But we must also
- be clear about the meaning of these events for our national in-
- terests. In this crisis, the international community faces the
- first post-cold war challenge in Europe to the fundamental prin-
- ciples that international borders will not be changed by violent
- means, and that minority rights must be respected. Its out-
- come will set the standard for addressing other ethnic con-
- flicts, as well as effectiveness of vital international institutions,
- including the European Community, the Atlantic Alliance, and
- the United Nations itself.



Eastern European countries are having a difficult time adjusting to a market economy. What will be your policy to help provide more aid and investment to Eastern Europe?

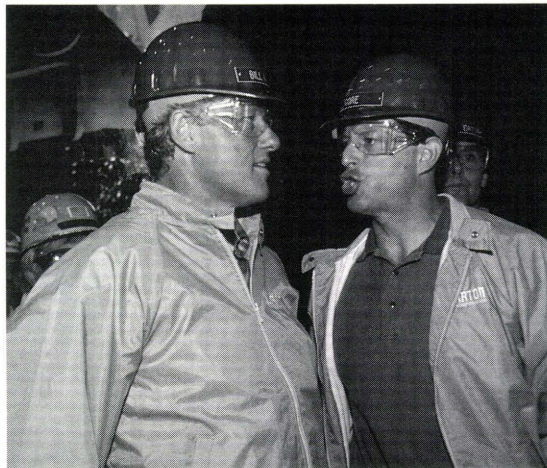
BUSH: The United States is directly supporting the development of market economies and democratic institutions in Central and Eastern Europe through technical assistance and Enterprise Funds, which support the development of small and medium-sized private businesses. U.S. assistance to the region has increased from \$800 million in 1990 to over \$1.3 billion in 1992. We are fully committed to continuing to support the development of market economies as much as is possible in the foreseeable future. We see this as important not only because the stability of this region is in our national interest, but also because these new markets create opportunities for American trade, investment, and jobs.

In addition, to stimulate trade and investment between the United States and the countries of the region, we have concluded or are negotiating bilateral agreements covering trade, investment, and taxation and have initiated OPIC and EXIM Bank programs. Our Trade Enhancement Initiative has resulted in much greater market access for Eastern European products in the United States. And, looking to the future, I would also like to work toward free trade agreements with Poland, Hungary, and Czechoslovakia in order to facilitate further trade expansion.

In the area of technical assistance, we have long-term financial sector advisers in place or planned for every country in the region. We have put defense conversion advisers in Czechoslovakia and Poland to seek out commercial opportunities between defense industries and U.S. firms, and we are considering establishing other such teams elsewhere in the region. We have advisers in place or planned for all the countries to provide counsel on investment regimes and to help cut bureaucratic red tape for foreign investors. We have two advisers already in Albania, and will send another shortly, to help develop laws and regulatory structures to encourage foreign investment.

We are not at all pessimistic about free enterprise and democracy in Central and Eastern Europe. We knew it would be a long and difficult transformation. But there has in fact been extraordinary progress, and the people of the region—Poles, Bulgarians, and others, even the Albanians who were completely cut off—are showing remarkable determination. We have an historic duty to help them make it.

CLINTON: As in the case of Russia, we cannot create economic progress or political democracy for Eastern Europe. Only the people of Eastern Europe themselves can. Official assistance is important, but private initiative and private investment will bear most of the load. This puts a premium on national policies that open opportunities for the private sector.



- **We have seen fascism and we have seen communism come and go in Europe. What will be the next “-ism” to take over in Europe? Will it be capitalism or some other philosophy?**

BUSH: One old “-ism” that still worries me is extremist ethnic nationalism. The banner of aggressive nationalism is being waved again in what was once Yugoslavia, and we all know the tragic results. And it’s not only in Eastern Europe and the former Soviet Republics. Recently, we’ve seen some terrible, though isolated, scenes of ethnic nationalism in Western Europe as well. Nationalism is not inherently evil—love for country and pride in national accomplishments is important to Americans and people around the world. But the foundation of the new Europe must be the Helsinki principles and commitments to democratic governance, human rights, and respect for one’s neighbors. Ethnic intolerance engenders the opposite in a society.

I think the fall of communism was a victory for democracy and free market systems. But I think we’re going to have to work to strengthen our free societies—old and new—to make sure everyone has the opportunity to reap the benefits of democracy and outward-looking market economies. If we don’t provide those opportunities, then we risk the emergence of seductive “-isms” with false promises.

- CLINTON: I hope it is not an “-ism” at all. I believe it will be democracy, where individual rights are respected and governments rule by the consent of their people.

- **President Bush, the U.S. is losing its competitive edge in the world to Japan and other countries. Do you support an industrial policy that would help the U.S. compete in the marketplace? If so, define your industrial policy.**

BUSH: First, I can’t agree that U.S. workers and U.S. industry are losing their edge. We are the biggest exporter in the world and have almost doubled our exports since 1986. We are the center of scientific and technological expertise for many industries and have a \$36 billion trade surplus in high technology products. We have improved our efficiency, productivity, and competitiveness. The U.S. market is healthy, and so is U.S. industry, which has been streamlined. Japanese and European firms are installing plants in the United States because U.S. productivity and U.S. markets are attractive—not because we have trade barriers.

None of this is happening because we did or didn’t have an industrial policy. So-called industrial policies are often simply guises for protection of ailing, uncompetitive industries. That’s not the direction this administration has gone or plans to go. Indeed, Americans have a strong bias toward keeping government out of the market.

What U.S. industry and workers need is a level, worldwide playing field, which guarantees fair access and eliminates trade-distorting subsidies. That is why we are trying so hard to

liberalize the world trading system. We don't fear free and fair competition—we welcome it. With the bankruptcy of the socialist planning plainly revealed in the last few years, the last thing we're going to do is imitate it by dictating a so-called "industrial policy" to our private enterprises and workers. It doesn't work.

Governor Clinton, what policies do you believe would help the United States compete in the global marketplace?

CLINTON: This is a very broad question, and there is danger that my answer could fill the rest of your magazine. Briefly, I

- support policies that invest in people, the basic technologies, and infrastructure of America. This includes more investment in education and access to higher education; investment in roads, bridges, highways, railroads, ports, and other systems of communication; and investment in research and development, including the creation of a civilian version of the Pentagon's Defense Advanced Research Projects Agency. Beyond this, I have proposals to contain soaring health care costs and tax proposals that will encourage investment, while whittling away at the U.S. domestic and foreign debt burden. ☹

Reported in Washington by Daniel P. Galo

Bill Clinton opened his presidential campaign on Labor Day in Harry Truman's hometown of Independence, Missouri. George Bush compares his campaign to that of Harry Truman in 1948. A new book on Truman is at the top of the bestseller list.

With everyone talking about Truman this election year, EUROPE's contributing editor Lionel Barber looks at the real Harry Truman and how he and George Marshall and others worked together in a bipartisan effort to assist war-ravaged Europe.

Under Harry Truman, the U.S. came of age as a global power. After the defeat of Germany and Japan at the end of World War II, America took on the burden and the glory of world leadership from an exhausted Britain. Assisted by gifted and supremely confident advisers—Dean Acheson, George Kennan, and George Marshall—Truman created a new liberal order based on democracy, free trade, and market economies.

Acheson, Kennan, Averell Harriman, and others later came to be known as the "Wise Men" or the "Establishment"—a self-perpetuating elite which first devised and then implemented a new post-war U.S. foreign policy. The GATT-Bretton Woods system, the Marshall Plan, the NATO alliance, and the Truman Doctrine setting out the policy of "containment" of Soviet power together formed the cornerstones of this new world order, which succeeded beyond anybody's wildest expectations.

Although the new Western Alliance would be dominated by the U.S., it rested on shared democratic values and economic interdependence. This was perhaps the greatest intellectual legacy of the Establishment. For its members grasped instinctively that the common values and self-interest which united the alliance would make it infinitely more stable than the relationship between the Soviet Union and her satellites in Eastern Europe, which rested on subordination.

As Stalin consolidated his hold over Eastern Europe, Truman responded decisively. The result was the emer-

gency financial aid package for Greece and Turkey in the spring of 1947, followed by the Truman Doctrine and the Marshall Plan, which in less than 12 months was dispensing billions of dollars to boost the economic recovery in Western Europe.

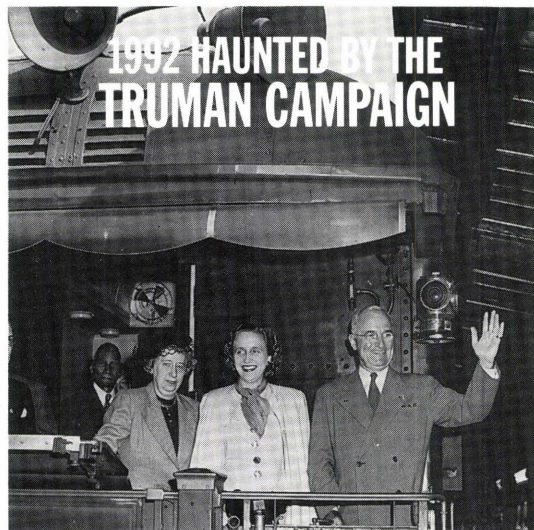
The speed with which the administration and Congress (led by the formidable Republican Senator Arthur Vandenberg) acted is a remarkable tribute to the effectiveness of the U.S. government when called upon to act under pressure. Some have accused Marshall and Acheson of whipping up unnecessary alarm and creating the climate of anti-communism which later degenerated into McCarthyism. Acheson himself once said, "If we don't scare Congress, they will go fishing." But this misses a wider point—however hesitant the Truman administration might have been about the commitments that it was entering into, it understood the grave consequences of inaction.

Had Marshall failed to spell out his plan for the recovery in Europe at Harvard University

on June 5, 1947, the U.S. would have risked not only a humanitarian disaster, but social, economic, and political disintegration in Europe. By acting, the U.S. preserved western Europe not just as a market for American goods but also as a political ally in the struggle against the Soviet Union. In short, the U.S. policy was a remarkable combination of selflessness and self-interest, of idealism mixed with a hard-headed calculation that the recovery of the German and Japanese economies served the vital interest of U.S. business and commerce.

Instead of hedging all bets in the run-up to the 1948 election, Truman acted in the long-term interests of his country. In so doing, he showed that it is possible to do what is right—and still win a famous victory. ☹

Lionel Barber, formerly the U.S. bureau chief of the Financial Times, is currently the bureau chief in Brussels.



By **Matthew Davis**

When German car maker BMW announced in June that it would build its first North American manufacturing plant amidst the rolling hills and textile mills of Upstate South Carolina, there were those outside the area who responded with disbelief and derision.

What was Bayerische Motoren Werke thinking about, snickered some industry analysts, introducing a new line of balloon tired pick-up trucks and changing its name to Bubba Makes Wheels?

Other reactions were less humorous and even more cutting. A business columnist for *Newsday* likened the move to an American manufacturer fleeing to Mexico and painted South Carolina as a quasi-Third World backwater.

