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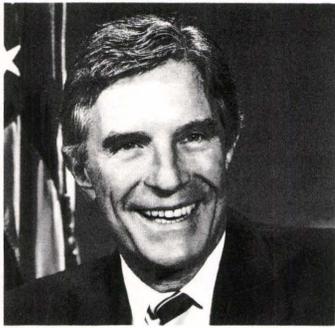


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# EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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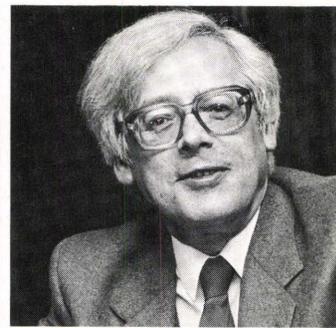
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# PUBLISHER'S LETTER

**E**conomically speaking, 1989 has begun well for the Community. In its 1989-90 economic forecast, the Commission was pleased to note that economic growth had grown considerably, that investment was up—largely due to rising expectations within the business community about 1992—and that unemployment had dropped quite respectably. These statistics prove that Community-level action in a number of areas has begun to bear fruit, and that the E.C. is on the right track with its 1992 project.

Coupled with this, the European Monetary System, which this year celebrates its 10th anniversary, has been successful in stabilizing the movements of the E.C.'s currencies and in raising the visibility of the European Currency Unit. For those of us who still wonder what a European Currency Unit is, Ralph Mehnert gives an invaluable step-by-step guide to this strange and rather abstract form of money, which, although widely used in bank transactions, is not available in the form of coins or bank notes.

"Corporate shopping" has become an increasingly important phenomenon on the international business scene in recent years. John Lichfield, the Washington correspondent for London's *Independent* newspaper, writes about the growing number of trans-Atlantic company takeovers and mergers, emphasizing the impact Europeans have had on the American market place in recent years—and the gradual reversal of that situation. Americans, who for years showed little interest in the European corporate market, are now lured by the opportunities and the dynamism of "1992," and have begun to eye the European continent more keenly.

In technology, Europe is beginning to catch up with the United States and Japan. Elizabeth de Bony reports on E.C. efforts under way to develop Europe-wide standards for future generations of products and to liberalize Europe's telecommunications markets, which have, until now, been firmly within the grasp of the national telecommunications administrations.

Europe's technological progress is also evident in another area, namely developing a standard for the new generation of high-definition television viewing. In this month's "Industry Report" on television, Gérard de Selys and Anne Maeschalk point out that this project coincides with the E.C.'s aim to create a European broadcasting area to promote, finance and distribute European programs in order to become more self-sufficient and less dependent on the many U.S. and Japanese productions currently flooding Europe's television screens via satellite broadcasts. Jean Dondelinger, E.C. Commissioner responsible for information, communication and culture, called the E.C. agreement to a package on common standards for broadcasting in March "a very important step toward the creation of a genuine European broadcasting area."

Our Member State Report features Italy. Niccolò d'Aquino of *Il Mondo* writes about the spectacular economic growth that country has witnessed over the past few years, which has helped it to become an increasingly attractive international business partner. And one of Italy's foremost businessmen, Carlo De Benedetti, chief executive officer of Olivetti, gives his thoughts on the necessity of "1992" for both Italy and Europe, which, he says, both need in order to overcome their economic weaknesses and enter the 21st century.



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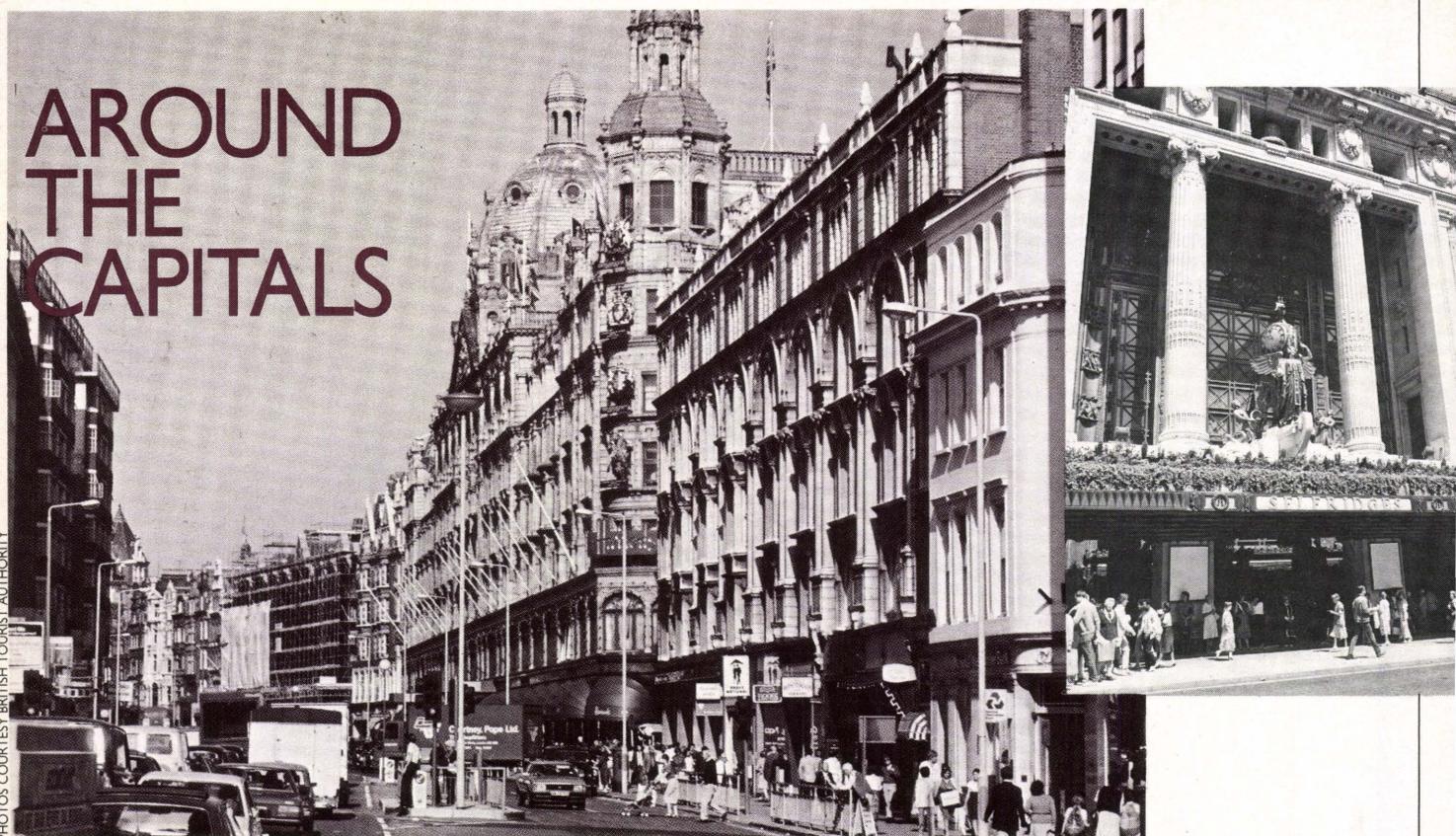
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# AROUND THE CAPITALS

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E.C. law may require Britain to relax its Sunday store opening hours. Left: Harrods; Right: Selfridges

## LONDON

### Sabbatical Tug O'War

In the cities of Britain, only shops selling newspapers and certain types of goods can open on Sunday, thanks to an alliance of churches, small shopkeepers and trade unions that, for a variety of reasons, want to keep holy the Sabbath.

The law presently forbids the opening of supermarkets or department stores on Sunday and, if one wants to buy a Bible, one is out of luck because bookstores are also locked by law. Pornographic books and magazines, on the other hand, are obtainable on Sunday mornings at the local newspaper shop.

The British Government, far from happy with this situation, is considering making another attempt to end the anomalies created by the 1950 Shops Act that enshrined these restrictive shop-opening practices. However, it must tread warily as, over the past four decades, more than 20 attempts to reform the law have been de-

feated by the alliance between religion and commerce. In 1987, for example, the Government, with its massive 140-seat majority in Parliament, suffered the most surprising defeat of its term by losing a vote on the reform of the Sunday trading laws. More than 70 members of Prime Minister Margaret Thatcher's Conservative Party judged it more prudent to vote against their own Government than to risk the wrath of the Sabbath-sanctity lobby.

Out-of-town stores specializing in "do-it-yourself" home improvement goods, that can range from cans of paint to complete kitchens, have taken advantage of loopholes in the law to build up a thriving Sunday business. Attempts to enforce the law and shut them down have added to the confusion. Some courts have handed out small fines for Sunday trading, others have canceled the fines on appeal.

Now the E.C. has been brought into the picture. British courts recently told some local authorities that they must wait for a decision on cases against the stores while the

European Court of Justice in Luxembourg rules on the broader issue of whether Britain's Sunday trading restrictions contravene E.C. law. Section 30 of the Treaty of Rome has been invoked to argue that, by preventing stores from selling products imported from the E.C. on Sundays, these British laws constitute a restraint on trade.

The fact that the laws are eventually going to have to be relaxed is gradually becoming accepted by all, even the group "Keep Sunday Special" (KSS), which is leading the battle against further desecration of the Sabbath. KSS knows it faces a possible sweeping away of all restrictions, or a more limited deregulation permitting shops to open for six hours.

In a bid to contain the degree of change, this coalition of churches and other vested interests has suggested that Sunday opening be permitted only for shops servicing recreation or social needs, such as providing emergency help or aid to travelers. Furthermore, KSS wants these stores to be restricted to selling items that could not have

been bought on any other day and whose purchase would not harm the character of the Sabbath.

Confused? You are not alone, and that is why the Government is considering another attempt at reform. However, it may well be that, in the end, it will be the need to honor the obligations under the Treaty of Rome that will finally force the rationalization of Britain's Sunday trading laws.—DAVID LENNON

## DUBLIN

### A Bitter Cul-De-Sac

The impasse in the political situation in Northern Ireland following the Anglo-Irish Agreement, now over three years old, seems as obdurate as ever. In spite of a flurry of movement on various fronts, sectarian murders continue to poison relationships between the already deeply divided communities.

The revelation by a British Broadcasting Corporation

## Carnival Time!

**M**ardi Gras is the day on which Belgium lifts its skirts a little and shows a side of its character that would astonish most business visitors.

Ideally one should be in Binche, about 30 miles south of Brussels, for the occasion. The streets of this ancient town teem from dawn to midnight with the prancing figures of the "Gilles," a restricted male society with jealously guarded membership, in their dazzling costumes and exotic ostrich-feathered hats, each weighing about eight pounds. A sense of high-spirited chaos mounts throughout the day, abetted by the traditional flinging of oranges and the detonation of fireworks and smoke bombs. When the crowds disperse in the small hours of Ash Wednesday, many of the Gilles start to mentally plan for the following year's carnival.

For Belgium generally, the Gilles spectacle is merely the opening fanfare to a carnival season that runs until the end of summer in towns and cities throughout the country. Noisy and undisciplined, mostly cheerful but sometimes unnervingly grim, the carnivals offer a glimpse of the taste for the bizarre and grotesque that has served as the inspiration for much Belgian art from Brueghel to the 20th-century surrealists.

The carnivals are loosely religious in flavor but are permeated with pagan traditions and often reflect a powerful Latin influence that dates from the 16th century, when Belgium was part of the Spanish empire. Perhaps most exciting is the pageant at Ath, where towering wooden giants enact a version of the David and Goliath story complete with a 20-foot wooden horse carried by 16 men. This makes for robust entertainment for spectators and participants, but quite the opposite is true of the Proces-

sion of Penitents at Veurne, where somber, black-cowled marchers carry giant blood-streaked crosses and fearful painted caricatures of biblical scenes through the streets. Yet even at Veurne the more familiar carnival spirit does break through eventually when, after the parade, the "penitents," often still wearing their black robes, can be found cheerfully celebrating in local bars.

The Brussels pageant in July, known as the "Ommegang," from a Flemish word meaning "walkabout," is an eye-opener for those who think of the city as a dreary bureaucratic place peopled with European Community and North Atlantic Treaty Organization types. At its climax in the floodlit Grand' Place, the procession of brilliantly caparisoned horses and vividly colored oriflammes can be breathtaking. Originating in a religious vision that inspired an Antwerp maiden to carry a statue of the Virgin Mary to Brussels, the Ommegang has become secularized over the centuries and now serves as a kind of street theater where dukes, barons and city dignitaries can show off their finery alongside clowns, giants and huge mock-ups of animals and historical figures.

Elsewhere the Belgian carnivals reflect local industry or myth. In Ostend there is a "Blessing of the Sea" pageant with a strong maritime flavor.

**The "Gilles" take part in one of the most famous Belgian carnivals. Their costumes are elaborate, and their ostrich-feathered hats weigh eight pounds.**

In Ypres, up to a century or so ago, live black cats were flung to their death from the top of the cathedral, apparently in the belief they held the souls of witches. Nowadays stuffed ones are used. In Gramont, on the other hand, things are still less pet-friendly, and participants are still obliged to swallow small live fish.

The blending of different religions, traditions and folk history in the carnivals is a source of enduring interest to scholars, but most agree that the original inspiration lies in pagan sun worship and spring-time fertility rites dating back millennia before Christianity. A more precise date can be set for the pageantry in its "modern" form, however: the year 1549, when the Ghent-born Charles V ruled over much of continental Europe. He is credited with the idea of promoting the festivals as a means of illustrating the romance and grandeur of Roman Catholicism at a time when Europe was being threatened by a growing tide of strait-laced Protestantism. If the religious motivation is no longer obvious, the Belgian carnivals nevertheless seem to be serving the same broad purpose today.—ALAN OSBORN



(BBC) political reporter that a secret meeting in Duisburg, West Germany, had taken place between representatives of the Protestant Unionist parties, the largely Catholic Socialist and Democratic Labour Party (SDLP), and the middle-of-the-road Alliance Party at first seemed a promising development. However, the BBC publicity sent all sides running for cover, and denunciations and disclaimers thickened the air.

The opposing politicians had been brought together by a Lutheran lawyer, Eberhard Spiecher, who has long taken an active interest in Northern Ireland and promoted ecumenical activities. The Duisburg talks focused on how to overcome bitter objections by main Unionist parties to the Anglo-Irish Agreement signed between London and Dublin in November 1985. Because of this opposition, the Agreement's plan for devolved government in the North, with "power-sharing" arrangements between Unionist and nationalist politicians, has never been able to get off the ground.

From Duisburg emerged ideas to break the stalemate, including suspension of the regular meetings of the Anglo-Irish conference and withdrawal of senior Dublin officials based in the permanent conference secretariat at Maryfield near Belfast. The hope was that such "temporary" efforts would provide the Northern politicians with a limited period of time to meet and genuinely work for a devolutionist, power-sharing type of agreement. The Unionists could claim this was being done while the hated Agreement was virtually inoperative and the SDLP could claim that it was still in place.

It was a brave try but the BBC "scoop" so hyped what was only a tentative, exploratory process that the main party leaders felt obliged to disown the work of their Duisburg representatives. The outcome was also a sad commentary particularly on Union fears that any search for compromise would

be rejected by the "hard men" ready to denounce any betrayal of the anti-Ango-Irish Agreement position.