Those more familiar with what has been going on in the "Upstate" region of South Carolina these last 20 years were surprised by only one thing: Why BMW, which had been searching the globe for a site to begin production of a new line of cars, was considering moving anywhere else.

BMW will build a 1.9 million square-foot factory on a site off Interstate 85 between Greenville and Spartanburg, the twin cities of the Upstate region. It will ultimately invest \$640 million in the operation and employ about 2,000 workers who in 1995 will begin production of what is expected to be a new, more affordable BMW model that will be aimed at the American market.

EUROPE LOVES DIXIE

**BMW's Move Into
South Carolina
Highlights Region's
Eurosuccess**



BMW is the latest addition to the large number of European companies already located in South Carolina.

This news was greeted by the South Carolina press with the kind of mammoth, boldfaced headlines normally reserved for war endings and Elvis sightings. But prize catch though it was, BMW's move to South Carolina is a logical evolution of a region with an increasingly international—and mainly European—economic base.

The area where BMW is building is no longer, as it was as late as the 1960s, a region of sleepy, Southern mill towns. Spurred by European manufacturers of textile machinery, who began moving to South Carolina in the 1970s, the Greenville-Spartanburg area, whose population has swelled to 640,000, is now home to more than 60 European firms which have created thousands of American jobs, and boasts of the highest density of European investment per capita in the United States.

Such is the proliferation of German manufacturing operations along the highway between Greenville and Spartanburg that the roadway has long been referred to by locals as "the Autobahn."

Located off this highway are such firms as Germany's BASF Corp., which makes chemicals; Italy's Marzoli International, Inc., and Switzerland's Rieter Corp., both manufacturers of textile machinery; and, perhaps the one best known in the area, France's Michelin Tire Corp., which, aside from the state government, is South Carolina's largest employer.

The European presence, however, has gone beyond mere penetration of the economic scene. It is now an increasingly visible aspect of the local culture.

Active Swiss and German clubs help organize everything from local international festivals to church services held in their native tongue. A local grocery store caters exclusively to Swiss and German tastes, carrying a variety of foods rarely found in the area two decades ago. And there is a school operated by Michelin especially for the children of its French employees where classes are taught in French.

But in spite of the well-established European community in South Carolina—about 20 percent of the state's manufacturing workers are employed by a European firm—it was not until BMW laid claim to a 900-acre site near the Greenville-Spartanburg Airport that

(continued on page 34)

SOUTH CAROLINA GOVERNOR Carroll Campbell

Governor Carroll Campbell, originally from Greenville, S.C., is a former businessman and horse breeder, who currently serves as National Co-Chairman and the Southern Chairman of the Bush-Quayle Re-election campaign. Campbell, now in his second term as Governor, was elected to Congress in 1978 and served for eight years. This year, he was instrumental in getting German automaker BMW to agree to build the company's first manufacturing facility outside of Germany in his state.

Campbell recently spoke with *EUROPE*'s Editor-in-Chief Robert J. Guttman about BMW and other European investments in his state.

Why did BMW finally decide to locate in South Carolina?

We have a number of German industries in South Carolina. We have approximately 81 German affiliated companies. In 1987 I met some people who were talking about German investment coming into South Carolina. Later, we heard of the possibility that BMW might be doing an expansion. I contacted BMW by letter, and as time went along I went over to pay a visit to the factory in Germany in the summer of 1990. We, obviously, have made other trips since then. We presented a package to BMW about South Carolina. They had been here looking for some land. We tried to get some land together for them in the earlier part of this year. As time went along, we increased our negotiations. They told us what their needs were, as far as land and location, and we set out to try to provide what they needed. We probably pulled off something I could never pull off again. We put together 134 property owners and got the land BMW needed together.

We have a very strong business-government relationship, we have a pro-business climate, the government works very closely to make our businesses competitive in the world. We had changed our tax code in the state



to award major investment. We provide tax stability, and tax stability is something that helps firms a great deal in long-range planning. We put that in place. The second thing is that we have one of the best training programs in the whole country. Our special schools program as well as our technical schools are the best in the country. We have the capability to train workers. A company can build its physical plant, and at the

same time have its workers being trained somewhere else, by the state.

By doing all that, we were able to offer a trained work force, a stable tax climate, and a conservative government from a fiscal standpoint. We have the port of Charleston, and an airport nearby, and we have a large German community. You put all those factors together, and BMW felt comfortable with us, and we felt comfortable with them.

They made the decision, and we are glad of it.

What are the benefits of BMW being in South Carolina?

The first thing is that BMW is a blue chip company, and the name BMW is associated with excellence and quality. That by itself is a benefit. BMW gives you that name of excellence. The sec-



ond thing, of course, is that it will provide jobs. The third thing is that it's going to provide a spin-off. An automobile company has a bigger spin-off than most other companies because of the suppliers they have to have. We have a number of suppliers in South Carolina, including the Michelin Tire Company, which is a supplier of BMW. That will mean some additional employment for our existing industries, and it will mean

other additional industries coming in. Long term, it's going to be a good employer, it's going to indirectly create other jobs. It will also cause other companies to look at South Carolina as a good place to do business.

How many jobs will BMW create?

They are going to create 2,000 jobs in the first phase. They'll start with a thousand and then they'll go to 2,000 jobs.

What revenue will BMW provide for the state?

If you take the 2,000 base jobs that come in, as they call them, and those jobs will create another 2,000 jobs, that's the supplier jobs that will be created, one for one, and then you'll create from that at least an equal number of service jobs. A 2,000 job investment like that will create 6,000 new jobs. Those new employees are taxpayers, and that means revenue for the state. Over a period of time, we are looking at a substantial amount of revenue for the state, worth billions of dollars.

Was location for distribution a big factor for BMW in choosing South Carolina?

Yes, distribution made a big difference. Our proximity to Germany by being on the East Coast, the port of Charleston, which is the second largest on the Eastern Seaboard and expanding, and our ability to ship had a lot to do with it. Our training program was also cited as an advantage by a lot of people. Our ability to train workers. We are going to extend the runway on the airport to accommodate their planes. The rest of it is in the infrastructure that's being built up by the counties and the local communities, like water and sewer, power, and all of that.

Is this a one time deal, or are you going to try to get other European companies to move to your state?

It is certainly not a one time deal. I am working with a lot of European companies. Hoffman-LaRoche is already on their way in Florence, South Carolina. We have 80 other German companies in South Carolina, and we have British and French investment. Michelin is one

of our largest companies, with its headquarters in Greenville.

I have read that Spartanburg County in your state now has the highest per capita foreign investment in the country and the largest chunk of that investment comes from Germany. That seems a bit surprising.

You have to understand that part of the county was settled by Germans. There is a lot of German settlement in that part of South Carolina and the western part of North Carolina. This is a great comfort factor to BMW. People are very comfortable not only because they have ties from very early times but also because of the mild climate, the proximity to the mountains, and everything else. It is just a good bond that we have between South Carolina and Germany.

What are your main exports to Europe?

We export a lot of textiles. We also export lumber, paper, and farm products. We are the tenth largest timber producing state on the Eastern Seaboard, and we make a lot of paper and have a lot of pulp.

The single market comes into effect in Europe on January 1, 1993. Will it affect the South Carolina business community?

Everybody has some concern about the unknown, but the United States is a "single market," and we're moving forward with NAFTA and other agreements to expand the marketplace. We want to continue to trade, and we want continued access to European markets, just as they have access to our markets.

What you did to get BMW sounds almost like an industrial policy. Would you say you have a state industrial policy?

No, I have a business climate that has been conducive to the attraction of industry because it is a stable place to do business. And that is a pure business climate. We keep our tax laws basically to a general policy, not specifically industry oriented. As a result the cost of doing business in South Carolina is at a level that allows companies to locate here and be competitive in the world marketplace. ☺

(continued from page 31)

people outside South Carolina began taking notice of this phenomenon.

"It is surprising that about a year ago, when I went to Europe, I had to explain where South Carolina was," said Doug Woodward, a research economist at the University of South Carolina and an expert on European investment in America. "But when I went to Brussels [this summer], it seemed that everyone at the [European] Commission knew exactly where South Carolina was and all about the European business there. That is what BMW has done."

BMW has riveted attention to South Carolina's Upstate. And the story of its seduction offers insight into how one area of what Americans call the "new South" has put the recruitment of European business at the center of its regional industrial policy.

If there is one thing that South Carolina business types like to promote when selling their state to potential investors it is that they represent the vanguard of "the new South".

And, yet, there is something very old South in the way South Carolina worked to attract BMW—and lure European business in general. It combines industrial recruitment with the Southerner's long-cherished belief that impeccable manners and lavish hospitality will take you far in this world.

It's not that South Carolina did not have numerous objective factors to offer BMW: solid infrastructure, low cost-of-living, plenty of potential factory sites, a huge port facility in Charleston, and virtually no labor union presence.

But, from the beginning, it was a decidedly Southern finesse that helped lubricate the negotiations.

First, there could be seen the Southerner's penchant for polite discretion.

When Governor Carroll Campbell

heard in May of 1989 that BMW was considering expanding outside of Germany, he discreetly let it be known that South Carolina was interested. Then, in July of 1990, while on a business trip to Munich, he quietly dropped by, unannounced, for a chat with BMW manufacturing chief Bernd Pischetsrieder.

And without ever revealing his plans to the public, Campbell decided, following his meeting with Pischetsrieder, to introduce a well-known Southern technique into the negotiations: overwhelming hospitality.

million in property tax breaks. Runway not long enough for cargo planes? Consider it extended. And when you come into town to iron out all the details, don't bother with a hotel, we'll wine and dine you at the governor's mansion.

"I've only been down there for about ten or fifteen days and I am very impressed," said Carl Flescher, a vice president with BMW North America who is relocating to Spartanburg. "The embracing of this whole thing is incredible. You go to the Holiday Inn and there is a sign that says 'Welcome

BMW.' You pull up to the Hertz rental car and they know who you are. People are genuinely friendly, open, and elated."

Helping guide their efforts was Paul F. Foerster, an honorary counsel to the German government and a business consultant who spent 25 years working in the Spartanburg area and now runs South Carolina's office in Frankfurt.

Foerster said the negotiations with BMW were a delicate matter and South Carolina's success is largely due to its attentiveness to nuance, something he said is very important in dealing with "European corporate culture".

"[The deal] has a long history, and it

started out on a very confidential basis," he said. "It took a long time to build confidence with each other, to be mindful of potential pitfalls. So, we worked long and hard to understand each other's needs, perceptions, and misperceptions."

According to industry analysts, the constant stream of amenities and special treatment that South Carolina extended to BMW was especially critical to completing this deal, given the fact that BMW is considered to be a conservative corporation not prone to bold moves.

BMW views the establishment of an American manufacturing base as critical to competing with the Japanese for



Michelin, the French tire manufacturer, is one of the largest European companies in South Carolina.

Example: the site most pleasing to BMW had 134 separate landowners. Campbell responded by securing a \$25 million appropriation from the state legislature to buy the property, personally telephoned reluctant sellers, and, to sweeten the deal, threw in a new road and site improvements, on the house, so to speak.

Even with all of this, BMW was still hesitant. So Campbell continued heaping on the hospitality, usually in million dollar dollops.

Concerned about worker competency? Why, local business will kick in three million dollars for training. Taxes bothering you? How about, say, \$41

the luxury car market. Still, the fact that BMW plans to build a completely new line of cars with a workforce that is largely a stranger to the world of automobile manufacturing was viewed as a stunning move.

"This is fairly bold and uncharacteristic of Europeans," said Bill Pochiluk, an auto consultant who has worked with BMW, in an interview with the *Charlotte Observer*. "BMW is getting out of its German-Austrian roots. For BMW, this is a very big deal."

One of the things that served to calm BMW's transatlantic jitters was the fact that so many other European manufacturing firms had made the crossing to the Upstate area before them. And their success was proof positive that the state was not making empty promises about its business climate.

"We've had over \$16 billion in new investment in South Carolina over the past five and a half years," Campbell said. "And over a third of it has been foreign investment."

Some of that foreign investment has come from the Japanese. But the lion's share has been European.

To better understand why there is such a high concentration of European firms in South Carolina, a concentration that now extends northward along I-85 all the way to Durham, N.C., one needs to go back to the South of the 1890s, when much of the local workforce scratched out a living as sharecroppers.

It was the potential of this workforce to move from the fields to low-wage factory jobs that first prompted industrialists to build textile mills in the area. By the middle of the 20th century, the Upstate region was almost completely transformed into an industrial economy, with textile mills being the main economic motor. It was this thriving textile industry that first began attracting Europeans.

In the late 1960s and early 1970s, American textile machinery manufacturers were not keeping pace with the latest technologies. As a result, local

mills were turning to foreign (mainly German, Swiss, and Italian) companies to update their factories. And as this trend grew, rather than shipping bulky machinery and servicing it from a European base, the machinery makers decided to move next door to their customers.

"From there it sort of snowballed and diversified," said USC's Woodward, who, along with economist Norman Glickman, examined European investment in America in a book called *The New Competitors*, published in 1989.

"[Europeans] saw this area as a good place to be," he said. "You were outside the major American manufac-

"[Europeans] saw this area as a good place to be," he said. "You were outside the major American manufacturing heartland and you could carve out your own niche. You were close to mountains and the ocean. From the European's perspective, it was like discovering America all over again."

turing heartland and you could carve out your own niche. You were close to mountains and the ocean. From the European's perspective, it was like discovering America all over again."

About 21 years ago, Jochem Schoellkopf arrived in Spartanburg from Germany and took stock of his new surroundings: neighborhoods of woodframe millhouses; clusters of textile factories that gave way to a seeming infinity of peach groves; and then there was the sometimes harsh, sometimes sultry, and always obscure draws of his soon-to-be Southern neighbors. Having just left the highly urbanized environs of Stuttgart, he wondered, "Where have I ended up."

"It takes a little time, coming over from Europe, to get adjusted to the mentality of the area," said Schoellkopf, who is chief executive officer of Menzel, Inc., a German manufacturer of industrial machinery. "It's the good ol' South,

and people have their mentality."

Schoellkopf intends that last statement as a compliment. He likes very much the contrast between the hard-driven, work-a-day world of Germany to the "super friendly and real laid back" culture that still exists in the South. He said it is this folksy, easygoing lifestyle—one that he worries will be lost to the intense economic development of the region—that helps ameliorate the culture shock Europeans experience in South Carolina.

German BMW employees relocating in Spartanburg also will find their transition eased by the fact that a German community is already well-established in the area. Spartanburg County is home to an estimated 2,500 Germans and, according to the Census Bureau, more than 1,100 people in the county live in homes where German is the primary language.

"I think having the German community here was a plus [in BMW's decision to move to the area]," said Beate Pirchmoser, who is president of the local German-American Club and founder of a firm called The Bi-Lingual

Secretary. "With so many Germans here, it helps [newcomers] with their families and just getting along here."

Pirchmoser, who first moved to Spartanburg in 1974 to work with a German textile machinery company, feels she and other Germans have been well received by the local residents and has been impressed by how people worked to make her feel at home.

"When I came here, everyone was always going out of their way to tell me that they had a Great Aunt or a Grandmother or some relative who was European," she said.

But she also likes the fact that the growing numbers of Germans in the area have given rise to such things as Christmas church services conducted in German and local businesses such as The Deli Corner, a small, Swiss-run grocery store where she can find the kinds of sausages, bratwursts, and dark

bread not always available in American supermarkets.

Observing the European adjustment to the South is, however, just one half of the South Carolina Euroscene.

Wayne Culbertson likes to note with irony that he flunked French in high school. He brings this up because he is now plant manager of Michelin's sprawling, state-of-the-art tire manufacturing plants in Spartanburg, where he converses daily to his superiors...in fluent French.

"When I was in school, I always thought 'why would a kid from Easley, South Carolina ever need to speak French,'" he said. "Two weeks after I graduated from college, I found myself in the middle of France, working for Michelin."

Culbertson said initially, the main attraction of the Michelin job was that it gave him a chance to travel. But what has kept him with the company—and kept the company's turn-over rate relatively low, he said—is that Michelin invests in its workers, both in terms of salaries and benefits and, equally im-

portant, technical training.

That Michelin invests heavily in worker training is, for European firms in South Carolina, as much a matter of survival as it is enlightened management. The reason is that these companies have had to adapt to a labor market that differs considerably from what they were accustomed to on their home turf. But the way South Carolina has worked to bridge that gap—by subsidizing training programs tailored to a company's needs—has been the linchpin in its Eurosuccess, particularly in landing BMW.

With manufacturing increasingly demanding skilled workers, it might seem on the surface, that South Carolina is a poor choice for companies like BMW or Michelin, which operate sophisticated, high-tech manufacturing facilities.

State-wide, high school graduation rates and test scores on college entrance exams are among the lowest in the nation. Also, for European employers there is not the tradition of worker apprenticeships, which plays a critical

role for maintaining the pool of skilled labor across the Atlantic.


However, South Carolina officials have responded to these deficiencies by developing a system of technical colleges that has become a model for the nation. It works directly with employers—foreign and domestic—to create training programs tailored to their needs.

Michelin, with its U.S. base in Greenville, has gone so far as to build its own facility on the campus of Technical College. And South Carolina has promised to spend three million dollars training workers for BMW alone, which is a considerable sum considering that South Carolina spent \$5.8 million on technical training last year for the entire state.

With the appeal of BMW automobiles resting largely on the product's reputation as a carefully crafted car, the company's management is naturally concerned that its South Carolina workers prove the equals of their revered German counterparts. But there is one significant difference between the two workforces that BMW has no interest in overcoming: In Germany, unions are a way of life; in South Carolina, they have almost no life.

Perhaps the best news for South Carolina is that in the future it may find itself working less and less to acquire more and more European business. Just in terms of business that will relocate or expand to accommodate BMW's voracious appetite for supplies, the state expects to gain an additional 2,000 jobs, many of which will be created by companies moving to South Carolina from Germany.

Aside from this, with the local European business community playing a key role in attracting BMW, Governor Campbell says BMW will greatly enhance future recruitment efforts.

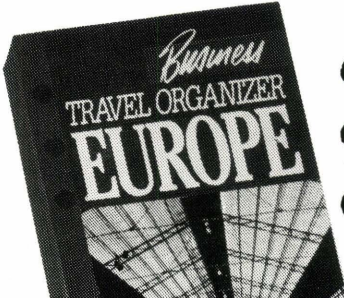
"The name BMW is generally associated with excellence and quality and that by itself is a benefit," Campbell said. "Other companies will say 'well, wait a minute, BMW is rated as one of the best, and they chose South Carolina. So, they must be doing something right.'" 

Matthew Davis covered North and South Carolina for the States News Service and is now a freelance journalist based in Washington, D.C.

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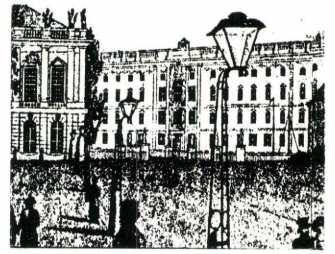
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CAPITALS



PARIS

NOT ONLY COLUMBUS

In France, 1992 marks the anniversary of several "firsts," none making as many waves, perhaps, as the discovery of the New World, but all worth celebrating.

1492: Several months before Columbus discovered America, Antoine de Ville, an officer at the court of Charles VIII, set off at his king's request to try and climb a peak in the Alps that was considered to be inaccessible. At 6,900 feet, the Mont-Aiguille (Needle Mountain) is less than half the height of Mont Blanc, but its sheer sides make every step a challenge—somewhat like the famously difficult El Capitan in Yosemite Park. One of de Ville's seven companions on the climb was the royal ladder-builder, a specialist in designing ladders for scaling enemy fortresses. With the help of such ladders, de Ville and his team reached the summit on June 26, 1492—the first men to have ever climbed a mountain not for any practical purpose, but simply for the glory of getting to the top. The sport of mountaineering was born on that day, even though more than three centuries were to pass before anyone climbed the Mont-Aiguille again.

1592: One hundred years after that first Alpine ascent, another Frenchman destined to explore new terrain was born. Jacques Callot, an artist

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whom Victor Hugo described as "the Michelangelo of the burlesque," was the first engraver to devote himself almost exclusively to that art



In a style ranging from realism to caricature, artist Jacques Callot chronicled the high, and low life of his time.

form. In a style ranging from strict realism to caricature to the outright fantastic, he chronicled the feasts, wars, and famines, the high, and low

life of his time. He had an unblinking eye for detail. In his "Foire de l'Impruneta," an engraving of an Italian country fair, he crowded 1138 peasants, peddlers, and pilgrims, 45 horses, and 137 dogs—down to their fleas—into less than a square yard of space. When he died at 43, he left behind him some 1500 engravings and etchings that constitute a unique visual saga of life and death in the 17th century.

1792: On September 21, 1792, the monarchy was officially abolished in France and the first French Republic was proclaimed. Its motto was "Liberty, Equality, Fraternity," its symbol was Marianne, an imposing bare-breasted female figure wearing a Phrygian bonnet. Since then, kings, wars, and emperors have from time to time interrupted, but none have ever destroyed the French Republic. Now in its fifth edition, the substance of its ideals is still intact, even if its form has var-

ied. Marianne, like the Republic, has evolved during her 200-year existence. Initially a girl you would welcome beside you in a battle, she has recently taken on the glamorous aura of a film star—not all that surprising, really, considering that in 1969 Brigitte Bardot served as her model, followed in 1985 by Catherine Deneuve.