For the leader of the SDLP, the highly respected John Hume, Duisburg posed a different problem. While his standing in the party is so high that his views would be certain to win approval, even a temporary suspension of the Agreement, into which he personally put so much effort, could have fatally undermined it had the devolution talks broken down.

Hume had already been criticized for having his own protracted talks with Gerry Adams, the leader of Sinn Fein, the political wing of the Provisional Irish Republican Army (IRA). Hume was unapologetic to his critics, who came from both north and south of the border, and maintained that his efforts were right as long as there was any possibility of persuading the IRA to give up its campaign of violence.

Although the Hume-Adams talks seemed to end with some acrimony, it was significant that at the subsequent Sinn Fein annual conference, Adams criticized the IRA for its series of "mistakes"—where civilians died in attacks meant for security forces. Whether the unprecedented Adams criticism of the IRA was due to a genuine desire to distance the political party from the military organization or to the upcoming European elections, in which Sinn Fein will put up candidates both north and south of the border, is difficult to say.

From the Dublin Government under Prime Minister Charles Haughey have come repeated invitations to the northern Unionists to have talks with no preconditions about future political structures. Hume also believes that the Unionists should work out what kind of relationship they want with Dublin before undertaking internal political arrangements in the north. But the Unionists have painted themselves into the corner of their own unyielding opposition to the Agreement, which nei-

ther Dublin nor London is going to abandon. Duisburg at least offered some kind of exit from this cul-de-sac and seems now to have joined the long list of failures.—JOE CARROLL

## AMSTERDAM

### Edifice Rex

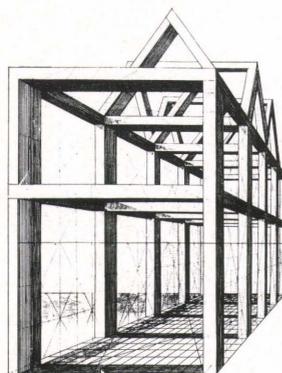
**T**he story of Dutch architect Rem Koolhaas bears similarities to the one of Howard Roark in Ayn Rand's novel, "The Fountainhead." After winning many prizes, but rarely an order for a building for many years, Rem Koolhaas is now becoming one of the established modern architects in the Netherlands. The Boymans-van Beuningen Museum in Rotterdam has opened an exhibition of models of this controversial young architect, and *Beelding*, the monthly magazine devoted to the Dutch arts, has published a long article on him, entitled "The Untouchable Rem Koolhaas."

Born in Rotterdam, Koolhaas is the son of Anton Koolhaas, a well-known author and a former director of the Netherlands Film Academy, and the grandson of an architect. This artistic inheritance clearly left its mark on the young Koolhaas. He notes: "My father was an author, and I have also have written. He was concerned with the theater and film, and I also made a movie, called *The White Slave*, a type of Fassbinder, which was misunderstood and judged to be awful. I worked as a journalist and, in my youth, made drawings in my grandfather's office." In the end, the architectural inheritance won, and Koolhaas completed his architectural studies at the London Academy for Architecture in the 1960s. His inspiration was the late Salvador Dali and his "paranoid critical method," developed in the 1930s.

His studies in England were followed by a scholarship in New York, where he was fasci-

nated by that city's 20th-century architecture. On his return to the Netherlands, his metropolitan visions collided with the prosaic limits of the Lowlands. A critic said of Koolhaas that he was "a genius, charming and spiritual, but a realist, no." During this period, Koolhaas won various prizes for his plans, but his designs were seldom selected to be built—they were usually considered as too costly and avant-garde. However, it now looks as if Rem Koolhaas has entered a new phase, one of well-realized planning.

In 1975, Koolhaas founded the Office for Metropolitan Architecture (OMA), which is headquartered in Rotterdam, where he works, and has offices in London and Athens. The OMA is distinguished by its



melting of different nationalities, backgrounds and disciplines. Appropriately, the Rotterdam office is located in a tall, modern glass tower, built in the late 1950s by J.J.P. Oud, then the Netherlands' premier modern architect. Koolhaas describes the OMA as a symbol of "a mutant form of urban architecture, with new types of architectural scenarios that can result in the rehabilitation of the metropolitan lifestyle, accepting the megapolitan situation with enthusiasm, recalling the mythical, symbolic, literary, dreamed-off critical and popular function of the great urban centers."—He likes to use phraseology that must be read three times.

Koolhaas has seasoned well, and contracts are now coming his way. He has completed an urban area along the Amsterdam estuary of the IJssel River

where shipyards once deteriorated, and has built a Rotterdam train station as well as several villas in Rotterdam and in Groningen. He also designed the attractive and original Netherlands Dance Theater in The Hague, all in black and gold and with an attractive entrance hall and bar. And he is the architect behind the Rotterdam Kunsthall, a hotel in a Paris suburb near Euro-Disneyland and an urban project for the French city of Lille.

Koolhaas has been commissioned to build the Netherlands' Sportmuseum in the Dutch province of Flevoland, a project that draws the public's attention to various sports. A hill and a pond represent golf and water sports, for example. The museum is situated in an area of 6,000 square meters surrounded by a 25-meter high fence, and includes a library, reception room, filmhall and cafeteria. Eventually, the Sportmuseum is also to be the center of tennis courts, cricket, rugby and soccer fields. Yet Koolhaas often laments the "Dutch grim financial limits" that architects must endure.

Presently, he is working on a project called "Byzantium" in the center of Amsterdam. When completed in 1990, the project will have a tower with office complexes, exclusive shops, parking garages and 63 luxury apartments, including five Manhattan-style penthouses with views of Amsterdam's well-known Vondelpark and the Leidse Plain.

Opinions about Koolhaas differ widely. "His influence on architecture is very important. But he has a large dose of naiveté in his contacts with customers," says one, while another notes that "Koolhaas scares customers both financially and with his originality. But, after seeing what he accomplishes, people will recognize the poetry, the proportions, rhythm, colors, forms and use of open spaces. If they give him a chance, they will recognize that he is a poet with building materials."—NEL SLIS



In his will, Spanish surrealist painter Salvador Dalí, left, bequeathed most of his works to the Spanish state and to Catalonia. Above: Dalí's painting, "The Persistence of Memory."

## Dalí's Legacy

In 1926, just a year after holding his first individual show in Barcelona, the painter Salvador Dalí, then 22, was expelled from Spain's prestigious San Fernando art academy for telling examining professors they were incompetent to judge his work. Then, in 1939, he broke with the surrealist movement he had helped found when its leaders insisted on incorporating politics. Twelve years later, he shocked fellow Spanish artists when he publicly declared himself a Roman Catholic, a monarchist and a Francoist.

In later years, his art took a back seat to his cynical capitalization on a carefully contrived image—the burning eyes and untwisted moustache, the outrageous actions—and finally to a series of health problems that left him increasingly frail and pathetic. When Dalí died in January at the age of 84 in his hometown of Figueras, he had been an invalid in his Galatea Tower mansion for six years,

cut off from all but a small circle of "collaborators" who maintained a tight control over visitors.

There was therefore considerable expectation surrounding the fate of his estate, valued at \$140 million, which includes works from the Theater-Museum Dalí in Figueras, where he was buried, and others from his private collection.

The painter's 1982 will, in which he bequeathed all his possessions to the Spanish state, only partially lived up to his controversial life. There were complaints, to be sure, mostly from uneasy government officials in Catalonia and Figueras, who had both been named co-beneficiaries in two earlier wills. In the days following the will's reading, Catalonia's Regional President, Jordi Pujol, was quoted as saying he felt "cheated," and a former regional cultural counselor denounced both Dalí and the Spanish central Government. Culture Minister Jorge Semprun quickly traveled to Barcelona, however, to reassure the uneasy officials that the bulk of Dalí's paintings would remain on display in the region whose landscape fig-

ured so prominently in his work.

No one doubts that there will be major skirmishes over the way the works are finally divided—not to mention reproduction rights and control of the foundation that runs the Theater-Museum in Figueras. Still, the battle for the Dalí estate is essentially over and the big winners are Spain and its museums.

The fact that Dalí will be well represented in Spanish collections is especially important given the scarce domestic presence of two of his prestigious contemporaries, Pablo Picasso and Joan Miró.

Picasso was a well-known opponent to the Franco regime who refused to set foot on Spanish soil up to his death in 1973. That his monumental painting "Guernica" ended up at the Prado Museum in Madrid after the country's return to democracy was a hollow victory, but perhaps the only one possible. Not so with Miró, who died on the island of Mallorca 10 years later. Although the Spanish Government received a number of paintings in lieu of inheritance tax, it was criticized for making few ef-

forts to woo the surrealist master.

Determined not to let Dalí's collection end up in foreign hands, Spanish officials in 1979 began a series of delicate maneuvers to win his allegiance. Regional and central government officials worked together to help the aging artist resolve a number of sticky tax problems. King Juan Carlos and Queen Sofia bestowed him with honors and attentions, and the Culture Ministry paid for the return of hundreds of works from storage rooms in the United States and Switzerland and for a 1983 retrospective in Spain. One Catalan cultural official, speaking on a television talk show, said the government had displayed "genius" in its courting of Dalí.

In fact, the Dalí coup is just the latest of several indications that efforts aimed at strengthening Spain's artistic offering, long centered around the Prado's outstanding 8,000-piece collection, are paying off. Just a month earlier, Semprun signed an agreement with Baron Hans Heinrich Thyssen-Bornemisza that will allow 787 important works from his \$1-billion collection to hang in the Villahermosa Palace, across the street from the Prado, for a minimum of 10 years. The Prado itself has nearly completed a \$17-million plan to rehabilitate its galleries, and Semprun has announced the Government's intention to start a major collection of modern art for Madrid's Reina Sofia Arts Center, founded in 1986. Private galleries have also thrived behind a new generation of Spanish artists, led by painters Antoni Tàpies and Miguel Barcelo.

Spain's growing reputation as a flourishing artistic country was further enhanced in February: The eighth annual International Contemporary Art Fair, which ran in Madrid for five days in February, drew the participation of nearly 200 galleries from around the world and broke its previous sales record of \$10 million.—RICHARD LORANT

## ATHENS

### Whither the "Davos Spirit?"

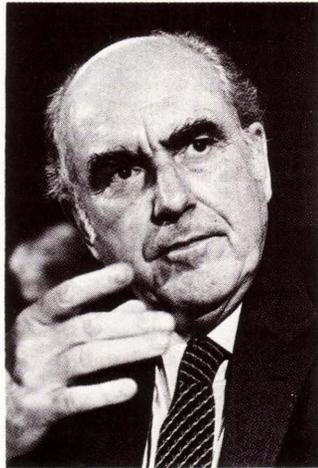
This time last year the "spirit of Davos" sparked the Greek imagination. But what has become of that spirit? The short answer is that, despite lip-service still paid in Athens and Ankara, it is becoming increasingly moribund.

One of the main criticisms of the dialogue, initiated by Greek Prime Minister Andreas Papandreou and his Turkish counterpart, Turgut Ozal, when they met in the Swiss resort of Davos in January 1988, was that it depended too heavily on the personal chemistry of the two leaders and was launched without diplomatic preparation. Now, with Papandreou and, to a lesser extent, Ozal (who faces municipal elections in early spring) beset by problems at home, there is no one to give the process new impetus.

Greek-Turkish problems are complex and interrelated. They stem from Turkey's consistent effort to acquire rights in the eastern half of the Aegean Sea, which Athens sees as a threat to the links between mainland Greece and the Greek islands lying off the western seaboard of Asia Minor, and thus to territorial integrity. They are compounded by the continuing military occupation of northern Cyprus, which Turkey invaded in 1974. Ankara denies that it has designs on Greek territory, and insists that, by retaining exclusive control over the whole Aegean, Athens intends to turn it into a "Greek lake." The two North Atlantic Treaty Organization (NATO) allies came close to war in the summer of 1976, when Turkey attempted to assert seabed rights by exploring for oil in the eastern Aegean, and again over the same issue in March 1987, out of which crisis the spirit of Davos was born.

However, the continental

shelf is only one of several problems involved. Greece reserves the right under international law to extend its territorial sea from six miles to 12 miles, which would greatly diminish the international waters of the Aegean. Turkey says it would go to war if that right were exercised. Turkey challenges, and frequently violates, the 10-mile air space Greece



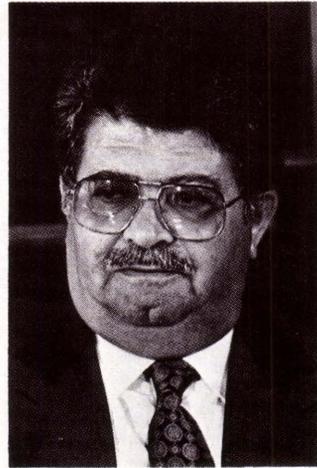
Greek Prime Minister Andreas Papandreou.

has claimed for its islands since 1931, and also questions the rules whereby Greece discharges air traffic control responsibilities within a Flight Information Region covering the whole Aegean.

Greece wishes to regain NATO's Aegean command and control jurisdiction, both naval and aerial, in abeyance since it temporarily withdrew from the alliance's military wing in 1974. Turkey disputes Greece's right to defense installations on the eastern Aegean islands, and vetoes the inclusion of the strategically important island of Lemnos in NATO exercises, in which Greece therefore refuses to participate. Greece views Turkey's "Aegean Army," which is not assigned to the alliance, with the utmost suspicion. The two countries are also unhappy about each other's treatment of religious minorities.

When Papandreou went to Davos, his declared aim was an agreement, until then resisted by Turkey, that the International Court of Justice at The Hague should be asked to rule on delimitation of the Aegean

continental shelf ("the only purely legal issue dividing us"). When he returned, the shelf had been shelved, and he had accepted a cumbersome machinery of committees to "define problem areas" and to seek solutions under Prime Ministerial guidance. Without such guidance the committees were limited to relatively uncontroversial business, and



Turkish Prime Minister Turgut Ozal.

predictably their agenda soon ran out.

Despite further meetings, and a visit to Athens by Ozal last June, only one breakthrough followed Davos: In return for a Turkish undertaking to lift restrictions on Greek property rights in Istanbul, Athens signed a protocol allowing Turkey's association agreement with the E.C., "frozen" since the 1980 military coup, to be reactivated.

Athens now complains that the property rights deal has not brought results, and lists among other grievances recent legislation by Ankara to unilaterally assume maritime search and rescue responsibilities in the eastern Aegean hitherto carried out by Greece. In March, Greece retaliated with a law of its own. Meanwhile the intercommunal talks in Cyprus, sponsored by the United Nations, that were revived amid fresh hopes last summer, are virtually deadlocked, and it looks increasingly doubtful whether Papandreou, preoccupied with his health, his private life and a highly problematic election, will find any purpose

in paying his long-awaited visit to Ankara before June. Under these circumstances, if it survives at all, the "spirit of Davos" is set to remain in deep-freeze until the autumn.—PETER THOMPSON

## LISBON

### Music On the Streets

The two hour-traffic jam near the Assembly of the Republic, Portugal's Parliament, was a spectacle: hundreds of stationary honking cars stuck on an unseasonably hot February afternoon.

But the 4,000 persons gathered at the foot of the monumental marble steps that sweep up a steep hill from a narrow cobbled street to the neo-Classic Assembly building, were intent on a different spectacle. Instead of its usual traffic jams, the street below was instead cluttered with double bass cases, music stands and battered chairs—all the necessary paraphernalia of a symphony orchestra preparing for a concert.