1892: Historic achievements come in all sizes: grandiose, like the proclamation of the French Republic, or in small format, like the "Optical Theater" invented by Emile Reynaud. On October 28, 1892, he presented his invention for the first time. A Paris audience watched three charming little sketches, projected onto a screen and accompanied by music. They were seeing the world's first animated cartoons. Reynaud had conceived the scenarios, hand-painted each of the hundreds of frames, and invented the projector to show them. He worked tirelessly to improve his invention and created four more cartoon strips, the last two with the aid of a special film camera he designed. But by 1900 the Lumière brothers and their moving pictures had come along and Reynaud's projections were replaced by a puppet show. Ruined, he sold his photographic equipment for scrap metal. He died in 1918, in a charity hospital.

Four significant dates drawn from among the countless others: on Columbus Day they may serve as a reminder of all those who have discovered and explored new worlds.

—Ester Laushway



Jan Carlzon, CEO of SAS, is working to ensure that SAS survives deregulation of European air travel.

COPENHAGEN

AIRLINE SKIRMISHES IN SCANDINAVIA

The summer certainly was not slow for Jan Carlzon, the charismatic 51-year-old CEO of SAS, Scandinavian Airlines. Carlzon survived a recent takeover attempt by Denmark's Communications Minister, Kaj Ikkast. Although Carlzon remains at the helm of SAS, there is no doubt that the Nordic consortium faces an enormous challenge in the deregulation of European air travel.

Beginning January 1, 1993, the European air travel industry will undergo a considerable liberalization much to the delight of the E.C. consumer, who is paying fares two to three times as high as travelers in the United States.

Carlzon believes that as few as five major European airlines will survive such cut-throat competition, and he intends SAS to be one of them. If the majority shareholders, which are the Scandinavian governments (Sweden owns three-sevenths of SAS; Denmark and Norway own two-sevenths, each), will let him keep his job.

Carlzon incurred the latest bout of opposition by purchasing the domestic Swedish carrier, Linjeflyg. SAS Flight attendants based in Denmark and Norway went on strike, fearing that they would be replaced by Linjeflyg flight attendants. The strike forced a number of flights to be canceled out of Copenhagen, which is the major SAS hub.

Together with the difficulties of administering three national quotas of air crews and staff, SAS is plagued with conflicting interests of three separate nations. For example, many Danes believe that the Swedes want to increase traffic at Stockholm Arlanda Airport by diverting passen-

gers from Copenhagen, causing a loss of jobs at Copenhagen Airport.

Other Danes say that the lost traffic would not be greatly missed when the new bridge connecting Copenhagen to the south of Sweden is completed. Once the bridge is completed (later in the 1990s), Copenhagen Airport will be in a unique position to attract all deregulated airlines and may not have to rely solely on SAS.

Airlines and airports all over Europe are being privatized, although none of the Scandinavian governments have yet committed themselves to sell their majority holdings in SAS. As a result, even partial privatization of Copenhagen Airport is being delayed. Jan Carlzon has personally favored privatization in the past. Now that political support for SAS is on the wane, he may do so again.

—Leif Beck Fallesen

LUXEMBOURG

SECRET BUBBLY

Sparkles. That's the name for the sparkling, white wine that critics herald as a rival to France's illustrious Champagne, but it is also, along with many other Luxembourg wines, one of the best kept secrets within the European Community.

Vineyards are limited here in a country of only 999 square miles. The lands bordering the legendary Moselle river have produced a distinguished number of dry to mildly sweet, white wines. Rivaner is Luxembourg's most common, accounting for about half of the 15-million liters of wine produced here. The drier Elbing accounts for one-fifth more. Others include Auxerrois, Pinot Blanc, Rulander, Riesling, and Traminer.

Luxembourg's wines are meant to be drunk young to enjoy their fruitiness.

Strict standards of control, the Marque Nationale system, have governed the quality of the Grand Duchy wines since 1935. "Vin classe" is used to note above average wines. "Premier cru" marks even higher quality ones. "Grand premier cru" is reserved for the finest.

One Luxembourg bubbly that stands out is Bernard-Massard, which is supplied to the Royal Duchy. Jean Bernard-Massard was the first grower to start making a sparkling wine here in 1921. The firm uses the traditional champagne method. Bottles are turned by hand daily to promote the settlement of sediment at the bottleneck, which is frozen to remove the dregs in one solid plug. The bottles are then re-corked, labelled, and shipped to merchants. The firm's product is Luxembourg's largest wine export.

Only about seven-million liters of the country's total production is exported because the Luxembourgish drink virtually all of it. About 40 percent of its exports go to neighboring Belgium.

Last year was particularly tough for producers here because their harvests were only little more than half of the average yield for each of the last ten years. Spring frosts and a dry summer were the reasons blamed for the disastrous production.

Ironically France benefited most from Luxembourg's bad harvest, which resulted in a surge in demand for French wines to overcome the shortfall. Luxembourg has been at odds with Paris since France persuaded the E.C. Commission to prohibit the words "champagne" and "methode champenoise" on any wine produced outside of France's Champagne region.

—James D. Spellman

BERLIN

GOING PRIVATE

Finance Minister Theo Waigel recently unveiled Germany's program for privatization of the country's state-owned businesses and said that the government is aiming to completely withdraw from business and industry and proceed with the sale of "a good dozen" state concerns.

Waigel's announcement is particularly important for two reasons. First, it comes at a time when the federal government urgently needs money to finance the new, eastern Bundesländer. Privatization is also vital to the government held businesses, which will need more flexibility when they



The federal railways, which now account for only 27 percent of goods traffic and six percent of passenger traffic in Germany, are expected to be part of Germany's privatization program.

face stiffer competition with the opening of the single market in January.

Waigel singled out Lufthansa as one of the largest privatization projects. (The government still owns 52.59 percent of the airline.) But the current state of the stock market is not ideal for floating Lufthansa's stock. In the first five months of this year Lufthansa reported a \$405 million loss.

The privatization of the German telecommunication network, Deutsche Telekom, which is expected would bring between \$30 to 50 billion, is also a problem because it can only be accomplished with the cooperation of the *länder* (states) because it requires a change of the constitution. The Bundesrat (Germany's upper house in which the Social Democratic Party, SPD, have a majority) has the power to block constitutional changes. The Social Democrats have to be convinced first that privatization is both politically and economically essential.

The same applies to the federal railways, which for the last 40 years have consistently lost market share. The federal railways now account for only 27 percent of goods traffic and six percent of passenger traffic. The federal railways currently post a \$30.5 billion deficit and its East German counterpart, the Reichsbahn, is \$10.5 billion in the red. Moreover, the Reichsbahn will require large investments to bring it up to the standard of the federal railways.

Gradually SPD members of parliament are beginning to realize that a speedy reform of railways and the postal services is necessary, but SPD opposition outside parliament is still fierce.

The government directly or indirectly holds stakes in more than 400 enterprises. To sell or to reduce government stakes in these businesses will be

a lengthy process. The last wave of privatization, which included the sale of Volkswagen, and the Veba and Viag conglomerates, yielded more than \$6.7 billion. But it took 30 years to complete. The pressure to speed up privatization is growing because unification has emptied the government coffers and caused the national debt to rise to a staggering \$874 billion. According to a study by the German Indus-

try and Commerce, total state debt will push to \$1.68 trillion by the year 2000.

When the Treuhandanstalt (the government agency charged with privatizing the former East Germany's state-owned enterprises) was set up in February 1990, the East German government believed that the Treuhand would make a huge profit. But the costs of restructuring companies, paying for social compensation and environmental damage as well as taking over old debt from the state companies will by far exceed revenue from the sale of assets. It is expected that when the Treuhand winds up its activities by the end of 1994, the finance minister will end up with a \$168 billion deficit. Out of almost 12,000 companies the Treuhand had managed to sell 8,175 enterprises by the end of June. Privatization proceeds added up to \$20.6 billion. The past 18 months have shown that potential investors consider that most of the dirty work is a matter for the government. The German government needs a thriving stock exchange to absorb its planned privatization program and a lot of luck.

—Wanda Menke-Glückert

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TELEPHONE SEDUCTION

Dozens of companies are setting up erotic telephone lines on which lonely people with deep pockets and time to kill can listen to sexy stories. These phone calls have become big business in Spain. Since the first "telefono erotico" opened for business in June, more than 50 have begun operating or are planning to and daily newspapers, magazines, and television are filled with ads touting services with names like Telesexo and Pasionline.

And it's easy to see why. In its first month of operation, one of the erotic lines chalked up an average of 18,000 calls a day which translated into a hefty profit of almost \$200,000.

The services cater to all tastes. After dialing, callers are told to indicate whether they want to hear a male or female voice recount erotic adventures. Most of the talk, which is generally tamer than on the erotic lines which have been around for years in other countries, is recorded. Some of the services hire operators (usually students and housewives who can earn up to \$1,500 a month for four hours a day) to work the lines and give exactly what the customer wants in the way of a made-to-order naughty chat.

Or they just listen. A housewife who works at one of the services says that many callers are shy guys who are desperate for an opportunity to talk with any woman and the erotic telephone lines are their only recourse.

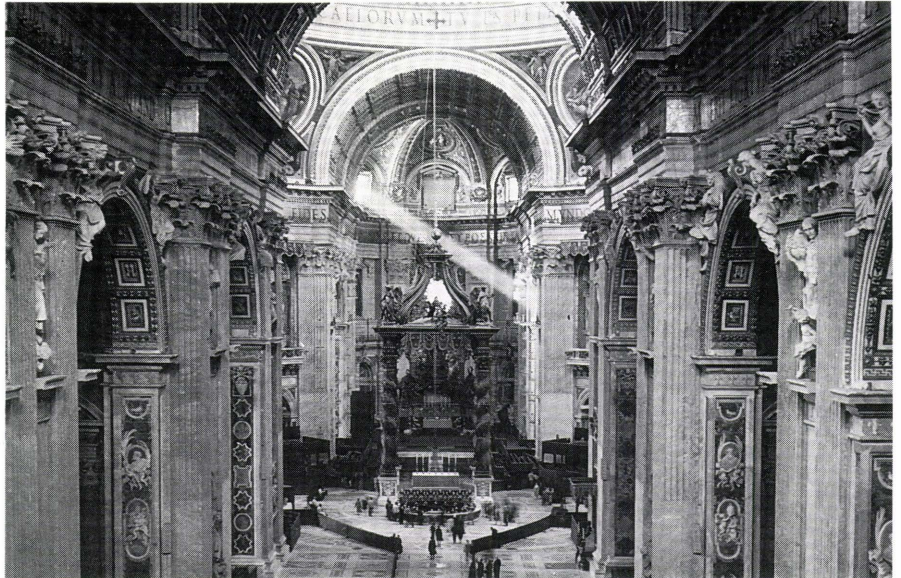
While the state-owned telephone company, Telefonica, is happy with the new business generated by all this sexy talk, sociologists and others say those who use the services suffer deep problems.

"Many of these people... who use the sex telephones are lonely and have problems communicating [in direct relationships]," Spanish sexologist Julian Fernandez de Querc told a Madrid newspaper.

According to another observer, writer, and journalist Jose Ribas, the erotic telephones are a clear indication of serious problems in Spanish society as a whole. "There is so much widespread and profound unhappiness in this society, which each day is becoming more materialistic and isolated, that people try and escape through technology," says Ribas.

In other words, Spain is becoming more and more just like the rest of the industrialized world.

—Benjamin Jones



The Catholic Church in Italy is facing a crisis in the declining number of priests, a situation that has worried the Vatican for years.

ROME

PRIEST CRISIS

As in other countries, Italy, too, has experienced an increase in religiousness. The Catholic Church is experiencing a resurgence in attendance mainly among young people. In the past several months even the most cynical of observers were amazed to see the enormous Saint Peter Square completely packed for the beatification of the founder of Opus Dei, one of the most *intégriste* and conservative Catholic organizations.

Even with the recent resurgence, the Catholic Church, however, is facing a crisis in the declining number of priests, a situation that has worried the Vatican for years.

A recent survey commissioned by a bishops' work group created by the Vatican to follow the problems of the clergy has confirmed that there are too many discouraged priests. These priests are troubled by questions of both a spiritual and, one could say, a "professional" nature. Some have difficulty adjusting to the rapid changes in society that have occurred in these past years. The report said that almost 50 percent of the priests surveyed would have difficulty, in many cases would even be afraid of, entering into the problems of "regular people." On a personal level, they say they fear old age and solitude and are often frustrated by the lack of even a minimum of domestic help.

Currently Italy has roughly 50,000 priests, an average of one priest per

1,450 inhabitants. But every year, there are 250-270 fewer priests, and the average age, now at about 60, is rising. The priests 25 to 35 years of age constitute only nine percent of the total, down six percent from 15 years ago.

Not everyone agrees with the survey's conclusion that the priesthood is undergoing a massive identity crisis. Judging by the initial reaction, the report appears destined to create controversy within the clergy at the conference of Italian bishops that will be held this month.

—Niccolò d'Aquino

LONDON

FISH & CHIPS REVOLUTION

Fish and Chips, the U.K.'s great traditional convenience food, is set for a revolution as it fights back against the takeover of the high streets by American fast-food chains like McDonalds and Kentucky Fried Chicken. The British chippies of the future will look and operate increasingly like U.S. fast-food chains and compete with them on their terms.

One company in northern England is introducing a drive through service at a new chain of fish and chip shops opening this year. Many others have altered their menus to the same design as those of the hamburger chains. The next revolution will be the introduction of edible chip wrappers.

Change is necessary because the

Inside

EUROPE

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FRENCH VOTE YES ON MAASTRICHT

France's narrow Yes to Europe, and the partial break-up of the European currency system, have brought the European Community to a historic watershed.

Although French voters narrowly approved the Maastricht Treaty on European union (by 51.05 percent to 48.95 percent) in a national referendum on September 20, the size of the No vote confirmed what many had already concluded after Denmark said No to the Treaty in June: The E.C. will no longer be able to press blithely ahead with its current plans for union without further important concessions to an anxious public opinion.

The French vote has convinced most of Europe's leading politicians that with opposition mounting to the kind of Europe symbolized by the Treaty, the Community will have to make major changes to get the four decades-old drive to European unity back on course.

And the upheavals in the E.C.'s exchange rate mechanism—with the British pound and the Italian lira leaving the system and the Spanish peseta devaluing—have hastened the onset of a “two-speed” Europe, long dreaded by some and advocated by others, in which a hard core of economically strong countries move faster toward union than their weaker partners.

In France, both sides claimed victory.

“It was not a green light for Europe. It was a yellow light,” said Jean-Pierre Chevenement, a leading French Socialist, choosing to ignore the fact that most French drivers treat yellow lights exactly the same as green ones.

Chevenement, who is on the left of the governing Socialist Party, had campaigned for a No. Like most other Treaty opponents, he naturally interpreted the near-defeat of the Yes forces as a moral triumph for his own cause.

The Treaty's advocates fought hard to try to

counter the suggestion that they had not really won.

First, they said, the exact margin of victory was far less important than the fact that the Yes forces had prevailed. France could go ahead and ratify the Treaty and resume its rightful place in the vanguard of the drive for European economic and political integration.

Secondly, they pointed out, many of the No voters had not been opposing the Treaty so much as protesting against current economic and political conditions inside France.

Maps breaking down the results showed clearly that the No vote was often strongest in areas where unemployment is highest. The No vote was also swollen by discontent with President François Mitterrand after 11 years in power, dislike for his Socialist government, misconceptions about the Treaty's contents, and a general mood of national grumpiness.

“The Yes vote would have been much bigger if you take domestic politics out of it,” said former French President Valéry Giscard d'Estaing, leader of the center-right and a dedicated advocate of European Union.

With three million unemployed and most of the country's farmers facing grave economic hardship, “This was not a No to Europe, but a cry for help,” said Pierre Mehaignerie, a leading centrist politician.

But as the impact of the size of the No vote sank in, it was hard for even the Treaty's most enthusiastic supporters to pretend that E.C. business could now resume as normal.

The French outcome was “so close that Europe and European cooperation will never be the same again,” said Uffe Ellemann-Jensen, the Danish foreign minister and a strong supporter of the Maastricht Treaty.

The first reaction of many E.C. traditionalists was

FRENCH VOTE YES ON MAASTRICHT CONTINUED

to deplore the dramatic turn of events. But other advocates of a united Europe believe that the Community will ultimately emerge stronger from the crisis that has now erupted.

They argue that a united Europe will over the long term be unstable if it is not built on a foundation of solid popular support.

There's widespread backing for the E.C. itself and the planned European single market, neither of which were at issue in the French vote. Most of the single market provisions will go into force as planned at the end of this year.

But it's clear that the democratic foundations are currently inadequate for the more complex and far-reaching plans for union contained in the Maastricht Treaty. Many Europeans believe their leaders tried to push ahead too fast with the construction of the European edifice, before the next planned building block, the single market, was even in place.

If the leaders now try to take these misgivings into account, the final goal of union may have to be delayed—at least for some member states. But the end result could prove to be more durable.

What has clearly happened is that many of Europe's politicians have got out ahead of large sectors of public opinion in their zeal to bind the E.C. together in the aftermath of the end of the cold war.

The three principal architects of Maastricht—French President François Mitterrand, German Chancellor Helmut Kohl, and E.C. Commission President Jacques Delors—had obvious reasons for pushing ahead.

They wanted to ensure that a united Germany be firmly anchored in the E.C. and that the Community be strengthened before opening its doors to a flood of new members from Northern, Central, and Eastern Europe. They wanted to capitalize on the political momentum generated by the move to the single market at the end of this year and the West's cold war "victory."

But a number of things have gone wrong.

Without a menacing Soviet superpower to their immediate East, the people of Western Europe feel much less need to huddle together for security.

The E.C.'s powerlessness to stop the horrifying bloodshed in Yugoslavia has deeply shocked West European public opinion and heightened cynicism about the likely effectiveness of a united Europe.

And the unexpectedly steep cost of German reunification has caused dismay throughout the Community as high German interest rates have contributed to recession and unemployment in neighboring countries.

Economic and political integration in Western Europe has always been easiest in times of prosperity, when people can more easily see its benefits—and are less likely to lose their jobs. Now most of Western Europe is stuck with stagnating economies, high unemployment, and little hope of early recovery. Many people are worried about floods of immigrants from Eastern Europe and the Mediterranean.

There is a strong tendency to want to put national interests first: if you listen to café talk and radio call-in shows, you will hear countless people calling for the use of national resources to solve national problems first.

Many people say they feel that decisions on the future of Europe are being taken by elite groups—the political classes in national capitals, the technocrats in Brussels—without taking their interests into account.

Those feelings are not just limited to France, or to Denmark, which along with Ireland, are so far the only countries to hold referendums on the Maastricht Treaty. Ireland voted comfortably in favor.

The French referendum campaign was closely followed in every other E.C. country and it quickly became apparent that the fears and anxieties of the French No voters are widely echoed in other E.C. countries.

In the U.K. in particular it was considered ironic, and unjust, the French voters should be given what looked like a final say over the future of Europe.

British polls showed over 81 percent of the population now want a British referendum, which the government opposes, with the likely outcome a two to one victory for the Nos.

In Germany, a survey showed voters marginally in favor of Maastricht, with 46 percent for and 41 percent against. But 70 percent said they opposed the replacement of the Deutschemark by a common European currency, the ecu, which the Treaty calls for by the end of the century.

The Europe-wide debate over the future of Europe, which has never really taken place since the E.C.'s founding Treaty of Rome was negotiated in the mid-1950s, is finally under way.

For years in the aftermath of World War II, and with Warsaw Pact tanks poised in offensive formations on the German border, majority opinion—at least on the Continent—never questioned the desirability of progress toward a more united Europe.

Now, many Europeans have woken up to the practical implications. They suddenly see, for example, that a common currency means the end of the Deutschemark, abolishing borders may mean more immigrants, and decisions taken in Brussels cannot so easily be influenced by demonstrations on the streets of Paris.

Many of the general public's conceptions of the Maastricht Treaty are misguided. In France, farmers opposed the Treaty even though it has nothing to do with their woes. Anti-immigration activists opposed it, though the dismantling of border controls is the result of a completely different intergovernmental agreement, the Schengen accord, which was ratified by the French Parliament last year.

Other opponents argued that the Treaty would increase the power of Brussels bureaucrats, although the Treaty tries to nudge the Community in the opposite direction. One of the most important ideas behind Maastricht is to devolve as many decisions as possible away from Brussels

to the national and local level and to increase the powers of the European Parliament in Strasbourg and national parliaments too.

French surveys showed that rich, young, and well-educated people were more likely to support the Treaty, the poor, the old, and the less well-educated were more likely to oppose it. After the vote Bernard Kouchner, the influential Minister of Health and Humanitarian Affairs, said the Yes vote was a victory of "modern" people over "old-fashioned" people.

None of these considerations, however, alter the fact that Maastricht is out of tune with a large body of European opinion that can no longer be ignored.

The Treaty almost certainly represents the last gasp of the way in which the Community has ordered its affairs since its birth in the 1950s, with small groups of national and E.C. officials taking decisions in Brussels.

E.C. governments are still resisting demands that the Treaty be renegotiated to take account of popular objections. That, they say, would open a Pandora's box, risking the unraveling of the whole process of further integration.

But suggestions are already widely surfacing for interpretative protocols or declarations to be added to reassure people that their lives are not going to be ruled by faceless Eurocrats.

In the aftermath of the French vote supporters of closer union, including Mr. Delors and Mr. Kohl, are rallying to the need to pay much greater attention in future to public opinion and to respect national and regional cultures and identities.

Most people believe the Commission will have to refurbish its image—perhaps by ceding some authority to national governments and making its procedures more transparent.

But the Commission is often wrongly blamed by public opinion for the faults of national governments. And there is likely to be increasing pressure for the closed decision-making processes of the Council of Ministers also to be opened up to public inspection.