What, asked startled passersby, is an orchestra doing on a hot afternoon in the middle of a street in white tie and tails, and long dress?

This orchestra was staging a unique protest, scored by some of Europe's most famous composers of all time. To the Assembly of the Republic the musicians were making a musical appeal against the decision by the Portuguese Government to consolidate the struggling remains of Portugal's two national symphonies, the Lisbon and the Porto National Radio Corporation (RDP), into a smaller chamber orchestra.

While opting for the smaller 30-35 piece chamber orchestra over a full-fledged symphony, the Government also established new standards that further rankled its current musicians. The Government, which pays the musicians \$490 a month, decreed that the players were "not of sufficient Eu-

ropean caliber," implying that most of the new chamber orchestra's musicians would be brought into the country from elsewhere, that RDP musicians would have no precedence for places in the new orchestra and that any RDP musician wanting to join the new group would have to undergo proficiency tests before an international board.

The protest concert sought to move 250 deputies (185 representing the government) to demand a more open debate of the RDP orchestras' fate. Many deputies left their afternoon session and, on their balcony 100 feet above the concert, strained behind the loud *obbligato* of police whistles and car horns for a snatch of "Land of Hope and Glory" (to which the somewhat misty-eyed crowd below hummed along). Between pieces by Elgar and Wagner, a few opposition poet-politicians descended the steps to make impromptu speeches in support of the musicians.

The protest concert ignited the heated public debate the musicians had hoped for, but no government pardon was forthcoming. A fortnight later the Lisbon municipality informed the RDP's Lisbon orchestra that it could no longer use its long-time venue, the municipally owned Sao Luis theater, for weekly concerts. This time the musicians protested by stopping the music for five minutes in mid-performance at one of their last Sao Luis concerts.

Meanwhile, the parliamentary protest concert gratified the RDP orchestras' loyal, if not overwhelmingly numerous, supporters as well as newcomers to the orchestra.

Critics of the move to consolidate the two national orchestras claim the present government is tone-deaf to the pleas of cultural entities that cost money and do not make profits. They insist it is wrong for Portugal, now part of a European Community whose member states largely take fierce pride in, and financially help, national or regional symphonies or philharmonics, to end its only national sympho-

## COPENHAGEN

### Bargain Days

Low-price restaurants are having a field day in Copenhagen. Three years of recession in Denmark have forced companies to slash expense accounts, a problem exacerbated by a gradual elimination of tax deductibility of expenses. Many restaurants have closed, while the more innovative ones have initiated new strategies, offering lobsters and steaks at prices that compete with Copenhagen's Burger Kings and McDonald's.

The typical price of a steak in Copenhagen is \$20 to \$25 at a good restaurant, and half a lobster normally costs about \$15—hefty prices by U.S. standards. The new restaurants—some of which are discount departments within existing standard restaurants—offer steaks at \$4 and lobsters at \$3. Although Parisian chefs would not risk their reputations on these products, they are edible. Some diners even claim that if you close your eyes, and think about how much money you are saving, they have an excellent taste. The minced-meat Burger King alternative will cost you \$5.

This does not mean that the two giant U.S. hamburger chains are being hounded out of the Danish market by the new competition, but it is a reflection of the often painful adjustment Danes are making to a more frugal lifestyle. This is accompanied by a distinct

nies. They insist that cost-effectiveness—the leitmotif of the Government—is a false argument when it comes to music.

There is mass public enthusiasm for a new, privately sponsored, touring 38-piece Philharmonic (Nova Filarmonia), whose maestro Alvaro Cassuto has plans to expand it to 42 pieces. And there are big audiences at concerts given by the (chamber-size) orchestra run



COURTESY DANISH TOURIST BOARD

Discount restaurants in Copenhagen are signs of a new, more frugal lifestyle among Danes.

move to the political right, of which one sign is the restaurant trend.

This trend has also affected Christiania, the so-called "free city," a former army barracks compound near Copenhagen Airport, which several thousand Danes and hundreds of other nationalities have illegally occupied since 1971. In addition to its alternative lifestyle, it offers narcotics and—more surprisingly—high quality restaurants that serve gourmet meals at low prices, although nowhere as low as the new entrepreneurs.

Now prices must rise, and

the Danish police are acting vigorously to force the Christiania restaurants to pay taxes, which they have refused to do until now, and the city is demanding payment for the utilities they have involuntarily provided free of charge for the past 15 years. There is still no majority in the Danish parliament for an actual closing down of Christiania, as the government—or most of it—wants. But the crisis-ridden restaurants of Copenhagen have for their own good reasons started a gradual legalization of Christiania activities.—LEIF BECK FALLESEN

by the wealthy Calouste Gulbenkian Foundation, and for visiting European symphony orchestras. All this fervor hints at a large potential audience for a good, full symphony—as opposed to a chamber orchestra.

If the orchestras' enthusiasts could put their case to music, it might sound a little like the 1960s song: "All you need is love"—and money.

—DIANA SMITH

## PARIS To Modernize or Not?

A new *élan* in France over which philosophy—or "filosophy"—should underpin the preservation of the French language.

According to the most rep-

representative group of school teachers, French will retain its status as a vital, modern world language only if it is simplified to remove the anomalies and the endless rules and rules-about-breaking-rules.

In a recent survey, the National Union of Teachers and Professors found that 90 percent of its members wanted to make French spelling easier. It proposed elimination of the circumflex accent, used, for example, in the verbe *être*—to be. The roof-shaped accent, it argued, has no real use for pronunciation, so should be scrapped. It wants to make all plurals end in “s,” and is lobbying to say *adieux* to the “x”-ending for plurals. Even more radical, it says that “f” should replace “ph” in words like

*philosophie* or *phonétique*.

The teachers argue that French is so difficult that few young people are learning it properly. That theory was confirmed when a parliamentary commission released a survey showing that 22 percent of French people are illiterate. In a 16-word dictation, 18 percent of those polled made at least six spelling errors. About half the over-65 group had errors but the under-24 respondents showed rising error rates—proving that the problem does not stem from a deteriorating school system.

The teachers immediately won much prestigious support with the argument that the French language has barely been modified in almost three centuries since the Académie

Française published its first dictionary in 1694.

Ten eminent linguists took up the cause with a front-page article in the daily newspaper *Le Monde*, saying that French writing may suffer seriously because it has failed to evolve with the spoken language. “The teaching of spelling involves a lot of time on unimportant details and lists of exceptions,” they wrote, contending that simplification of French writing was a political challenge for the Bicentennial year. “Only a language that lives and develops, a language that is easily spoken and written by all can be preserved and can flourish. Therefore, we must modernize the writing of French.”

“Absurd,” retorted Guy Bayet, president of an associa-

tion of graduates of higher university studies. “Spelling is the backbone of our language. Simplification would cut off French from its Greek, Latin and Anglo-Saxon roots.” His fellow critics of simplification say that current spelling contributes elegance and mystery.

The argument for modernizing French is reinforced by external threats to the language. Every year, the French adopt 20,000 new English words. Many are highly specialized terms of science and technology, but nonetheless, the General Commission of the French Language fights a permanent battle against anglicisms by publishing a dictionary of unacceptable foreign words and giving their proper French equivalents.

## BONN

### Low-Altitude Imbroglia

In recent years the German public has grown increasingly intolerant of low-altitude exercises by North Atlantic Treaty Organization (NATO) fighters. The worst air-show accident in history at the Ramstein U.S. Air Force Base last September, and the crash of a U.S. A-10 Thunderbolt over Remscheid near Cologne last December, not only sent a nation into mourning but also created a furious outcry. In the wake of the tragedy, in which some 80 lives were lost and more than 400 people injured, criticism was leveled at the military and questions were asked about the necessity for flight training that requires pilots to fly as low as 250 feet.

After the Remscheid inferno, Peter-Kurt Würzbach, the Parliamentary State Secretary in the German Defense Ministry, imposed a temporary ban on low-flying exercises and asked other NATO forces to do the same. They complied. Upon return from talks in the United States, West German Defense Minister Rupert Scholz strongly attacked the ban. Würzbach was obliged to

resign, and the unpopular low-altitude flying resumed at the beginning of the year.

Top military leaders in Bonn and other NATO countries consider low-flying missions indispensable for practicing radar-avoidance tactics and insist that experience must be gained in those areas where action is likely to take place in the event of hostilities. Defending the country makes no sense without an air force, they claim.

Latest public opinion polls reveal that 87 percent of West Germans no longer feel threatened by the East. Eighty-nine percent of the population demand the abolition of low-altitude military flights, maintaining that “the population is being threatened—not protected—by low-flying terror.” To bring the discussion to an “emotion-free level,” as demanded by Colonel Dirk Böcker of Wittmund, seems no longer possible. Remscheid and Ramstein have become the symbols of low-flying hazards, although, strictly speaking, neither flight involved a low-flying “mission.”

The high image of the air force has dwindled. People are maddened by the noise of jet fighters and have labeled the pilots “terror flyers,”

“Rambos” and “cowboys in the skies.” The pilots, on the other hand, feel hurt and left on their own, saying that politicians, the media and the population misunderstand their mandate. To reduce the low-flying exercises by half, as many Christian Democratic and Social Democratic politicians advocate, would increase the number of accidents and render the fulfillment of their commission impossible. Inspector-General Admiral Dieter Wellershoff is perplexed: “We have already drastically reduced low flying, yet the number of complaints has tripled.”

Amid growing concern about the low mood—both among the population and the German Air Force—Scholz is planning to restrict the number of low-altitude training in agreement with other Allied air forces, which largely contribute to the intense military air traffic over the densely populated country.

Allied jet fighters’ low-flying training accounts for 45,000 hours annually, while the German Air Force flies 22,000 hours. Altogether 486 Allied jet fighters (United States: 300; Great Britain: 150; Canada: 36) based in West Ger-

many are training there, in addition to 550 Allied fighters from Belgium (150), the Netherlands (200), France (100) and Denmark (100). On top of the 45,000 hours flown by Allied pilots based in West Germany permanently, 17,500 hours are flown by pilots based in the neighboring countries.

Scholz also hopes to transfer more training flights abroad. The West German Air Force already does low-altitude flying in Portugal (4,000 hours), in Canada (4,000 hours) and in Sardinia (3,000 hours). West German fighters also take off from West German bases for low-altitude exercises (8,000 hours) in neighboring countries.

German Chancellor Helmut Kohl concedes: “We can certainly reduce the number of flights. But we cannot do away with them altogether . . . as a lot of people would like.” He is urging stepped-up simulator training, but so far there is no software that would enable simulators to reduce substantially the amount of low-altitude training. So it would appear that both the noise of the low-level flying and that of the heated debate will continue for some time yet.—WANDA MENKE-GLÜCKERT



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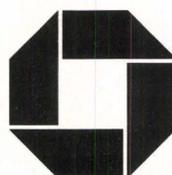
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January 1989



**CHASE**

From the anglicized expression "le scoop" (in French: *une exclusivité*) to "le fast-food" (*le prêt-à-manger*), the dictionary compiles words collected by language watchdogs within government ministries. Government officials must use the proper French equivalent, and foreign words are also banned from any public announcements or advertising by all commercial or state sponsors.

Although the dictionary includes foreign words for which there is no obvious translation, such as "sandwich," "blue jeans" and "spaghetti," its main purpose is to continually modernize the French language to include modern products and concepts.

To communicate the updates, the Commission uses that most modern French marketing tool—the Minitel home video service that most homes in France can consult for an evolving list of 2,400 foreign words and translations. To dream up translations for some of the more puzzling foreign words, the Commission uses that best-known group of inventors—children—who call in their ideas for French translations via an afternoon television program sponsored by the Commission.—BRIGID JANSSEN

## LUXEMBOURG

### Capital Migrations

A certain sympathy seems merited for Luxembourg in its predicament over the planned E.C. common withholding tax on bank interest and some bond income.

As conceived by the E.C. Commission, the tax would be set at a minimum of 15 percent and, while this is less than some of the 12 E.C. member states already apply, the fact is that Luxembourg levies no such tax at all at present. As a result, the country has attracted savings from neighboring countries, notably Belgium, and, while this has gone on for some years now without any-



Christiane Scrivener is the Commissioner responsible for taxation and the customs union.

one getting really bothered, the prospect that virtually all restrictions on the movement of capital throughout the Community will be lifted next year has caused a major re-think. France, in particular, fears that once the free market in capital is implemented, there will be nothing to stop a major flight of savings across the borders and into Luxembourg.

Brussels agrees; hence the plan launched earlier this year for a minimum withholding tax. The suggested rate is not high and certain important areas of investment such as Euro-bonds and stock dividends will be excluded. Indeed, the measure has been so watered down from its original form that many banking authorities believe it will prove ineffective. But there are more serious objections to the proposal and it has been left to Luxembourg, with the powerful backing of Britain, to spell them out.

When the tax plan came before E.C. Finance Ministers for the first time in February, the Luxembourg Treasury Minister Jacques Poos described it as "politically dangerous," "unnecessary," "anti-Community," and "ineffective." But his most powerful charge—and it is the one that London backs most fully—is that the measure would "lead to a massive flight of capital from Europe, precisely at the time when the E.C. needs major amounts of capital to prepare for the 1992 [single European market] deadline."

The concern is that inves-

tors, seeking relief from their national tax disciplines (and also perhaps some protection from the scrutiny of their revenue authorities), will simply switch their savings to more congenial regimes outside the Community altogether. Switzerland, for instance, might be a prime market for such money. This could in turn mean the undoing of Luxembourg and London as world financial centers. The E.C. Commissioner who has drawn up the plan, Madame Christiane Scrivener, has explicitly recognized the danger by admitting that the rate of the tax was pitched on the low side so as to minimize the possibility. But, as Luxembourg points out, it then courts the risk of being too low to change existing or threatened investment patterns between the E.C. capitals.

This would become even more obvious if the rate were to be set even lower by the E.C. governments. A figure of 10 percent, for instance, has been suggested by West Germany and there have been indications that Britain might settle if the rate were no higher than this. While the present differential between Luxembourg's zero rate and the 25 percent withheld in Belgium is a positive encouragement to cross-border savers, it is by no means certain that a narrowing of the gap to, say, 15 percent would be actively discouraging.