Ideas for making the E.C. more responsive to its citizens' needs are likely to be discussed at the special meeting called by the U.K., currently the E.C. President, for London in mid-October.

That meeting will also have to start examining how the Twelve will deal with the problems created by Denmark's No to Maastricht, which prevents the Treaty being implemented in its present form.

But the London summit may also see the continuing emergence of the two-speed Europe, in which a group of countries led by Germany forge ahead to closer union by themselves.

The German-led "hard core" would also probably include Belgium, the Netherlands, Luxembourg, and most likely France.

The U.K., Italy, and Spain might be the leading countries in the second division.

Characteristically, the first major diplomatic initiative to

pick up the pieces after the French vote was a hastily arranged summit meeting between Mr. Mitterrand and Mr. Kohl in Paris. Both countries are determined that their partnership must continue to provide the E.C.'s driving force.

If the E.C. is to keep moving forward, and avert an even more serious crisis, it is essential that they succeed.

—Reginald Dale is the economic and finance editor of the *International Herald Tribune* and a contributing editor to **EUROPE**.

MAASTRICHT UPDATE

COUNTRY BY COUNTRY STATUS OF THE MAASTRICHT TREATY

BELGIUM—Treaty was ratified by an overwhelming majority in the lower chamber of Parliament. Senate (upper chamber) is expected to approve.

UNITED KINGDOM—Prime Minister John Major has said that the Treaty will not be presented to Parliament until the question regarding the Danish vote and the question of the principle of subsidiarity are resolved.

SPAIN—Parliament is expected to approve it before the end of this year.

NETHERLANDS—Treaty's date of approval in the parliament will be set after the special E.C. summit on Oct. 16.

LUXEMBOURG—Treaty has been ratified by Parliament.

GREECE—Treaty has been ratified by Parliament.

IRELAND—Treaty was approved in a popular referendum. Parliament's formal approval is expected before the end of the year.

DENMARK—Treaty was voted down in a popular referendum. Another referendum is expected in the first half of 1993.

FRANCE—Treaty approved in a popular referendum.

GERMANY—Approval by both the Bundestag and Bundesrat is expected by the end of the year.

ITALY—Treaty was approved by the Senate. Chamber of Deputies is expected to give approval by the end of the year.

PORTUGAL—Constitutional revision to accommodate the Treaty is expected to take place in Oct. Parliament's ratification is expected by the end of this year.

BUSINESS BRIEFS

Internationale Nederlanden Group, ING, the Dutch banking and insurance company, plans to make a friendly bid for **Banque Bruxelles Lambert, BBL**, Belgium's second largest bank.

The bid, valuing BBL at around \$2 billion, would enable ING to spread its insurance operations beyond the small Dutch market and strengthen its defenses in the single European insurance market to be launched in 1993.

ING, which will seek shareholder approval for its move in mid-October, views BBL as a perfect vehicle to introduce "bancassurance," the integration of banking and insurance services in one company that has been pioneered in Germany and France.

This strategy underpinned the creation of ING from the early 1991 merger of **Nationale Nederlanden**, the largest Dutch insurer, with **NMB Postbank**, the Netherlands' third largest bank.

...

Daimler-Benz and **Lurgi** of Germany have joined forces with ATRA, a Russian weapons firm, to recycle millions of tons of munitions from the former Soviet Union.

Their joint venture, **Artest**, will recycle 1.6 million tons of munitions and military waste from sites all over Russia at a cost of some \$3,500 a ton.

...

Lufthansa's decision to bid \$400 million for **Continental Airlines**, the bankrupt U.S. airline, hotted up the air war between European and American carriers on the eve of the E.C.'s "open skies" regime in 1993.

Lufthansa's bid, in alliance with Marvin Davis, the Los Angeles-based financier, marked an eleventh hour response to **British Airways'** plan to invest \$750 million for a 44 percent equity stake in **USAir**, the fifth largest U.S. airline.

Meanwhile, **KLM Royal Dutch Airlines**, which failed to merge with BA earlier this year, is seeking to deepen its cooperation with **Northwest Airlines**, the fourth largest U.S. carrier in which it has a 10 percent voting stake.

The two airlines are aiming for common scheduling and planning, revenue-sharing and integration of their sales forces.

...

Daimler-Benz, Germany's giant industrial conglomerate, is muscling into key sectors of the Dutch economy.

Its car and truck subsidiary, **Mercedes-Benz**, is seeking a strategic alliance with **DAF**, the troubled Dutch truck manufacturer, which could lead to the acquisition of a 30 percent stake.

Daimler-Benz's courtship of DAF comes just months after its aerospace subsidiary, **Deutsche Aerospace**, struck a deal to take majority control of **Fokker**, the Dutch aircraft manufacturer.

...

Four leading European construction firms have joined forces to bid for big ticket infrastructure contracts in the E.C.'s single market.

GTM-Entrepose of France, **Strabag Bau** of Germany, the U.K.'s **John Laing**, and **NCC** of Sweden, with combined annual sales of \$12 billion and a 90,000 strong payroll, have formed a Brussels-based joint venture, **Societe Europeenne de Construction**.

The companies have pooled their resources because they can't take on the huge multi-billion dollar road and rail projects planned in Europe during the present decade.

...

France wants **Renault**, its state-owned car maker, to strengthen its two-year-old alliance with Sweden's **Volvo AB**.

Industry minister Dominique Strauss-Kahn urged the pair to deepen their cooperation but said there are no imminent plans to merge the auto makers.

The two companies have been mulling a merger as one of several options to bolster their 1990 agreement which gave Renault an 8.24 percent stake in Volvo's parent group and the Swedish company a 20 percent stake in Renault with an option to buy another five percent.

Renault boosted its pre-tax tax profit five fold to \$1.06 billion in the first half of 1992 while Volvo sunk to a loss of \$18.7 million from a Swedish kronor 1.16 billion profit in the first six months of 1991.

...

Spain hooked a \$1 billion plus investment by **Ford**, the U.S. car maker, allaying fears it is losing out to Eastern Europe in the battle to attract foreign firms.

Ford has chosen Valencia as the site for a new plant to build a new small engine range for the mid-1990s to replace the current engine also produced in the Mediterranean city.

The plant, which will have a capacity to build 550,000 engines a year, is expected to start production in mid-1995

and build up to full capacity by 1997.

...

The U.K.'s **Reed International** and **Elsevier** of the Netherlands are merging on January 1 to create a global \$4.5 billion-a-year publishing and information giant.

The new company, **Reed Elsevier**, intends to use its new strength to pursue acquisitions in continental Europe and the United States.

Elsevier is a world market leader in English language science publications and Reed is a major force in business and consumer magazines.

The deal wraps up Elsevier's decade-long search for a strategic merger. Its hostile takeover bid for Dutch publisher **Kluwer NV** floundered and a planned merger in 1988 with **Pearson PLC** of the U.K., publisher of the *Financial Times*, also flopped with the two companies selling their respective cross-shareholdings.

Reed Elsevier will be the world's fourth largest publishing group after **Time Warner** and **Dun and Bradstreet** of the U.S. and **Bartelsmann AG**, the privately-held German firm.

...

Michelin, the world's biggest tire maker, has moved out of the sick ward, turning in a first half 1992 net profit of \$165 million against a loss of \$212 million in the year earlier period.

New board chairman Edouard Michelin, 28-year-old son of former chairman Francois, takes much of the credit for overseeing a savage restructuring program involving plant closures and large layoffs and the integration of its acquisition of **Uniroyal Goodrich** of the U.S.

The downturn in the European car market has benefited Michelin with the replacement tire business, which accounts for two thirds of sales, surging as drivers defer buying new models. More stringent minimum tread-depth laws introduced in several European countries have also boosted sales.

—Bruce Barnard is a contributing editor to **EUROPE** and the Brussels correspondent for *The Journal of Commerce*.

INSIDE EUROPE

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great British chip shop is slowly losing market share. The appetite for fish and chips has not diminished—people are simply eating more foreign delicacies—and traditional chip shops still have a 25 percent share of the \$1.2 billion fast-food market.

But there is no doubt that the chipper has been severely affected by the arrival of the fast-food chains. There were 30,000 fish and chip shops in the U.K. at the time of World War I. This number had dwindled to 20,000 by the 1950s and today there are no more than 10,000 chippies throughout the nation.

“We want to drag fish and chips into the 1990s,” says Jonathan Hick, marketing manager of the Hudson Bay Clipper Company, which plans to build drive through diners. “Its traditional image is terrible. We want to make the environment clean, modern, and fun.”

Customers will not eat mere fish and chips, he said, but “deep-fried fish and fries. Calling them fries gets away from the connotations of the corner chip shop with large ugly ladies serving greasy portions of chips.”

No one knows when battered cod with chips was first developed, but fried potatoes were sold on the streets of northern England in the 1780s. Dickens mentioned fried fish warehouses in *Oliver Twist* and an 1861 survey found 300 people selling fried fish on the streets of London.

“More is known about the pyramids of Egypt, than who first put together fried fish and chips,” according to Alan Robinson who organized an exhibition on the subject in Scotland this summer. Whatever the truth, fish and chips were selling well by the late 19th century. It was the first convenience food for the working class.

“Although the trade has been criticized for not responding to modern trends—in some places, for instance, all chippies still shut on the same day—a new breed of frier is emerging, more enterprising and adaptable,” Robinson comments, and adding that the main problem is that the fish fryers cannot match the advertising muscle of the big hamburger sellers.

One long standing complaint against the traditional fish and chip meal is the greasy nature of the fare. Modern health concerns led many to abandon this food altogether. But Arthur Par-



Traditional chip shops still have a 25 percent share of the \$1.2 billion fast-food market. But there is little doubt that the traditional chipper must change in order to keep up with the fast-food chains.

ington of the National Federation of Fish Fryers, says fish and chips fried at not less than 380 degrees Fahrenheit retain little fat.

The international symbol of British cuisine—fish and chips wrapped in paper—may never be the same again. There is increasing pressure to reduce the environmental pollution caused by its discarded packaging. This is where the edible chip wrapper comes in.

The new cone-shaped container is made from powdered potato, wheat flour, vegetable oil, and salt. A secret coating on the inside makes it impervious to vinegar and sauces. It is biodegradable and even tastes like a chip so it can be eaten itself after its contents have been consumed.

At Birmingham’s Jolly Fryer fish and chip shop customers gave the cone a mixed reception. Some claimed it tasted like “salted paper,” while others said that they “wouldn’t eat it” but their “dog might.”

Seems like there are lots of ways of preserving tradition, if you get your marketing and packaging right.

—David Lennon

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LOOKING FOR ECONOMIC ANSWERS

The rise and rise in unemployment while the rest of the economy performs well has been prompting commentators to describe Ireland as "one of the most successful unemployed economies in the world" and "the country where the economy works but the people do not."

With unemployment about to reach a record 22 percent of the labor force, it is estimated that 300,000 people are out of work, a frightening number for a country with a population of just over three million. Even more frightening is the realization that neither the government nor the experts seem to know what to do about it.

A report commissioned by the state jobs training agency now estimates that there is little prospect of unemployment figures declining before the end of the decade and that they could reach 500,000 unless a quarter of a million people decide to emigrate. Church leaders have now joined in the demands that drastic action must be taken if serious social unrest is to be avoided.

For the new Taoiseach (Prime Minister), Albert Reynolds, it is dismaying to be in charge while unemployment lines reach a size never known in the history of the country. One of his predecessors, Jack Lynch, said back in 1979 that if unemployment reached 100,000 he would feel obliged to resign. Today it is three times that figure, but nobody is resigning. Reynolds and his ministers point to circumstances outside their control: the deepening recession in the nearby United Kingdom; the high interest rates in Germany; the sluggishness of the U.S. economy; and decisions by multinationals such as Wang and A.T. Cross to cut back on their Irish operations. The traditional "safety valve" of emigration of surplus labor to the U.K. and the U.S. has virtually dried up, while the high but now declining Irish birth rate results in large numbers of school-leavers entering the job market each summer and fall.

The call by Reynolds for a "consensus" approach to what he calls the "biggest unsolved problem facing Ireland today" involves the cooperation of government, opposition politicians,

labor unions, employers, and farm organizations, but so far it has had no effect. The government admits it has "no magic wand" for a speedy solution but points to the good shape of the economy in other areas and how it is poised for take-off once the international recession eases.

It is a fact that the Irish economy has been performing impressively in regards to annual growth, balance of payments, keeping inflation down, and maintaining a stable currency. But it is also pointed out that when it comes to both job creation and unemployment, "Ireland is the worst in the world."

This criticism is based on the record of the 24 industrialized countries in the Organization for Economic Cooperation and Development (OECD). In this league table, Ireland has now replaced Spain with the highest rate of unemployment. The country's job creation record is also depressing. Of the OECD countries, Ireland alone registered a net decline in jobs during the 1980s. Although there was a good recovery in 1990, the trend is again toward negative growth.

Critics do not accept the government's excuse of unfavorable international conditions to explain the jobs crisis. They argue that much can be done to improve employment prospects through internal reforms in taxation, industrial policy, and training. But no one is now calling for the kind of expansion in the public sector which created thousands of new jobs in the late 1970s but then plunged the state's finances into crippling debt.

—Joe Carroll

AMSTERDAM

AMSTERDAM DISCUSSES AIDS

This summer 12,000 AIDS specialists, journalists from 149 countries, and actress Elizabeth Taylor gathered in Amsterdam to discuss ways to fight the disease and the social stigmas that it carries.

The eighth Congress on AIDS emphasized that the search for a cure and vaccine for HIV (Human Immunodeficiency Virus) is a race against the clock and that the fight against the social stigmas surrounding AIDS are a struggle against ignorance.

It has become increasingly clear

throughout the medical community that educating people about how to protect themselves from getting the virus is still the most important means of reducing the spread of AIDS.

The Congress emphasized that a unified attack on the disease must begin with a worldwide education initiative. The effects of poor understanding of the disease are especially evident in many of the developing countries of Africa and Asia, where the number of reported AIDS cases is skyrocketing along with the rate of infants born with the disease. Additionally, these countries often do not have the resources to provide medical care for patients who test positive for the virus.

A number of AIDS activist groups were represented at the Congress. Many protested discrimination of people with AIDS, calling on the U.S. government to repeal immigration laws barring people with AIDS from entering the United States.

Elizabeth Taylor, chairman of the American Foundation For AIDS Research, severely criticized the U.S. "arrogance" to impose immigration restrictions on free travel and immigration of HIV persons.

—Nel Slis

LISBON

CELEBRATING VASCO DA GAMA

The world celebration of the 500th anniversary of Christopher Columbus's discovery of America has largely overshadowed the contributions of Portugal to the exploration of the world. In the late 15th century Spain was a distant second in naval power to Portugal. It was only after rejection from Portugal's King John II that Columbus had to turn to King Ferdinand and Queen Isabella for support. In a further sign of Portuguese dominance, the Pinta, Nina, and Santa Maria were all ships of Portuguese design.

While the journey of Columbus was undoubtedly one of the boldest seafaring adventures ever undertaken, Vasco da Gama's expedition to India (1498-1500) is considered by many to be the greatest sailing accomplishment of all time. In many ways, da Gama's voyage had an equal, and maybe even greater effect on the course of Western history.

While Columbus sailed in a fair wind

due westward for 36 days, 26,000 miles from the Canaries to the Bahamas; da Gama navigated a circular route through the South Atlantic, facing treacherous winds and opposite currents before making landfall in South Africa, 93 days and 37,000 miles after his departure. This was only the half way point, as then he had to skirt up the previously unknown east coast of Africa, and then depart on a final 23 day voyage across the Arabian Sea to reach India.

While Columbus' great discovery was more or less an accident, da Gama's reaching India was the crowning achievement of more than a century of Portuguese navigation down the African coast.

The true significance of Columbus' discovery would not be realized for decades, while in a few dramatic years the path that da Gama pioneered would become the principal trading route to the Orient, breaking the Venetian and Ottoman monopoly on trade with the East. Da Gama was hailed as a national hero upon his return to Lisbon in 1500 and was sent back to India as the Portuguese Viceroy.

Portugal, proud of its seafaring past, will host the international exposition in 1998 in Lisbon entitled "Expo 98 Lisboa." The event will be the last international exposition this century and will commemorate the 500th anniversary of da Gama's epic voyage to India.

—Charles Webb

ATHENS

GREECE RATIFIES MAASTRICHT

This summer the Greek Parliament ratified the Maastricht Treaty on economic and political union by an overwhelming majority—286 to 8 (seven hardline Communist Party deputies and one ecologist deputy were the dissenters).

Despite ratification, Greeks still have a long road ahead. The government will have to reduce inflation, public debt, and its budget deficit in order to meet the criteria of the Economic and Monetary Union (EMU), as spelled out by the Maastricht Treaty.

In order to prepare Greece for full participation in EMU, the government led by Constatine Mitsotakis has proposed a three-pronged approach to cut

the public debt and the budget deficit. The first two parts of the government's plan involve privatizing unprofitable, publicly-owned companies and increasing taxes. The third part of the plan is a government-sponsored bill that would decrease the government's contribution to individual pension and medical insurance funds. The measure is scheduled to be debated in the Greek Parliament later this fall.

Needless to say, the announcement of the plan was met by heated opposition. A wave of strikes has swept the country. Many industries and services have been affected, including banks and the postal service. Even the electric company has instituted temporary blackouts.

What is amazing, however, is the political climate that even allowed Maastricht to be ratified without a fight. The climate this summer was very different than that which prevailed when Greece ratified the Accession Treaty to join the E.C. in 1979. Then the opposition parties argued vehemently against the Ac-

cession and walked out of the discussion in the Greek Parliament before it was finally passed. More than ten years later the same parties, with the exception of the hardline Communist Party, supported the ratification of Maastricht without much debate.

This strange harmony within the political community in the face of much public disapproval stems from the broadly held belief in Greece that the country has benefited enormously from the money it has been receiving from the European Community. Additionally, the political parties seem to recognize that the painful economic measures are in fact necessary for future economic stability and growth, regardless of Maastricht.

Also, many politicians worry that Greece has become politically isolated and hope that full participation in the European Union will reestablish the country's political posture and give Greece an opportunity to raise its national considerations within the forum of its European partners.

—Vlassia Vassikeri.

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ARTS & LEISURE

WRITER'S CORNER

With the following piece on Jeffrey Archer, *EUROPE* begins a new series of profiles of well-known U.S. and European writers.

Jeffrey Archer

While Jeffrey Archer may be best known in the United States for his best-selling novels—*Kane and Abel*, *The Prodigal Daughter*, and most recently, *As the Crow Flies*—his reputation in his native England stems from his ability to star in, rather than coin headlines.

The tenacious author has rebounded from several serious career blows to find enormous commercial success through his writing and newfound political stature after his recent appointment to the House of Lords.

The 52-year-old Archer first came to prominence in 1969, as the youngest person ever elected to the House of Commons. Archer was labelled a real comer until a bad investment pushed him to the brink of bankruptcy and forced him to forgo his Parliamentary seat.

Archer was not down and out for long. He began writing novels as a way to recoup his losses. Archer's first novel, *Not a Penny More Not a Penny Less*, detailed a scheme concocted by three men to extract money lost through an investment scam and was a moderate commercial success. His third attempt, *Kane and Abel*, shot to the top of best-seller lists across the world.

But even after international prominence as a novel-



Before he began his writing career, Jeffrey Archer was the youngest person ever elected to the House of Commons.

ist, Archer's true love remains politics. "It's damn hard work writing," he told *EUROPE* in a recent interview. "I don't find actual enjoyment in the actual physical process... [There is] great pleasure in having the book, watching it sell millions of copies, talking to people about what it felt like. That's tremendous fun."

Archer rejoined the political arena in an official capacity in 1985, when he was appointed deputy chairman of the Conservative Party by then-Prime Minister Margaret Thatcher. Recently, Archer played a large role in John Major's re-election to 10 Downing Street in April. "During the election campaign I went on working around the country for the Prime Minister... I had the privilege of being on his private staff and working with him every day," Archer said. The work did not go unnoticed by the Prime Minister, who rewarded Archer with an

appointment to the House of Lords, the un-elected upper chamber of the U.K. Parliament. The reinstatement to a legislative role silenced political pundits, most of whom wrote Archer off after several career setbacks.

Archer has been able to maintain his close links with both past and present Conservative Party leaders, despite the deterioration of relations between the two amidst disagreements over the role of the U.K. in an integrated Europe. "I believe that [Major and Thatcher] know I love them both... I don't drop my friends because one is going out with a redhead and the other's going out with a blonde, and I like blonde's myself," he declared.

Nonetheless, Archer is pro-Maastricht, calling the accord that Major struck last December "a very clever" treaty and voicing his support for "strong economic unity" and free trade between the 12 Community nations. "I'm a

great believer in us all working together," he declared.

But he is far from a federalist, and adamantly protested E.C.-wide law making. "When it comes to legislation... I don't believe I want any Frenchman or German telling me what to do. I don't want them telling us where we'll have by-passes or motor ways. Thank you very much we can decide that for ourselves," he declared.

Archer does not think that plans to place the U.K. at the center of a united Europe have hindered the special U.K.-American relationship, which he says derives strength from the affection between leaders past and present—"it's human beings," Archer stressed. "Mrs. Thatcher had a terrific relationship with Ronald Reagan... John Major definitely has that same relationship with George Bush. They're very, very close."

In fact, Bush's respect for Major has grown now that he is down in the polls. Major faced a similar situation last April, albeit Major trailed his opponent by a smaller margin, and emerged victorious. "George Bush has immense respect for John Major," Archer said. "He went out there in odds as hard as George Bush is facing himself and won an election against the odds."