Ultimately the rate of the tax, its timing and other conditions, and the final decisions of

whether or not to have it at all will rest with the E.C. member governments. Like all tax measures, it requires unanimous approval and Luxembourg therefore has veto power. It may well be that much of the outrage expressed at the proposal by Luxembourg and London is saber-rattling, meant as a bargaining ploy to get the measure weakened still further. But it may be unwise to bet on this. Luxembourg has built up a formidable financial sector in recent years, not by bending the rules but by skillful and aggressive exploitation of opportunities open to any of the E.C. member states. If it did choose to hold out to the last ditch on this matter, it would find a fair measure of sympathy for itself in many E.C. capitals, as well as, if it needs to be said, among the thousands of savers the other side of its borders.—ALAN OSBORN

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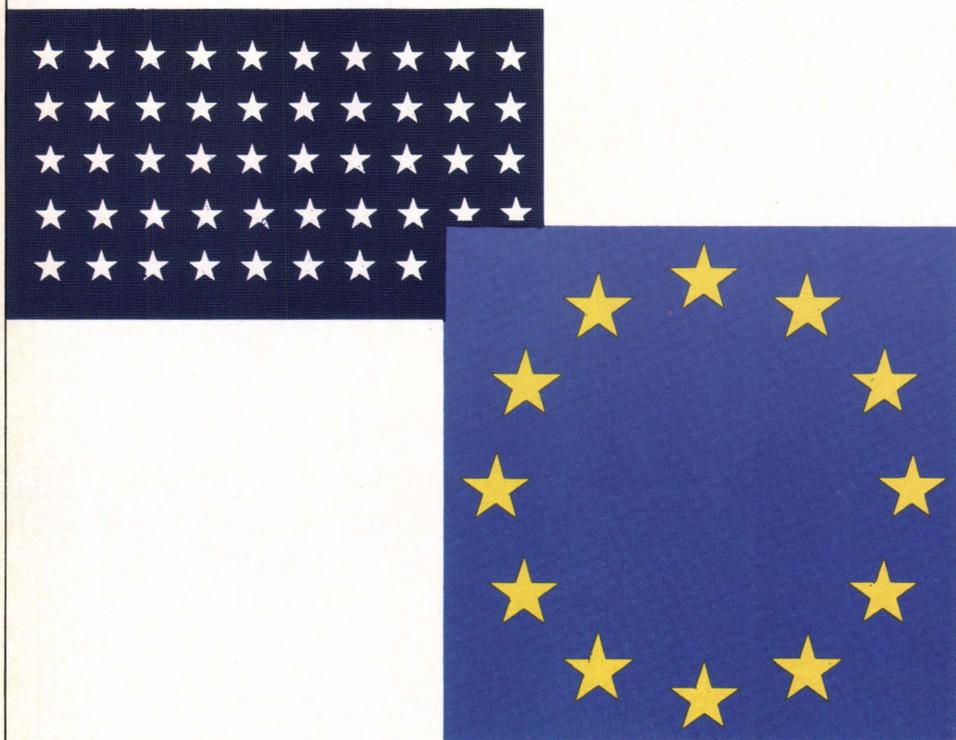
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# 1992 WILL CHANGE THE TRANS-ATLANTIC RELATIONSHIP



JOHN YOCHELSON  
ROBERT HUNTER

**T**he recent surge of momentum toward a single European market surprised many Americans. Years of self-proclaimed European malaise convinced many observers in the United States that the Common Market had lost its sense of purpose. The Community had broadened its membership to include Greece, Portugal and Spain instead of deepening and strengthening its bonds. It seemed immobilized by debates over the Community budget and agricultural subsidies. The Community's economic performance continued to be dogged by low productivity and high unemployment.

In hindsight, five driving forces behind "Europe 1992," which took hold during the past decade, should have been recognized by outside observers. First, the creation of the European Monetary System (EMS) in 1979 fostered a significant

measure of economic convergence around the German mark. Second, both conservative and left-of-center governments in the Community began to promote greater emphasis on market forces to revitalize national economies. Third, Europe's declining competitiveness in world markets relative to the United States and Japan—especially in technology—generated increasing pressures for a Community-wide response. Fourth, the quest for a strong West European political identity was revived by a new generation of leadership and a popular climate shaped less by post-war experience than by the era following the Treaty of Rome. And fifth, European sentiment reflected an increasing desire to redefine the trans-Atlantic relationship, with Europe of necessity assuming a greater degree of interdependence.

All these factors helped create the blueprint for a unified market and the reform of Community decision-making

embodied in the 1987 Single European Act. Yet the lag in the United States to grasp these new realities did not signify a lack of U.S. interest in Europe during the 1980s. Rather, U.S. policymakers focused less on Europe's economic fears and aspirations than on an absorbing security agenda, in Europe and beyond.

The central challenge posited by the Reagan Administration at its beginning was to meet what it perceived to be major military advantages accruing to the Soviet Union, including its buildup of medium-range nuclear missiles targeted against Western Europe and an imbalance of conventional forces on the European central front. With the accession of Mikhail Gorbachev on the foreign front and the rise of budget constraints on the home front, economic developments in the U.S.-European relationship again began to rival security questions in U.S. attention.

Meanwhile, the security and economic strands of the Atlantic relationship have grown more intertwined than ever. U.S. deficits have given new saliency to U.S. calls for more burden sharing. The long period in which trans-Atlantic economic relations bolstered political and security ties has given way to a new era of U.S.-European economic competition. Trade and financial links to the Soviet bloc have reemerged as a source of contention. And constraints on defense resources have both sharpened debate about conventional defense and raised new questions about relations among defense suppliers on both sides of the Atlantic.

The changes taking place on both the commercial and security fronts—and their obvious interconnection—call for systematic U.S. thinking about the future of the Atlantic relationship. Predicting where Europe will go in the 1990s is an exercise in uncertainty. No clear political vision for an integrated European Community has been spelled out, but such uncertainties underscore the need to define U.S. interests and a fresh U.S. vision.

# AS "1992" APPROACHES, COMMERCIAL AND ECONOMIC RELATIONS, AND SECURITY TIES MUST BE MANAGED TOGETHER.

The United States has an enormous stake in the success of 1992. Its interest lies in the creation of a European single market that helps to strengthen trans-Atlantic commercial relations, promotes a cooperative approach to the global economic agenda, and preserves close security ties. There is much cause for hope, but also for concern, in each of these dimensions.

## The Commercial Dimension

During the past two decades, trade and investment have clearly deepened the foundation of U.S.-European economic interdependence. U.S. exports of goods and services to the E.C. are eight times greater than they were in 1970, climbing from 19 percent of overall U.S. exports to 24 percent. The Community has remained particularly important for U.S. agricultural and high-technology exports. Over the same period, U.S. direct investment in Europe jumped from 15 percent to 40 percent of overall U.S. direct investment abroad. Sales of U.S. subsidiaries in the Community exceed \$300 billion annually. When European exports, investment and sales by subsidiaries in the U.S. market are included, this is truly a trillion dollar relationship.

In principle, the elimination of internal barriers to the movement of goods, services, capital and labor within the Community should help deepen this relationship by creating both export and investment opportunities for the United States in Europe. In practice, however, U.S.-European commercial relationships have become increasingly polarized for six reasons.

First, U.S. exporters have expressed increasing concern that their access may be restricted in order to allow European industry to capture the benefits of an integrated Community market.

Second, U.S. companies established in Europe are asking whether they will be treated in the same way as European companies, thus being given equal access

to the expanded market. Although the Treaty of Rome specifically states that companies established anywhere within the E.C. should be recognized as European, early statements and actions of E.C. leaders suggest the possibility that distinctions will be made between native European companies and those that are foreign-based.

Third, conflict over agriculture has had a pervasive and negative impact on commercial relations in general. The erosion of the U.S. market share in Europe, re-primations over subsidies and the heating up of competition in non-E.C. markets have assumed an importance that greatly exceeds the quantities involved.

Fourth, there is a special flash point centered on European trade and financial relations with the Soviet bloc. Whereas political struggle continues in the United States between preserving restrictions and permitting greater liberalization, that issue has been settled in Western Europe. Both the Commission and member states have been inclined to treat East-West trade on a commercial basis.

Fifth, the success of 1992 implies more intense global competition, particularly in high technology goods and services. Greater European competitiveness is ultimately in the interest of the United States, but it creates further pressure for the United States to put its own economy in order.

Sixth, a particular sector of the U.S. economy—defense—is increasingly concerned that 1992 will lead to a squeezing out of U.S. exports or joint-production agreements, especially as European firms begin to work more closely together across national lines. Inefficiencies of military aircraft production—Tornado and the European Fighter Aircraft (EFA)—are an ominous portent. Not only is there the U.S. interest in retaining access to the European market, but there are also implications for U.S. involvement in European security if this access is further constrained.

## Global Economic Cooperation

Looking beyond direct commercial interests, the United States has a fundamental stake in securing the cooperation of the Community on several fronts: to contribute to the reduction of the U.S. trade deficit through growth-oriented policies and exchange-rate coordination; to strengthen the multilateral trading system; and to provide shared leadership in addressing environmental threats, developing-country debt and other global issues.

U.S. international economic strategy cannot succeed without European cooperation. In leading global economy recovery since 1983, the United States has accumulated a \$700 billion current account deficit and seen its position shift from being the world's largest creditor to being the largest debtor. The least painful way for the United States to work out of these imbalances is through further growth in the industrial countries, through the resumption of growth in the developing world and with a multilateral trading system that promotes open world markets.

## Strategic Cooperation

For both the United States and the E.C., the stakes go beyond commercial or even broader economic interests. The E.C. was founded for political purposes, and its political nature continues to be paramount. At a time when the Cold War is clearly waning (if it has not informally ended), some of the premises of the Atlantic alliance are being revisited.

These developments come against a background of continued U.S. ambivalence about the development of a European political and security personality. The United States formally welcomes the development of the Eurogroup and the Independent European Program Group, the revitalization of Western European Union (with Spain and Portugal as new members), and the gradual expansion of

Continued on page 47.

**BUSH TEAM MAY  
CREATE SPECIAL  
UNIT TO MONITOR  
EUROPE'S 1992  
PROGRAM.**

BAILEY MORRIS

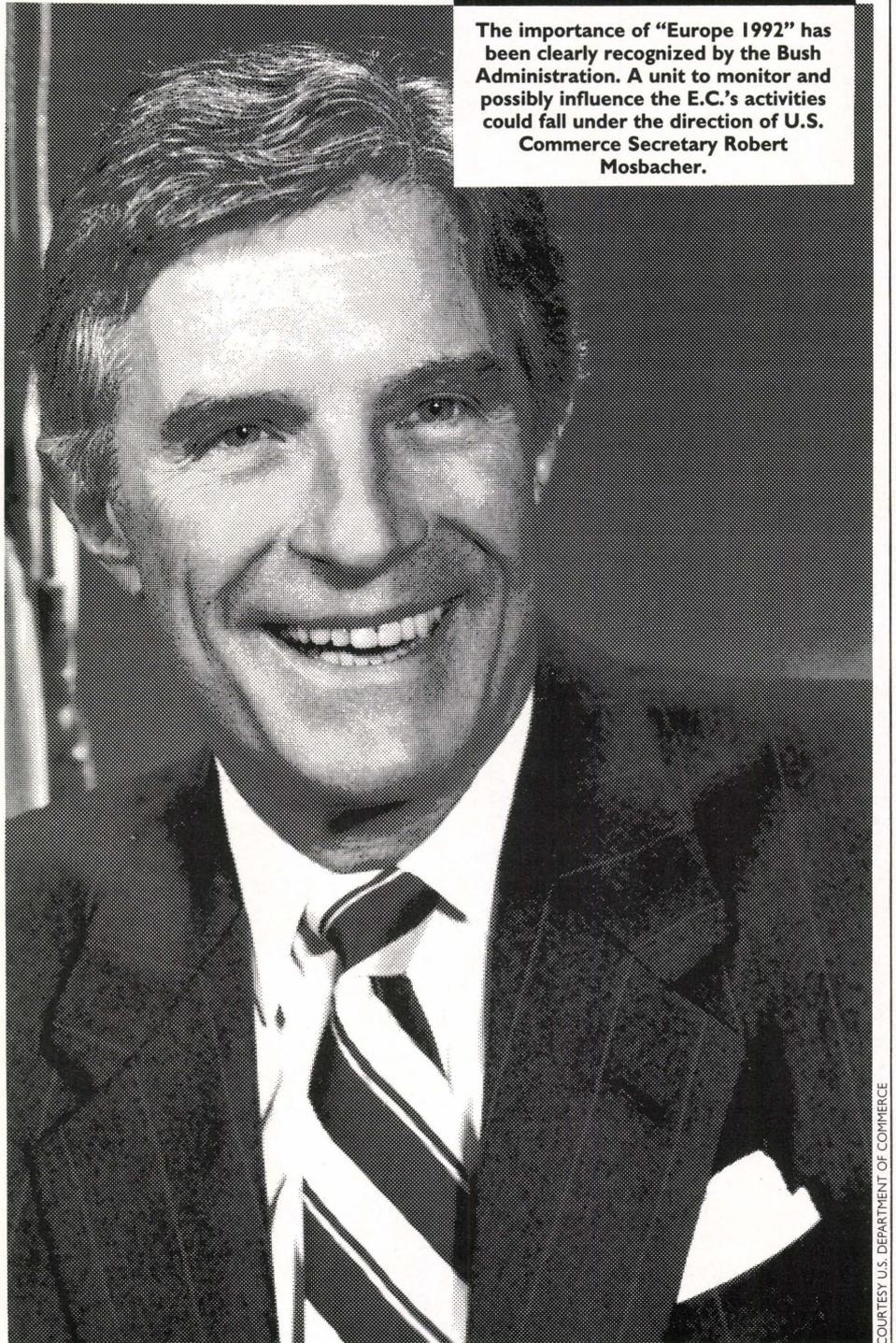
**S**uddenly, there is a flooding of conferences, high-level speakers, learned articles and a steady stream of official visitors, all of them focused on the vast potential of a single market of 320 million people. Indeed, so intense is the interest that it has become a subject of jokes. "If you cannot talk Eurospeak you are out of business," reads a sign displayed prominently in the office of a Congressional subcommittee.

But underneath the light banter, there is a recognition that the relationship between the United States and the E.C. is undergoing a fundamental change that embraces not only trade issues but also broad, geopolitical concerns. For, even if the reforms to build a single, unfettered market are not completed by 1992—which few expect—it is nonetheless true that the United States will be dealing with a vastly altered Europe in the 1990s, which will require changes in its own economic and foreign policies.

The Bush Administration recognized the need for a more comprehensive approach to Europe early on. It has undertaken a high-level review to determine how best to respond to a Europe that is becoming a big economic trading bloc intent on forging closer ties to Eastern Europe and to the Soviet Union. It is a coincidence of immense significance that the opening of the Soviet system under the *glasnost* policies of Mikhail Gorbachev is occurring as the E.C. accomplishes its own reforms, which are drawing the Continent and its near neighbors into a tighter circle.

There has been a proposal within the Bush Administration to respond to these rapid changes by creating a special unit that would be devoted to all aspects of a newly integrated Europe. The emphasis, presumably, would be on a multipolar rather than on a bipolar world.

But it is a measure of the confusion



The importance of "Europe 1992" has been clearly recognized by the Bush Administration. A unit to monitor and possibly influence the E.C.'s activities could fall under the direction of U.S. Commerce Secretary Robert Mosbacher.

# NEW U.S. ADMINISTRATION FACES A CHANGING EUROPE

within the United States over the meaning of the 1992 reforms that there has been a lack of agreement on where to place such a unit. Should it be placed in the U.S. Commerce Department, under the direction of Robert Mosbacher, its new secretary, and thus emphasize the trade relationship? Or should it be placed in the State Department, under Secretary James A. Baker III, to emphasize the growing link between trade and foreign policy? What role should the National Security Council play under the direction of Brent Scowcroft, an expert on European affairs? Should a subcommittee be appointed to draw all departments together under a White House umbrella?

As the debate continues, the focus of U.S. business and of Administration and Congressional officials has turned increasingly to the concept of a "Fortress Europe." U.S. businesses are concerned over the prospect of reciprocity clauses and the erection of non-tariff barriers which will shut them out of the vast, new market.

Their concerns are based largely on fear of the unknown. The policies that will result in a newly integrated single market are still being written. There are an estimated 286 working groups within the E.C. that are focusing on making rules for specific sectors. In addition, there are broader policy committees that are concentrating on fiscal, monetary and social matters.