In fact, the special U.S.-U.K. relationship extends to the author himself, who visits the States several times a year and has enrolled his son at Georgetown University in Washington, D.C. Archer's current work in progress will be set in America—the only detail the author would reveal

of the coming work, slated for release in October 1993.

Archer's current best-seller, *As the Crow Flies*, is set in the U.K., however, and details the development of London's first department store by a most unlikely businessman called Charlie Trumper. Trumper's rise from a poor neighborhood in working class east London, was hindered by an array of setbacks, including flirtations with bankruptcy and personal scandal. But Trumper persevered and built a personal fortune by friendships with political leaders and royalty alike. Not unlike Archer himself.

—Laurie Laird

ART

The Great Age of Sail Comes to America

The Great Age of Sail: Treasures from the National Maritime Museum in Greenwich, England provides a glimpse of the majestic age of the great ships and the men who sailed them. Currently on display in the United States for the first time, this exhibit includes eighty major paintings and twenty nautical objects spanning the 16th through the late 19th centuries.

The star of the exhibit is undoubtedly Joseph M.W. Turner's *The Battle of Trafalgar*, commissioned by George IV in 1823. The exhibit also includes a navigational dial used by Sir Francis Drake in the 1570s, Queen Elizabeth I's astrolabe, dated 1555, and an early 19th century pearwood bust of Galileo.

The exhibit was organized by the San Diego Museum of Art and the National Maritime Museum in Greenwich, England and is only stopping in three U.S. cities. Currently in San Diego until October 11, 1992, it moves to the Chrysler Museum in Norfolk, Virginia from November through January, 1993 and closes its U.S. tour at the Peabody Museum of Salem,

Massachusetts on June 2.

—Daniel P. Galo

BOOKS

Admiral of the Ocean Sea. By Samuel Eliot Morison. *Atlantic Monthly*. 706 pages. \$29.95.

Samuel Eliot Morison's readable *Admiral of the Ocean Sea*, published 50 years ago, has never been supplanted as the definitive Columbus biography. Morison, an experienced mariner himself, sailed most of the waters traversed by Columbus during his four voyages to the Americas.

While Morison's work attempts to be comprehensive, his emphasis is on Columbus, the sailor and the navigator. The choice is fortunate. As a nautical man, Columbus'

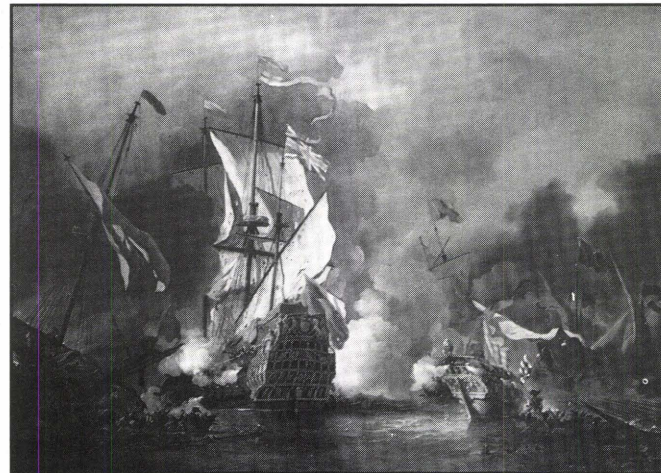
the medieval world he helped to bring to an end, than a forerunner of the empirical world he helped to create.

Morison's narrative is aided considerably by the large numbers of accurate maps he has provided depicting Columbus' travels. Those who want to learn the real story behind "Columbus sailing the ocean blue" should consider reading *Admiral of the Ocean Sea* in this appropriate year.

—William Utermohlen

Columbus. By Felipe Fernández-Armesto. *Oxford University Press*. 194 pages. \$10.95.

"In 1492, Columbus sailed the ocean blue," was a line from a poem I learned in grade school that has stayed in my mind to this day. If the truth



Joseph M.W. Turner's *The Battle of Trafalgar* was commissioned by George IV in 1823.

story is one of great talents and vision combined with unsurpassed achievement. His efforts as founder of the New World's first colony, however, produced the unhappy results—especially for the native population—that might have been expected from an enterprise motivated almost entirely by the desire to obtain large quantities of gold.

A focus on the tangible realm of the sea also allows us to come closest to understanding Columbus, whose perspective in other respects is much more a product of

be known, this is probably all I really knew about Christopher Columbus until I read the excellent book *Columbus* by Felipe Fernández-Armesto.

If you want to get a satisfactory overview of Columbus on the 500th anniversary of his voyage to the New World this book should be at the top of your list.

The author makes Christopher Columbus come alive in a real sense. He doesn't pay attention to myths and speculation. He looks at the facts and puts Columbus into the context of his times.

Amid all the controversy about Columbus it is refreshing to read a straightforward account of the man. Columbus was an ambitious explorer. He may have been one of our first successful lobbyists. Columbus, like any lobbyist, tried to sell his idea to various people. Luckily, for him, he found a receptive audience with King Ferdinand and Queen Isabella.

As the author points out Columbus' credentials as an explorer go beyond his role in finding the New World. His other accomplishments include the "decoding of the Atlantic wind system; his discovery of magnetic variation in the Western Hemisphere; his contributions to the mapping of the Atlantic and the New World; his epic crossings of the Caribbean; his demonstration of the continental nature of parts of South and Central America; his aperçu about the imperfect sphericity of the globe; and his uncanny intuitive skill in navigation."

And as Fernández-Armesto points out, "Any of these would qualify an explorer for enduring fame; together they constitute an unequalled record of achievement."

Columbus, obviously, did not find his trade route to Asia and was a terrible administrator of his new colony in the Caribbean. His religious experiences were unconventional and his treatment of the Native Americans he came into contact with is open to debate on all sides.

Armesto correctly points out that "Columbus was the first in a continuous tradition of transatlantic navigation, which has continued to our time; he is therefore our discoverer of America."

And as the "discoverer of America" Columbus is well worth knowing more about, and *Columbus* provides the reader with this knowledge of a brave explorer, warts and all.

—Robert J. Guttman

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Where's the beef?

Foreign corporations undergoing expansion in Europe face truly difficult decisions.

If you want a choice slice of Europe, where will you start looking?

Do you wish to focus more on marketing or on manufacturing?

Do you lean towards acquisition or on building up your own organization? But perhaps the most important question is where to set up operations in Europe.

The EC's Single Market is about to become reality, and a treaty was recently signed with the EFTA countries establishing the European Economic Area (EEA) that will unite all of Western Europe – a unified market with 377 million consumers. Moreover, the new democracies of Central and Eastern Europe are busily attracting private investment.

Europe is in a state of flux. It is clearly the right time to establish

a market foothold – to stake out your claim to a choice slice of the market. Many attractive official promotional programs have been set up to encourage foreign investment. There are also a number of local companies that might be attractive partners or potential acquisition targets.

The problem is to objectively assess all the opportunities in order to determine the best fit for your company.



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consulting support, you can rely on the services of our two management consulting subsidiaries:

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DOWC Ost-West Consult GmbH, which specializes in channeling private investment into Eastern European privatization projects, provides a wide range of services, including everything from feasibility studies to the formulation of

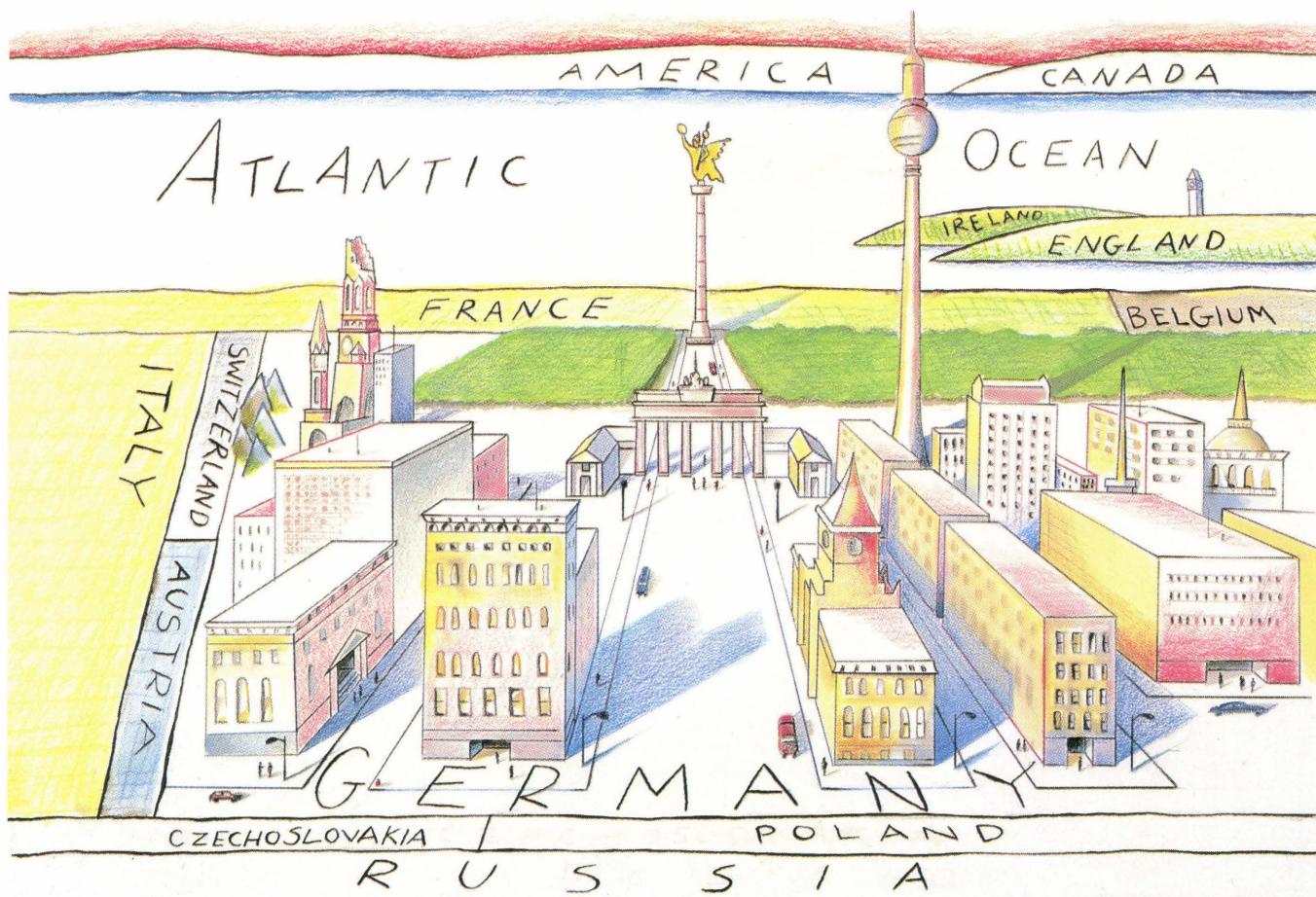
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INSIGHT/Peter Yuill

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