Writing the rules that will shape the Europe of the 1990s is an enormous undertaking that will result in the transfer of some degree of power—the amount is a subject of fierce internal debate—from member states to Brussels, the seat of the European Community. For example, Lord Young, the British Secretary of State for Trade and Industry, said on a recent visit to the United States that he will bow to the authority of Brussels where there are challenges to mergers and acquisitions under the 1992 reforms.

This transfer of authority from individ-

ual countries to the Commission in Brussels is the primary reason that U.S. officials concerned over the concept of Fortress Europe are demanding a "place at the table" as the policies are implemented. Commerce Secretary Mosbacher is leading this chorus, which is composed largely of trade and business voices. But he is supported by a growing number of influential organizations, the most visible being the U.S. Chamber of Commerce, which has created a special "Europe 1992" subcommittee to work with the leadership in the U.S. Congress and in the Administration to ensure that the views of the business community are represented.

The head of the Chamber's subcommittee is Gerald Greenwald, the chairman of Chrysler Motors Corporation, and the vice chairman is Lionel Olmer, former Under Secretary of Commerce for International Affairs. Conceptually, the Chamber's group is a monitoring committee that will closely track policy developments over the next three years and make its views known at the highest level of the U.S. Government.

This will ensure that the voice of business is heard in the dialogue between the two governments over 1992, according to J. Philip Hinson, director of the Chamber's Western European division. It sounds very much like the U.S. system of special interest lobbies. "With U.S. merchandise exports to Europe at current levels of \$61 billion and U.S. direct private investment in Europe in excess of \$100 billion, these are not matters of minor concern," he said.

E.C. officials have politely rejected the notion of according the United States a place at the table on grounds that no sovereign state allows another to dictate its internal policies. It was pointed out that the United States did not consult its allies before passing an Omnibus Trade Act with contained provisions that not only affected their vital interests but were also inserted over their strong objections. The broad new retaliatory mea-

sure contained in the Bill, known as the "Super 301" authority, was a case in point.

But this has not satisfied U.S. officials who believe that the E.C. should not take in isolation policy decisions that will affect the rest of the world. The U.S. Chamber, for example, has drawn up its own laundry list of concerns it would like the E.C. to address. Among them are: buy national policies: Will they be allowed to exist in some broader cartelized form in post-1992 Europe? E.C. company policy: Will a European subsidiary of a U.S. corporate parent qualify as an E.C. company? Rules of E.C. residency: Will they be used as an exclusionary mechanism to fashion some sort of domestic content requirement?

U.S. banking groups have drawn up similar lists of concerns that they want addressed. Associations of U.S. manufacturers are also waking up to 1992 and are demanding to have their say.

There is a very real danger that, as these powerful organizations focus on specific, sectoral issues, their complaints will percolate up through the system and begin to pollute the broader, political relationship between the United States and the Community. This is precisely what officials in the Bush Administration want to avoid by creating a special unit or Cabinet group that will speak with one voice and focus on the wider picture as Europe marches toward full integration.

Frans Andriessen, the E.C. Commission's Vice President for external relations, advises that the United States must not approach 1992 with an air of mistrust. Instead, it must look back over the history of the relationship that has been a force for stability and prosperity. In the 1990s, "ever closer cooperation between us is imperative," he said. €

Bailey Morris is the U.S. economics correspondent for *The Times* of London.

ELIZABETH DE BONY

**P**iece by piece, the E.C. Commission has mounted a multi-pronged strategy aimed at creating a single telecommunications market in Europe. Central to this objective lies a reduction in the powers of the national telecommunications monopolies, the Postal, Telephone and Telegraph Administrations (PTTs).

The moves reflect the technical developments that are rapidly eating away at these monopolies and that a harmonized approach to reducing their control is better than free market chaos. It is also the only strategy that has any chance of winning approval by the 12 member states.

The strategy also reflects recognition that, to be internationally competitive, European industry requires a 12-nation home base or springboard in which to amortize investments in research and development and compete successfully with the Americans and Japanese. For example, the development cost of the next generation of switching equipment will reach \$1 billion. To recuperate this investment, experts estimate that manufacturers need 10 percent of the world market, and no sole E.C. national market represents this threshold.

At stake is not only the European market itself, but also the traditional 20 percent that E.C. industry has held in the world telecommunications market, which should reach an annual \$100 billion by 1990.

The strategy involves not only a cut-back in the monopolies' extensive powers, but also a prying open of the PTTs' bidding procedures and the promotion of industry efforts toward common European standards for the next generation of equipment and services. It should not be forgotten that the long-term objective—and therefore the limit to deregulation in the E.C.—is the integration of the various national markets. Liberalization or deregulation of the sector is not the end in itself. (For this reason, the telecommunications networks themselves will always remain the preserve of the PTTs).

### Breaking down the monopolies

Ever since the E.C.'s Court of Justice confirmed in its 1985 British Telecom judgment that the E.C.'s competition rules do apply to the telecommunications sector, the Commission has been striving to translate this ruling into reality in all member states. Although it originally opted for a country-by-country approach, in which it tried to negotiate with each

# E.C. IS PRYING OPEN ITS TELECOMMUNICATIONS MARKETS

national PTT changes in their operations, the Brussels authorities launched their "Article 90 strategy" in May 1988.

Article 90 of the E.C.'s Treaty of Rome authorizes the Commission to issue directives on its own authority without going through the normal legislative process of obtaining a European Parliament opinion and formal approval by the Council of Ministers representing the 12 member states. These directives can only be used to ensure the application of competition rules to public undertakings or to those that member states grant special or exclusive rights.

Last May, the Commission issued a directive calling on the member states to end their monopolies over the supply of telecommunications equipment within two-and-a-half years. This means basically that the PTTs must separate into distinct legal entities their commercial activities from their regulatory responsibilities. The Commission argues that in this way, while the PTTs can continue to sell equipment just like any other private company, they will not benefit from any preferential treatment on the part of the regulatory authorities.

While all national governments claim to support the Commission's objective, only the Netherlands supported the Article 90 approach. Indeed, France, Belgium, Italy and West Germany have appealed to the Court of Justice to annul the directive, claiming that such an important issue should have followed the normal and lengthy legislative procedures. The preliminary ruling on this case is expected later this year.

This spring the Commission announced its intention to issue a second Article 90 directive calling on PTTs to end their exclusive rights over the supply of telecommunications services by 1991. Telex and voice telephony would be left as PTT monopolies, but the liberalization would cover all other value-added services, including facsimile transmission. Faced with the court case regarding telecommunications equipment, the Commission however has agreed to discuss informally with both the European Parliament and

the Council of Ministers its draft text prior to issuing it on its own authority.

### Prying open bidding procedures

In 1988, the Commission launched its plans to open public supplies and works contracts in the telecommunications sector to more objective and transparent bidding procedures. The draft directive calls for a progressive opening of equipment contracts: 70 percent during the first year, leading up to total liberalization by 1992, if all goes on schedule.

Under the terms of the draft, the PTTs have several options for placing tenders. They may call for bids for each contract or periodically seek "expressions of interest" from would-be suppliers. Or they can maintain a pool of qualified suppliers, provided the conditions for entering into this pool are objective and applied in a non-discriminatory manner. In all cases, the use of single or emergency tendering procedures is severely restricted.

The proposal would affect all telecommunications supply contracts worth over \$200,000—enough to purchase seven kilometers of optical fiber. Works contracts worth over \$5.5 million would also be covered.

If the Community goes through with this proposal, it will have the most open public tendering procedures in the world. The General Agreement on Tariffs and Trade (GATT) Code on Public Procurement, for example, does not cover the telecommunications sector. As a result, the question of reciprocity will play a key role in extending the benefits to countries outside the Community. E.C. officials stress that "whatever we decide regarding access for foreign companies will be in strict conformity with our GATT obligations." As currently drafted, the text would allow the concerned entities affected by the rules to be free to choose the best bid—regardless of nationality. But where offers are equal, Community preference can be invoked to exclude bids with less than 50 percent E.C. content. According to an E.C. official, however, this prerogative "may be modified or even eliminated via GATT negotiations."

# A PROPOSAL TO LIBERALIZE THE SECTOR COULD GIVE THE E.C. THE MOST OPEN PUBLIC-TENDERING PROCEDURES IN THE WORLD.

In addition to opening up Europe's telecommunication markets, the E.C. is also working to establish common standards in the industry.



## VICE PRESIDENT PANDOLFI: A PROFILE

On January 6, 1989, Filippo Maria Pandolfi, of Italy, began a four-year term of office as the E.C.'s Vice President with special responsibilities for Science, Research and Development; Telecommunications, Information Technology and Innovation; and the Joint Research Center.

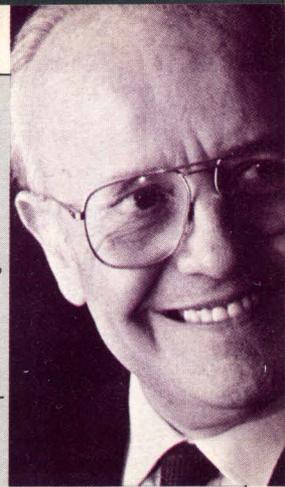
Born in 1927 in Bergamo, Italy, Pandolfi graduated in philosophy and ran a publishing business before entering politics full-time. A Christian Democrat, he has been a member of the Chamber of Deputies since 1968. Between 1976 and 1988, Pandolfi held a series of posts in the Italian Government. From 1974 to 1976 he held the post of under-secretary at the Ministry of Finance; thereafter, until 1988, he was in turn Minister of Finance, Minister of the Treasury, Minister of Industry and Minister of Agriculture. In 1979 and 1980 he was Chairman of the Interim Committee of the International Monetary Fund.

## U.S.-E.C. TELECOMMUNICATIONS UPDATE

The United States has identified the E.C. as a "priority country," in which U.S. equipment suppliers and service providers may be denied mutually advantageous market opportunities, under its Telecommunications Trade Act. This stipulates that the United States can negotiate with the priority country concerned and, if these negotiations fail, decide upon unilateral retaliatory measures.

At a press conference in February, Vice President Pandolfi said that the E.C. found the U.S. attitude surprising, adding that the E.C. is ready to continue the dialogue with the United States. In his opinion, the inclusion of telecommunications in the General Agreement on Tariffs and Trade's (GATT) Public Procurement Code was the primary issue and any negotiations should take place within the GATT framework. He went on to note that, in 1987, the E.C. had registered a trade deficit in telecommunications equipment with the United States amounting to \$570 million, while Japan registered a surplus of \$2.2 billion with the United States.

**Commission Vice  
President Filippo Maria  
Pandolfi.**



Continued on page 47.

# THE ECU "FOR BEC"

## A STEP-BY-STEP EXPLANATION OF HOW THIS "CURRENCY" WORKS.

RALPH J. MEHNERT

In anticipation of the 1992 unification of the European Community, the concepts of a European central bank and a common currency have significantly gained in importance. Today, most of the 320 million Europeans and many businesses in the E.C. deal exclusively with the pound sterling, Danish krone, Greek drachma, Irish punt, Italian lira, Dutch guilder, German mark or French or Belgian/Luxembourg franc in their daily transactions. But this selective use of the individual currencies is decreasing slightly. The balance is accounted for by a most stable and widely used means of payment and investment: the European Currency Unit, or ECU.

Admittedly, banks in most countries do not—and cannot—exchange dollars or other non-E.C. currencies into ECU banknotes, and there is no physical ECU money, apart from coins issued in Belgium. Despite this shortcoming, the ECU has been fully accepted in important areas of finance, such as the markets in bonds, loans and futures, and has found practical applications in travelers' checks, credit cards and time, savings and giro accounts.

Users now encompass corporations, international institutions, sovereign nations and private persons worldwide. The amount of bonds denominated in ECU between January 1981 and October 1988, for example, totaled 46.225 billion ECU (about \$51.3 billion). Loans granted between January 1983 and June 1988 amounted to 15.507 billion ECU (about \$17.2 billion). ECU futures and options traded at the FINEX in New York and the Philadelphia Board of Trade between January 1987 and June 1988 were valued at over \$5.5 billion. By mid-1988, the value of the 45 investment funds in ECU denomination had reached almost 1.7 billion ECU (\$1.9 billion). Private companies also increasingly use it for accounting and in-

voicing purposes.

In spite of these promising developments, most persons, when confronted with the ECU for the first time, are usually left with a feeling of surprise—and one puzzling question: What exactly *is* an ECU?

The answer to this question begins on March 13, 1979, when, after a long period of uncontrollable exchange-rate fluctuations and economic instability, the E.C. Commission established the European Monetary System (EMS). Members presently include Denmark, Greece, Italy, Ireland, West Germany, France, the Netherlands, Belgium, Luxembourg and Great Britain. Its explicit purposes are: to create a zone of monetary stability, to support monetary cooperation and to foster economic and monetary unity in Europe.

The EMS essentially operates as a system of fixed bilateral exchange rates between the 10 currencies. They are allowed to fluctuate within predetermined margins vis-à-vis each other. Whenever the outer limits of these margins are reached, the central banks must intervene to re-establish rates within the margins. Additional credit and support mechanisms guarantee that each member can fulfill his obligations. The system's most important pillar is the ECU.

The ECU has a number of official functions in the EMS. First, it serves as a common denominator for the exchange-rate and intervention mechanisms. Second, it is the basis for the "divergence indicator." As noted above, a participating currency's exchange rate may divert from its fixed central parity. Should it appreciate or depreciate by more than 2.25 percent (6 percent in the case of the Italian lira), the central banks *must* intervene. Crudely measured, a shift of 2.25 percent (6 percent for the lira) would be a divergence of 100 percent. In the case of a 75-percent divergence, as measured by the divergence indicator, the banks *should* intervene. This limit is the "diver-

gence threshold," and serves as an "alarm mechanism" for the central banks. Third, the ECU is used as denominator in the EMS credit mechanisms, as a reserve instrument and as a means of settlement for the E.C. institutions.

Each of the following five steps describes a calculation necessary for the understanding of the ECU's functioning in the EMS. Absolutely no mathematical genius is needed.

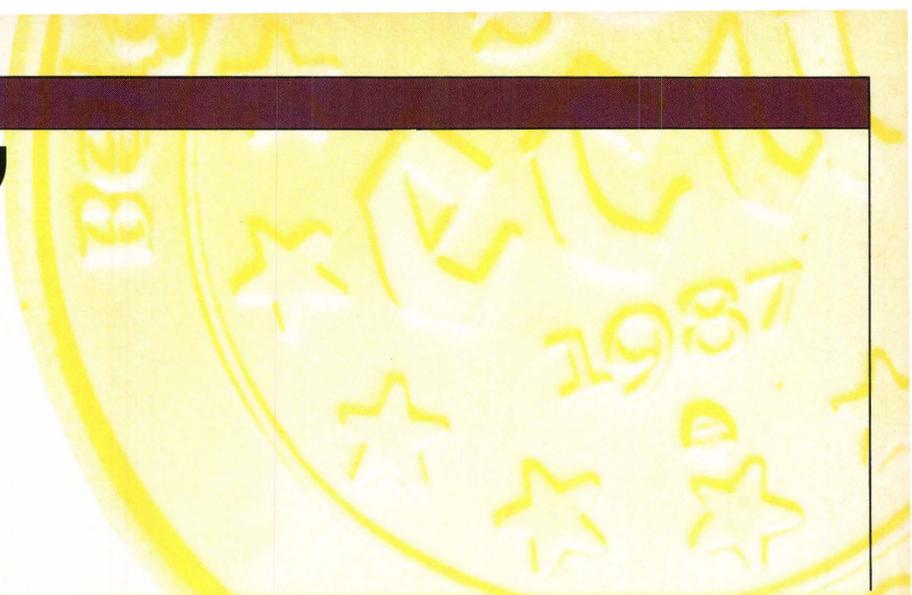
### Step 1: *The ECU is a basket comprised of certain amounts of each currency.*

A major problem faced by the creators of the EMS was the existence of individual currencies in the member nations. A common denominator in the form of a "basket of currencies" was needed. The earlier European Unit of Account, comprised of certain currency amounts, had already been established on such a basis. Its definition was retained and its name changed to European Currency Unit. The amounts are fixed (per agreement) in accordance with the individual country's economic ranking, and may change every five years. The next such recomposition should take place in 1989 to add the Spanish peseta and the Portuguese escudo. Since 1984, one ECU consists of the sum of:

**TABLE I**

0.0878 British pound sterling
0.219 Danish krone
1.31 French franc
1.15 Greek drachma
0.00871 Irish punt
140 Italian lira
0.256 Dutch guilder
0.719 German mark
3.71 Belgian franc
0.14 Luxembourg franc

# WINNERS"



A person who holds these currency amounts owns exactly one ECU. This person could place the different coins and notes in a basket and label it "ECU."

**Step 2: The value of one ECU must first be calculated in U.S. dollars.**

Table I alone does not give the value of one ECU. One ECU is all those currencies put together, but what is the whole basket worth? To find this value, the amounts in Table I must be multiplied by the dollar exchange rate of each currency at a given time. The E.C. Commission determines the official value of the ECU in Brussels this way every day. At 2:30 P.M., the 10 central banks communicate their currencies' official dollar exchange rates (Table II) to the Commission, which then calculates the dollar value for each currency amount in ECU. This official rate is used in the EMS for official transactions and as definition of the private and commercial ECU.

For the following calculations, the exchange rates of February 16, 1989, will be used:

**TABLE II**

One British pound sterling costs	\$1.7685
One Danish krone costs	\$0.1393
One French franc costs	\$0.1590
One Greek drachma costs	\$0.0065
One Irish punt costs	\$1.4262
One Italian lira costs	\$0.000742
One Dutch guilder costs	\$0.4802
One German mark costs	\$0.5432
One Belgian franc costs	\$0.0260
One Luxembourg franc costs	\$0.0260

To find the dollar value of each currency in one ECU for February 16, 1989, Table I must be multiplied with Table II. One pound sterling, for example, costs \$1.7685. The amount of the pound in the ECU, £0.0878, only costs \$0.15527.

**CALCULATION I**

	Table I Amount	×	Table II Currency in \$	=	Result I \$ per amount
Pound	0.0878		1.7685		\$0.15527
Krone	0.1393		0.219		\$0.03051
FFranc	1.31		0.1590		\$0.20829
Drachma	1.15		0.0065		\$0.00748
Punt	0.00871		1.4262		\$0.01242
Lira	140		0.000742		\$0.10388
Guilder	0.256		0.4802		\$0.12293
Mark	0.719		0.5432		\$0.39056
BFranc	3.71		0.0260		\$0.09646
LxFranc	0.14		0.0260		\$0.00364
					\$1.13144 Total
					= \$ per ECU

**Table I x Table II = Result I**

The total of \$1.13144 represents the value of one ECU, frozen at 2:30 P.M. on February 16, 1989. It will, of course, vary with the daily exchange-rate movements of the individual currencies to the dollar.

**Step 3: The actual value of the ECU for February 16, 1989, can now be expressed in terms of each currency.**

The next calculation determines the actual value of one ECU in terms of each of the component currencies. In a perfect world, these values would equal the central rates fixed for the purposes of the EMS parity grid (See Step 5). They actually depend on the supply and demand situation on the foreign exchange markets. For example: One ECU is worth \$1.13144 (total) and one German mark is worth \$0.5432 (Table II). By dividing the ECU-dollar rate by the mark-dollar rate, one arrives at the present value of one ECU in marks, or 2.082916 marks.

## CALCULATION II

	TOTAL One ECU in \$	÷ Table II Currency in \$	= Results II One ECU is worth
Pound	1.13144	1.7685	0.639773 Pound
Krone	1.13144	0.1393	8.122326 Kronen
FFranc	1.13144	0.1590	7.115975 F. Franc
Drachma	1.13144	0.0065	174.0677 Drachma
Punt	1.13144	1.4262	0.793325 Punt
Lira	1.13144	0.000742	1524.852 Lira
Guilder	1.13144	0.4802	2.356185 Guilder
Mark	1.13144	0.5432	2.082916 Mark
BFranc	1.13144	0.0260	43.51692 B. Franc
LxFranc	1.13144	0.0260	43.51692 Lux. Franc

### CALCULATION II

Total divided Table II = Results II  
The ECU's actual value in these currencies is applied in the calculations of  
a) the relative weight of each currency in the basket; and  
b) the divergence of a currency from the EMS parity rates.

#### Step 4: The relative weight of each currency in the ECU basket

The relative weights of the currencies in the basket reflect the economic strength of the E.C. countries and their share in intra-Community trade. When the weight of a currency changes by more than 25 percent, a revision of the basket could take place. The weight is derived by dividing the amount of each currency (Table I) by the actual value of the ECU in terms of that currency (Results II).

### CALCULATION III

Changes in the weights occur as a result of two developments. First, the dollar exchange rates of the currencies (Table II) fluctuate. Depreciations (more of a currency is needed to buy one dollar)

generally decrease a weight in the ECU, while appreciations increase it. Second, the amounts of the currencies are changed in general revisions, or "recompositions," of the basket in five-year intervals.

#### Step 5: ECU values are used to determine divergences in the EMS parity grid

The last calculation pertains to the ECU's role in the EMS. As indicated above, the Commission sets the central exchange rates of the currencies toward the ECU. They represent the fixed value of one ECU in each currency, similar to the actual value calculated in Step 3. They are infrequently adjusted, or "realigned," to represent changed economic conditions. With these rates, a "parity grid" can be established in which the bilateral exchange rates and fluctuation margins are fixed. The pound sterling and drachma are assigned "notional rates" because they do not yet participate in the EMS mechanisms. The following rates have been valid since the last realignment on January 12, 1987.

The parity grid is obtained by dividing

## CALCULATION III

	Table I Amount	÷	Results II Actual Value	=	Weight in % of the basket
Pound	0.0878		0.639773		13.723%
Krone	0.219		8.122326		2.697%
FFranc	1.31		7.115975		18.409%
Drachma	1.15		174.0677		0.661%
Punt	0.00871		0.793325		1.098%
Lira	140		1524.852		9.181%
Guilder	0.256		2.356185		10.865%
Mark	0.719		2.082916		34.519%
BFranc	3.71		43.51692		8.525%
LxFranc	0.14		43.51692		0.321%
					100.00%

## TABLE III

0.739615 British pound sterling for one ECU (notional)
7.85212 Danish kroner for one ECU
6.90403 French francs for one ECU
50.792 Greek drachmas for one ECU (notional)
0.768411 Irish punt for one ECU
1483.58 Italian lire for one ECU
2.31943 Dutch guilders for one ECU
2.05853 German marks for one ECU
42.4584 Belgian francs for one ECU
42.4584 Luxembourg francs for one ECU

the ECU's value in terms of each currency by the corresponding value of each other currency. More simply put: by dividing the above fixed rates by each other. Thus 42.4584 Belgian francs per ECU divided by 2.31943 Dutch guilders per ECU equal a central exchange rate of 18.3054 Belgian francs per one guilder. Or, in the reverse, 0.0546286 guilders per one Belgian franc.

This very technical description of the ECU, albeit necessary, has one major shortfall. It tends to hide the ECU's most important feature and its greatest asset: stability.

The following is an example of this stability. The weights in Calculation III indicate that the German mark accounts for approximately one-third (34.519 percent) of the total basket. If the mark depreciated 10 percent toward the dollar, an American investor who had bought securities denominated in marks would lose 10 percent of their value, regardless of how the securities performed. Had the investor bought ECU-denominated securities, the loss would merely be one-third of the 10 percent, or 3.3 percent, because only one-third of the ECU is based on the German mark. This would be the case if all other currencies had not changed. If, however, the pound sterling and the French franc (combined weight of 32.132 percent) simultaneously appreciated by 10 percent toward the dollar, there would be no change in the investment's value at all, since the appreciation would cancel out the depreciation—a highly attractive feature for the monetary community.

So, what exactly is the ECU? The short answer is twofold. First, it is a basket, combining the strength of 10 European currencies. And—because of its very composition—the ECU also is a most fascinating and stable currency. It may well be the solution to many problems in the foreign exchange markets. €

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# THE EUROPEAN MONETARY SYSTEM

## TEN YEARS OF PROGRESS IN MONETARY COOPERATION



**A**fter its first 10 years, the European Monetary System (EMS) is a convincing success. It has promoted lower inflation and more stable exchange rates, which foster healthy economic growth. It has also proved flexible against the background of a changing monetary and financial environment and yet has been strict enough to maintain effective monetary constraint and bring about a general convergence of economic policies and performances amongst its members. The EMS has been a driving force behind the program and will make a major contribution to the creation of the single market.

The European Currency Unit (ECU) is central to the EMS and is maturing into a recognized currency. While governmental use of the ECU as a reserve currency has been disappointing, the private sector has made extensive use of it because of its stability.

The EMS was created in 1979 with three objectives: to create a zone of internal and external monetary stability (with both low inflation and stable exchange rates), to improve economic policy coordination (and so increase economic convergence and boost growth and employment) and to provide a pole of stability in world currency markets. It was a more pragmatic attempt to advance monetary integration than the "Snake" of the 1970s, which collapsed because it was too rigid. The role of the EMS in the further development of the Community was formalized in 1985 with the Single European Act.

### Three phases in EMS development

From 1979 to 1983, economic divergences were relatively substantial, inflation was high, with major differences between EMS countries' rates and budget

deficits were often large. Realignments of EMS currencies were frequent and, initially, a passive reaction to differing inflation levels. But gradually, realignments, since they were accompanied by domestic adjustment measures, became an instrument to cut inflation. Private use of the ECU grew because its relative stability worked well in an active interbank ECU market.

During the period 1984-87, which was marked by the plummeting of the dollar from a February 1985 high and turbulent international monetary markets, there were only two EMS realignments, in April 1986 and January 1987. Inflation rates and differentials were brought down, helped by falling commodity prices. In March 1985, the EMS rules were slightly amended to encourage official use of the ECU. Although not very effective the change marked a willingness of the member countries to move forward constructively.

During this period, the results of EMS policy consensus began to show in terms of economic convergence, and the member states agreed on the need to remove all remaining restrictions on capital movements in order to complete the single market. Against this background, the E.C. countries agreed in September 1987 (at meetings in Basle and Nyborg) to amend the EMS rules further to promote greater economic policy coordination and improve the currency intervention and credit mechanisms to counter potential speculative flows after capital liberalization.

The first revision of the relative weights of the currencies in the ECU "basket" (German mark, French, Belgian/Luxembourg franc, Irish punt, British pound sterling, Italian lira, Dutch guilder, Danish krone), and the addition of the

Greek drachma took place in September 1984. Private ECU markets developed rapidly in the period of stable EMS exchange rates between March 1983 to April 1986, but then stagnated because of increased currency speculation and the sharp depreciation of sterling. On the other hand, by the summer of 1987, all E.C. countries recognized the ECU as a foreign currency.

Since 1987, the extremely beneficial effects of the Basle/Nyborg agreement have been obvious. Interest-rate differentials have narrowed dramatically because of increased monetary market confidence in the EMS parity grid, and there have been no EMS realignments for over two years despite the U.S. dollar's record lows. Financial market operators speculate less in recognition of the credibility of EMS countries' monetary policy commitments, and moves toward the single market appear to be boosting the private use of the ECU as a unit of accounting, pricing and settling international transactions.

### Economic benefits

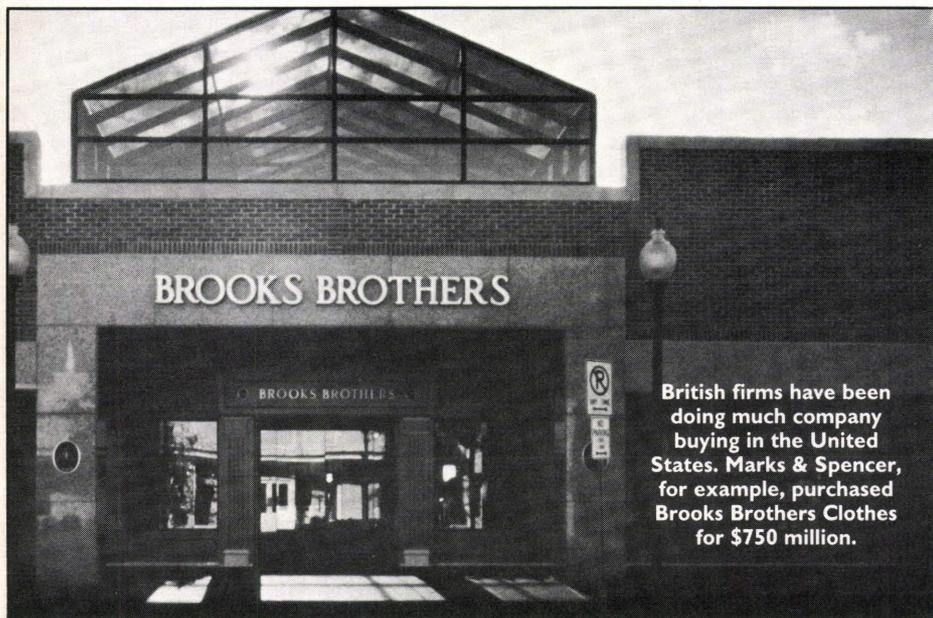
Cost and price inflation have fallen further and converged more rapidly in EMS countries than the rest of the E.C., and EMS currencies are more stable than other major currencies. Interest rates vary no more than elsewhere and are, on average, probably lower because of smaller exchange-rate risks. Currency misalignments have been avoided, and realignments are less frequent and smaller. Monetary policy coordination has been increased, and the EMS constraint on fiscal policy, although less direct, has brought a decline in the monetary financing of budget deficits. High-inflation countries have been forced to tighten their money supplies, although strong currency countries have temporarily expanded theirs during times of EMS strain. Real economic divergences, such as balance-of-payments deficits, have come to be regarded as matters for domestic policy adjustment instead of currency realignment, since devaluation is no longer an easy option.

Current-account imbalances continue to vary widely, basically for structural reasons, but are accentuated by real exchange rates rising in high-inflation countries and falling in low-inflation countries. Capital inflows to finance deficits have tended to be through the market rather than EMS credit mechanisms, although the Very Short-Term Financing Facility has been used satisfactorily.

The EMS Exchange Rate Mechanism  
Continued on page 47.

# TRANS-ATLANTIC COMPANY ACQUISITIONS GAIN MOMENTUM

U.S., BRITISH FIRMS LEAD THE WAY ON  
BOTH CONTINENTS IN "CORPORATE  
SHOPPING."



British firms have been doing much company buying in the United States. Marks & Spencer, for example, purchased Brooks Brothers Clothes for \$750 million.

COURTESY ADAMS & RINEHART, INC.

JOHN LICHFIELD

**T**he traditional European view of the credit-card happy American tourist has been sadly dented in recent years by the slide of the dollar. But a different kind of American tourist is on the prowl for bargains in Europe these days.

After a long, relative absence from the European takeover market, U.S. companies top the league table for cross-frontier acquisitions in Western Europe this year. In the first two months of 1989, U.S. companies announced 23 European corporate purchases worth 877 million European Currency Units (ECU) (\$973 million). The next biggest cross-border corporate shoppers in Europe were the United Kingdom (52 deals worth \$817 million) and Italy (three deals worth \$585

million).

The rekindled U.S. interest, reminiscent of the surge of American capital into Europe in the late 1950s and early 1960s, can be explained in four figures: 1992. While U.S. politicians have been wringing their hands about the implications of the E.C. plan to create a single market for goods, capital and services over the next four years, U.S. companies are voting with their checkbooks.

Mark Dixon, editor of a new New York and London-based publication, *The 1992 Mergers and Acquisitions Monthly*, believes that European industry has seen nothing yet. "The floodgates of U.S. investment are just about to open," says Dixon, whose newsletter collected the figures used above. Dixon points out that an extraordinary mixture of fear and excitement surrounds the E.C.'s 1992 plans

in the United States: a recognition of new opportunities and dynamism in Europe, but also a dread, often misguided, of the draw-bridge closing on "Fortress Europe" in four years' time.

"This is a rare example of two opposite human sentiments resulting in exactly the same reaction—the decision to acquire," Dixon says. "In relation to the size of the U.S. economy, the purchases are small, but I am convinced they are about to grow rapidly."

One of the most recent U.S. buyers in Europe—the ink is not yet entirely dry on the deal—is Great Lakes Chemicals of Indiana, which paid \$177 million for Octel Associates, a chemical firm based in Britain with subsidiaries in France, Italy and West Germany. David Bouchard, director of investor relations, says a number of factors attracted his company to Octel but one of the key factors was "the need to create the critical mass necessary to take advantage of the post-1992 open E.C. market." Other recent deals include a \$350-million bid by International Paper for Ausseadat-Rey, a French photocopy-paper maker and the simultaneous purchase by United Parcel Service of eight small delivery companies in Belgium, the United Kingdom (two companies), Denmark, France, the Netherlands and, outside the E.C., Finland and Switzerland.

Plans for two large U.S.-European joint ventures have also been announced. AT&T is to participate with Italtel, the state-owned Italian telecommunications company, in a \$25-billion program to upgrade Italy's telephone system. The Whirlpool Corporation, one of the biggest U.S. manufacturers of household appliances, paid \$360 million for a 53-percent share of the \$2-billion European appliance business of Philips of the Netherlands (with an option to buy the rest). Some of the U.S. buyers, like Whirlpool, are new entrants in the E.C. market; others are consolidating their position, in expectation of increased economic activity post-1992 (but also, it has to be said, as an insurance policy against the threat, real or imagined, of new trade barriers).

Sara Lee Corporation of Chicago already has sales in Europe worth \$3.5 billion. It moved last year to buy a Dutch coffee and tea company as well as Dim, the French manufacturer of ladies' tights and stockings. Sara Lee's chairman, John Bryan, says: "There are [in the 1992 campaign] growth opportunities that you might not see in a lifetime—opportunities to take part in the consolidation of a very large market."

Although still relatively small, the revived U.S. interest in European investment is a reversal of recent trends. In the last five years, European—mainly British and Dutch—capital has been pouring into the United States, converting dollars exported by U.S. trade deficits into investments in the world's richest market. Over the same period, new American entrants in European industry have been scarce. According to U.S. Commerce Department figures, the flow of E.C. investment capital into the United States in 1988 was 400 percent higher than the flow of U.S. investment into the European Community.

that have been doing most of the buying. Japanese firms acquired U.S. companies worth \$125 billion in 1988—about one-third the value of the U.K. captures. *The New York Times*, in a half-jocular headline, suggested that Britain was trying to “buy back the colonies.”

If so, the colonies are striking back. Britain has become the number-one target for 1992-related purchases by U.S. firms (and also by the Japanese). The failed attempt by the U.S. General Electric company to buy its British near name-sake, GEC, in January, caused a political storm in Britain, reminiscent of the furor over the 1986 purchase of Westland

broadly equivalent business environment, with comparable accounting rules. But there is another factor. Companies are simply easier to buy in Britain, where 85 percent of business is publicly quoted on the stock exchange. In West Germany, that number is 16 percent, and in France 12 percent. Foreign takeovers, including hostile takeovers, are part of the British business culture; they are still relatively rare on the Continent, where a number of countries make it very difficult for foreign interests to take over a domestic company. This is especially true of the Dutch, despite their internationalist reputation and extensive interests in the United States. But foreign would-be buyers also find it hard to penetrate the web of family and bank holdings in West Germany and Belgium. They complain about the complexity and unreliability of company balance sheets in Italy, Greece and Spain.

The same problems face the would-be purchasers in other E.C. countries, not just U.S. firms. The business logic of the 1992 campaign is breaking down some of these barriers and inhibitions within the Community. But there is still considerable suspicion about non-E.C. takeovers in some Community countries (especially France, where President François Mitterrand spoke recently of the need to prevent the country from being sold to the highest foreign bidder). In Britain, by contrast, large merchant banks in London run the equivalent of marriage agencies (or shot-gun marriage agencies) to find suitable takeover targets in the United Kingdom for foreign clients.

“Britain will be well placed to capture the non-E.C. benefits of 1992,” says one senior Community official. “One sometimes wonders if the British are gearing up to capture the benefits within the Community.”

Looking at the torrent of British investment in the United States, the question seems a reasonable one. U.K. companies point to the difficulties outlined above as the explanation for their historic inactivity on the Continental merger market. With 52 separate Continental acquisitions in the first two months of this year (mainly small, admittedly), British industry does appear, finally, to be turning toward Europe. And so does the United States. €

John Lichfield is the Washington correspondent for *The Independent* of London.

Rekindled U.S. interest in the European market can be explained in four figures—1992. In the first two months of 1989 alone, U.S. companies announced 23 European corporate purchases.

An enormous British corporate spending spree accounted for a large part of this one-way traffic. British investors spent \$32.5 billion—equivalent to 2.5 percent of British gross national product—to buy 400 U.S. companies in 1988. The top five British deals were hostile takeovers, including Grand Metropolitan's \$5.75-billion purchase of the Pillsbury Company, the Minneapolis food and restaurant giant, and Maxwell Communication's \$2.64-billion bid for Macmillan's book publishers.

In one of the most visible British invasions, Marks and Spencer penetrated the heart of most U.S. big cities with their \$750-million purchase of the Brooks Brothers Clothes stores. While the Japanese have been getting the blame for what xenophobic U.S. politicians call the “Buying of America,” it is British firms

Helicopters by Sikorski of the United States. But many smaller, strategic purchases by U.S. firms in recent weeks have gone unnoticed. Of the 12 largest cross-border acquisitions in February, three were U.S. purchases in the United Kingdom. According to *The 1992 Merger and Acquisitions Monthly*, the second most popular destination for pre-1992 U.S. investment in Europe is France. West Germany and Italy are a poor joint third.

Spain, with its low wage rates, is attracting a lot of U.S. “green fields” investment in new plants, including a recently announced AT&T semi-conductor factory. But most U.S. acquisitions of ready-made companies are in Britain. Why?

Partly it is a question of the attractions of the same (or similar) language and a

# OUTLOOK FOR THE COMMUNITY ECONOMY IS BRIGHT

THE COMMISSION'S FORECASTS FOR 1990 AND REVISIONS FOR 1989.

*In February, the E.C. Commission discussed and adopted its 1989-90 economic outlook and forecast for the Community. The main conclusions are given below.*

Nineteen eighty-eight was a very good year for the economy, with a growth of gross domestic product (GDP) of 3.7 percent, the strongest recorded since 1976. Growth is expected to continue in 1989 and 1990 at a rate of around 3 percent and a sustained medium-term growth trend of around 3.5 percent a year appears within reach, underpinned by the perspectives opened up by the completion of the internal market.

Investment has been the most buoyant factor behind the current expansion phase, at 7.3 percent the highest in two decades. The business sector's rising expectations over 1992 appear particularly to be pushing this growth. Investment is expected to remain strong for 1989 and 1990, while private consumption in 1989 will lose some of its strength in volume terms as incomes are negatively affected by anticipated higher inflation. In 1990, real private consumption could increase by 3 percent, sustained by a certain fiscal stimulus.

Economic growth has been responsible for creating more new employment than ever—in spite of a higher participation rate in the work force. Employment has increased by 1.2 percent and, breaking a more than 10-year rising record, the unemployment rate is now declining. Between 1986-90, six million new jobs are expected to be created, of which 1.25 million jobs will go toward further reducing unemployment. The increase in employment has been fueled in part by the more diverse introduction of part-time jobs, especially in the service sector. Nevertheless, despite the remarkable performance, the unemployment rate remains high at 10.4 percent.

The present economic dynamism in the Community could be at risk, however, if

economic policy in the member states does not quickly address three growing disequilibria:

- The current-account imbalance, which is widening in the Community.
- Budget deficits, which are expected to remain high or even to increase in countries where compensatory action is most needed.
- Rising inflation, which is expected to reach 4.25 percent in 1989 and 3.9 percent in 1990, with differences between

2.5 percent in the low-inflation group and double digits in the high-inflation group. This increase resulted largely from higher import prices of oil and raw materials.

### At the international level

E.C. exports to the rest of the world, which had stagnated in 1987 and increased slowly in 1988, will accelerate gradually. As imports continue to grow steadily, even if significantly lower than in

### GROSS DOMESTIC PRODUCT: REAL PERCENTAGE CHANGE ON PRECEDING YEAR

GROSS NATIONAL PRODUCT FOR THE USA AND JAPAN FROM 1987 ONWARDS

TABLE 1	1986	1987	1988	1989	1990
				(Forecast Feb. '89)	(Forecast Feb. '89)
BELGIUM (b)	1.9	2.0	3.8	2.8	2.9
DENMARK (b)	3.3	-1.0	0.2	0.7	1.6
FEDERAL REPUBLIC OF GERMANY (b)	2.3	1.9	3.4	2.5	3.0
GREECE (a)	1.2	-0.4	3.3	2.6	2.9
SPAIN (b)	3.3	5.5	4.9	4.2	3.7
FRANCE (b)	2.1	2.2	3.4	3.1	3.1
IRELAND (b)	-0.4	4.1	2.6	3.3	2.8
ITALY (b)	2.9	3.1	3.8	3.3	3.5
LUXEMBOURG (b)	4.7	2.5	3.2	2.7	2.5
NETHERLANDS (b)	2.1	1.3	3.0	3.2	2.3
PORTUGAL (e)	4.3	4.7	4.2	4.0	3.9
UNITED KINGDOM (d)	3.1	3.8	4.1	2.9	2.1
EUROPE (b)	2.6	2.8	3.7	3.0	3.0
UNITED STATES (c)	3.0	3.6	3.8	2.8	2.0
JAPAN (b)	2.4	4.3	5.6	4.1	3.5

(a) 1970 PRICES, (b) 1980 PRICES, (c) 1982 PRICES, (d) 1985 PRICES, (e) 1986 PRICES

### NUMBER OF UNEMPLOYED AS PERCENTAGE OF THE CIVILIAN LABOUR FORCE ANNUAL AVERAGE

SOEC DEFINITION; EUR9 : REGISTERED UNEMPLOYED; GR, E, P : LABOUR FORCE SAMPLE SURVEY

TABLE 2	1986	1987	1988	1989	1990
				(Forecast Feb. '89)	(Forecast Feb. '89)
BELGIUM	12.5	12.3	11.2	10.7	10.3
DENMARK	7.5	7.6	8.3	8.9	9.2
FEDERAL REPUBLIC OF GERMANY	8.1	8.1	8.1	7.6	7.5
GREECE	2.8	7.4	7.3	7.3	7.3
SPAIN	20.0	20.5	19.7	19.2	18.6
FRANCE	10.7	10.8	10.6	10.5	10.3
IRELAND	18.3	19.0	18.6	18.0	17.5
ITALY	13.7	14.0	15.0	14.5	14.1
LUXEMBOURG	1.5	1.6	1.4	1.3	1.2
NETHERLANDS	12.3	11.5	11.3	10.9	10.6
PORTUGAL	8.3	7.2	5.9	5.3	5.3
UNITED KINGDOM	12.0	10.7	8.8	7.4	7.1
EUROPE 12	11.7	11.6	11.2	10.7	10.4
EUROPE 9	11.1	10.9	10.5	10.0	9.7
UNITED STATES	7.0	6.2	5.5	5.5	5.5
JAPAN	2.8	2.8	2.5	2.6	2.7

## TRADE BALANCE (FOB-FOB) AS PERCENTAGE OF GDP

GROSS NATIONAL PRODUCT FOR THE USA AND JAPAN FROM 1987 ONWARDS

	1986	1987	1988	1989 (Forecast Feb. '89)	1990 (Forecast Feb. '89)
BELGIUM	0.5	0.7	0.9	0.5	0.5
DENMARK	-1.3	1.1	2.1	2.4	2.7
FEDERAL REPUBLIC OF GERMANY	6.1	6.1	6.3	6.6	6.6
GREECE	-11.2	-10.1	-9.6	-10.5	-10.6
SPAIN	-2.8	-4.2	-4.9	-5.7	-6.5
FRANCE	-0.3	-0.7	-0.6	-0.6	-0.5
IRELAND	2.4	8.9	11.8	12.3	12.3
ITALY	0.7	0.0	0.0	-0.2	-0.3
LUXEMBOURG	—	-9.6	-7.3	-7.5	-7.7
NETHERLANDS	4.2	3.1	3.9	3.9	4.3
PORTUGAL	-5.6	-9.7	-10.4	-11.8	-12.4
UNITED KINGDOM	-2.3	-2.4	-4.5	-4.4	-3.8
EUROPE	1.1	0.8	0.5	0.3	0.4
UNITED STATES	-3.4	-3.6	-2.8	-2.5	-2.3
JAPAN	4.7	4.1	3.7	3.5	3.3

## BALANCE ON CURRENT TRANSACTIONS WITH REST OF WORLD AS PERCENTAGE OF GDP

GROSS NATIONAL PRODUCT FOR THE USA AND JAPAN FROM 1987 ONWARDS

	1986	1987	1988	1989 (Forecast Feb. '89)	1990 (Forecast Feb. '89)
BELGIUM	2.0	1.1	1.1	0.7	0.8
DENMARK	-5.2	-3.0	-2.0	-1.8	-1.6
FEDERAL REPUBLIC OF GERMANY	4.4	4.0	4.1	4.3	4.3
GREECE	-5.2	-2.5	-1.9	-2.7	-2.5
SPAIN	1.7	0.1	-1.0	-2.0	-2.8
FRANCE	0.5	-0.3	-0.3	-0.3	-0.2
IRELAND	-2.9	1.3	3.2	3.5	3.9
ITALY	0.5	-0.1	-0.4	-0.6	-0.8
LUXEMBOURG	39.4	38.0	39.0	36.5	34.7
NETHERLANDS	2.8	1.6	2.3	2.3	2.1
PORTUGAL	3.9	1.3	0.1	-1.7	-2.7
UNITED KINGDOM	-0.9	-0.6	-3.2	-3.4	-2.8
EUROPE	1.4	0.9	0.5	0.2	0.2
UNITED STATES	-3.4	-3.6	-2.7	-2.6	-2.5
JAPAN	4.3	3.7	3.0	2.7	2.5

## WORLD TRADE—IMPORTS OF GOODS

COUNTRY/GROUP	1988	1989	1990	1988		1989		1990	
	PERCENTAGE CHANGE AT CONSTANT PRICES AT ANNUAL RATE								
	ON PRECEDING YEAR			ON PRECEDING HALF-YEAR SEASONALLY ADJUSTED					
EC	9.1	6.7	6.3	7.2	11.8	5.1	5.2	6.6	6.8
USA	6.7	6.4	4.9	2.6	6.3	6.9	5.6	4.8	4.2
CANADA	13.6	5.0	5.6	18.5	2.5	6.0	5.5	6.0	5.0
JAPAN	16.6	7.5	6.5	14.1	18.5	4.2	4.2	7.2	7.3
OTHER OECD COUNTRIES	6.4	5.5	5.3	6.7	6.1	5.3	5.2	5.4	5.3
TOTAL OECD	9.0	6.5	5.8	7.1	10.0	5.5	5.2	6.1	6.0
WORLD	9.0	6.9	6.1	7.7	9.8	6.1	5.7	6.2	6.2
WORLD (EXCL. EC)	9.0	7.1	6.0	8.0	8.6	6.7	6.0	6.0	5.8

## WORLD TRADE—EXPORTS OF GOODS

COUNTRY/GROUP	1988	1989	1990	1988		1989		1990	
	PERCENTAGE CHANGE AT CONSTANT PRICES AT ANNUAL RATE								
	ON PRECEDING YEAR			ON PRECEDING HALF-YEAR SEASONALLY ADJUSTED					
EC	6.1	6.0	5.8	5.7	4.3	6.8	6.2	5.7	5.7
USA	22.2	10.5	7.8	25.6	10.1	11.0	10.1	7.4	6.3
CANADA	9.7	4.6	3.9	9.9	10.5	2.8	2.6	5.3	2.3
JAPAN	4.4	5.6	4.0	3.4	10.8	3.9	4.1	3.6	4.6
OTHER OECD COUNTRIES	6.3	5.8	5.7	6.5	6.1	5.7	5.7	5.8	5.4
TOTAL OECD*	8.9	6.7	5.9	9.2	6.7	6.8	6.4	5.8	5.4
WORLD	8.8	6.6	5.7	8.8	6.9	6.6	6.1	5.7	5.4
WORLD (EXCL. EC)	10.2	6.9	5.7	10.5	8.3	6.4	6.1	5.8	5.3

\*OECD = Organization for Economic Cooperation and Development

1988, the E.C.'s trade position will deteriorate slightly in 1989 and is expected to stabilize in 1990. Major areas for concern within the international and European economy, which might reverse the promising economic outlook unless necessary adjustments are made, include: the slowing down of the international adjustment process, the inflationary tendencies and the increasing level of interest rates. The risks involved are the increased burden on the debt of lesser developed countries and the upsetting of the international trading system.

## Safeguarding the conditions for a successful 1992

The completion of the internal market, the strengthening of the economic and social cohesion of the Community, and the progressive reduction of unemployment are all E.C. objectives requiring a prolonged and determined effort. This can only be done on a long-term basis, and requires that:

- The current-account gap between surplus and deficit countries be lessened.
- Public debt-GDP ratios and fiscal deficits be reduced sufficiently in those countries where they are particularly high.
- Inflation be stopped throughout the Community, even in the countries where price pressure is, statistically, still low.

The report noted that authorities must act to correct these growing imbalances at an early stage, and that the credibility built up in the successful twin process of the 1980s—growth with disinflation—must be preserved. It added that appropriate action now would save possibly painful interventions later, which was all the more important as the international adjustment process was slowing down.

For these reasons, the guidelines laid down in the *Annual Economic Report for 1988-89*, aimed at improving the conditions for growth, remain entirely valid:

- The remaining decisions on the completion of the internal market must be taken and implemented rapidly to maintain the momentum already generated.
- Economic policy must act to correct the growing imbalances before they affect private-sector confidence and, through it, the foundations of growth. Maintenance of strong economic growth and of continued downward pressure on inflation are necessary if the internal market is to deliver on all its promises and if its implementation is not to be slowed down by social and political frictions.

The report did note that it was disappointing to observe that the current period of growth had not been better exploited to undertake the necessary structural adjustments still needed. €

# EUROPE'S AUDIOVISUAL CHALLENGE

THE E.C. MOVES  
 AHEAD WITH  
 PROGRAMS TO  
 ENCOURAGE  
 MORE EUROPEAN  
 PRODUCTIONS AND  
 HIGH-DEFINITION  
 TELEVISION.

The current bill of fare offered to European television viewers amounts to 70 percent of works of fiction from the United States, a helping of animated series (60 percent of which come from Japan and the United States), 10 percent to 15 percent of advertising, and an insignificant percentage of European productions and national news programs that are quickly losing ground to pre-packaged television news shows produced by Anglo-American communications conglomerates like that of Rupert Murdoch.

The massive influx of American and Japanese productions on Europe's television market will almost certainly expand in light of the rapid proliferation in Europe of private television and satellite channels that offer foreign producers new



The Danish film "Babettes Feast," which won an Oscar for Best Foreign Film, was partly funded by the E.C.'s European Film Distribution Office, which helps finance low-budget movies.

audiences. A one-hour fiction program made in the United States costs barely 10 percent to 15 percent of an original European program of the same type. Current consumption of television programs in E.C. countries amounts to about 125,000 hours per year, but in the near future the demand will skyrocket to 300,000 hours.

The problem is that Europe does not have the wherewithal to satisfy this formidable demand. Its current television and cinema production capacity is only 30,000 hours per year. France is currently producing only 5,000 hours annually, and the number of hours broadcast by European television channels is on the decrease, falling by 30 percent in the last five years while U.S. production rose by 60 percent in the same period. These figures help to explain why the United States and Canada have managed to take

over 80 percent of the world's audiovisual market at a time when sales of European programs account for only 5 percent of that market.

Because nearly all the recently created television channels are private, the public-service channels, which formerly held a dominant position, are gradually being edged out, owing in part to a lack of financial resources and in part to the expanding number of American and Japanese series and programs. At a meeting held by the European Broadcasting Union (EBU), it became apparent that these public television channels will have to confront this increasingly stiff competition from a growing number of commercial channels that broadcast by cable and satellite. ITV and Channel 4 in the United Kingdom, TF-1 in France, RTL in Luxembourg, and, more recently, VTM in Belgium and a number of private Italian channels are examples of new commercial television stations. Moreover, since 1986 a growing number of European communities are being fitted out with parabolic antennas capable of receiving private American channels, such as Ted Turner's Cable News Network.

A few hours per week of European news are being sent to Canada via channel TV5, a satellite public-service station, but no Europe-wide television channel has yet emerged, despite serious attempts in the past several years. The "Europa-TV" experiment, conducted in 1985 by government agencies in the Netherlands, Ireland, Portugal, West Germany and Italy, ended in failure. However, there is still hope, and the idea of a Europe-wide channel is being developed by European industrialists. All the large European holding companies have devised, or are now doing so, strategies to penetrate this market where the future is bright and where record profits are already being made.

In response to the disquieting situation brought about by massive, and growing, imports of U.S. and Japanese programs, leaders in the European sector decided, at the beginning of the 1980s, to outline new strategies. They accepted the E.C.'s proposal to study the causes of the plight besetting Europe's television sector and to draw up new development strategies. The E.C. also published a report in June 1984, entitled "Television Without Frontiers" (which more or less coincided with the launching of the project for a European single market for 1992), on the development of new technologies for satellite and cable broadcasts and high-definition television (HDTV). All these ingredi-

ents are causing far-reaching changes in Europe's television sector, which will be offered a chance to carve itself a significant position on the European and world markets.

### High-Definition Television

Europe's first opportunity to prove itself came when it took up the challenge of high-definition television. In May 1986, the International Radio Consultative Committee (CCIR) was on the verge of adopting the Japanese MUSE high-definition television standard, backed by the United States. At that time, the Europeans persuaded the CCIR to refrain from adopting MUSE for a period of four years to give Europeans time to demonstrate the advantages of their own standard over that of the Japanese. Were the latter to be adopted, it was argued, 600 million televisions would end up on the scrap heap because users would have to replace all their equipment since the new standard would be incompatible with existing systems. For a two-year period, 600 European research workers and engineers from nine European countries worked together on Eureka's "Project 95" on the initiative of four big European electronics companies—Philips (Netherlands), Thomson (France), Bosch (Germany) and Thorn-EMI (United Kingdom).

The project met with success and in September 1988 the new European standard, dubbed HD-MAC, was presented at Brighton in the United Kingdom. Its indisputable advantage over the Japanese system is that it can easily be adapted to today's television sets. The HD-MAC has 1,250 lines and two times as many pixels per line as today's screens, and its image quality is similar to that of cinema. The screen is larger and offers the possibility of quadraphonic sound thanks to eight sound channels simultaneously transmitted by satellite.

The presentation of this new European standard immediately prompted a reaction in the United States, where the Federal Communications Commission quickly came out in favor of a standard that would be compatible with the current television standard, NTSC (named after the National Television Standards Committee). This meant that, while U.S. support for the Japanese MUSE standard was effectively dropped, it did not imply support for the European HD-MAC standard. This is in part because the NTSC standard, used in the past by the United States and Japan, operates at 60 Hertz while the European standards, PAL and SECAM, operate at 50 Hertz.

### E.C. AGREES TO RULES ON "TELEVISION WITHOUT FRONTIERS"



**E.C. Commissioner Jean Dondelinger is primarily responsible for audiovisual affairs.**

Marking an important step in the Community's campaign to create a barrier-free internal market by 1992, E.C. Ministers reached broad agreement on March 14 on common standards for television broadcasting in the satellite era. The accord sets curbs on pornography, violence and racism, and seeks, "where practical," to devote a majority of air time to European programs.

The Community's aims in the "Television Without Frontiers" program, made possible by today's satellite technology, are to prevent viewers from being flooded with sex, violence and inexpensive U.S. television series, and to promote the production and distribution of European programming.

The package just agreed upon will apply to all national and international broadcasts, whether transmitted by satellite, by cable or by signals picked up by aerial. While member states can show as many commercials as they want in programs broadcast in their own country, advertising is limited to no more than 15 percent of daily transmission time for cross-border transmissions.

The agreement had been delayed by a French demand that stations devote a fixed majority of air time to European programs. This proposal, opposed by the United Kingdom, West Germany and others, was softened earlier this year to say that this would be instituted "where practical." Agreement on the accord was reached by a majority of the member states. West Germany, Denmark and Belgium opposed it on secondary matters.

Following the agreement, Jean Dondelinger, the E.C. Commissioner responsible for information, communication and culture, said that "[the] accord is a very important step toward the creation of a genuine European broadcasting area . . . with similar legislation on advertising and programs from one end of Europe to the other." Pedro Solbes, Spain's European Affairs Minister, and chairman of the talks, added that "the foundations [had been set] for a liberalization of television services."—Reuters

The big challenge at the forthcoming world summit of the CCIR, scheduled for 1990, will not be the adoption of a worldwide standard but rather the development of means to make the two standards mutually compatible. Promotion and management of the new HD-MAC standard will, the E.C. hopes, be the task of a European Economic Interest Group (EEIG), which would bring together industrialists, some European governments and the Community.

### Audiovisual Eureka Programs

In the wake of this resounding success by European research, E.C. Heads of State and Government, meeting at the European Summit in Rhodes last December, adopted, at the proposal of French President François Mitterrand, the project to create an audiovisual branch of the Eureka program. The aim of the proposal, now that advances in technology have been made, is to take up the battle on the commercial and industrial fronts. It is to be officially launched in the forthcoming weeks in Paris at the European audiovisual conference.

Companies from both the E.C. member states and from non-E.C. European countries, in addition to some Eastern European countries, will come together at the conference. Eight guidelines for an audiovisual Eureka program have already been defined, including the promotion of the HD-MAC standard through the creation of an EEIG, a project to film the 1992 Olympic Games in Barcelona with equipment using the new standard, the mobilization of financial resources required by the program, the encouragement of the E.C.'s MEDIA 92 program and a project to produce a major European film in 1989.

### The "MEDIA 92" Program

Another major European program, known by its French acronym MEDIA (which in English stands for "Measures to Encourage the Development of the Community Audiovisual Industry"), was launched by the E.C. in 1987. This program was planned with the help of more than 1,000 companies and organizations in the European audiovisual industry.

It is designed to work as a catalyst, and provides start-up capital to launch audiovisual projects in the areas of production, distribution, financing and training. A budget of 5.5 million European Currency Units (ECU) (\$6.1 million) was made available in 1988, and this is expected to be increased to 40 million ECU (\$44.4 million) this year. As with all Community programs, the E.C. contributes 50 per-

cent of the funds needed for each project, while industry, national administrations or patrons of the arts put up the rest.

Eleven projects and pilot experiments have already been selected for the program, all bearing witness to their promoters' goal of decentralizing: a European Cinema Club has been established in Paris, a European SCRIPT Fund (short for "Support for Creating Independent Production Talent") in London, and a European Film Distribution Office, EFDO—for films that cost less than 2.25 million ECU (\$2.5 million)—in Hamburg.

The Cinema Club, selected in the distribution sector, is specifically concerned with European films broadcast via satellite television channels. It is to be developed within the French Channel SEPT. As with the plan to establish a European



The series, "Yes, Prime Minister," is shown on the BBC, one of many European public-service channels faced with growing competition from satellite stations.

distribution network for culturally valuable films on video cassettes, called European Video Area, the Cinema Club is still in its definition phase.

Three other distribution projects were actually launched in 1988. EFDO has already made it possible to finance the distribution of nine low-budget films that otherwise would never have crossed the frontiers of their country of origin—as is the case for 80 percent of films produced in the Community. Among the films selected are ones as prestigious as *Babette's Feast* by Gabriel Axel (Denmark), *Distant Voices, Still Lives* by Terence Davis (United Kingdom), *Topio Stin Omihli* by Theo Angelopoulos (Greece), *Os Canibais* by Manoel de Oliveira (Portugal) and *La vie est un long fleuve tranquille* by Etienne Chatiliez (France).

One of the stumbling blocks Europe's audiovisual industry must surmount is the diversity of its languages. To do so, the MEDIA program has established the "European Fund for Broadcasting Across the

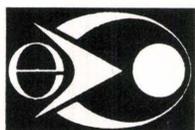
Barriers of European Language" (BABEL). Based in Geneva, this body is funded by the EBU. It gives priority to those financial projects which involve Europe's least widespread languages. It has, for example, granted financial support for the translation into Gaelic of television programs for children in Ireland.

The latest project in the area of distribution is the European Organization for an Independent Market (EURO-AIM), set up to provide a structure of services open to independent producers. To facilitate the search for potential buyers, EURO-AIM has set up a pilot data bank at MIPCOM in Cannes, which contains more than 2,000 titles, and can be accessed through France's Minitel network. EURO-AIM will be in every market and at major international events to make independent European producers known.

In the area of production, several major projects are under way. The first, called the MEDIA Investment Club, is chaired by Robert Maxwell's son Ian Maxwell, co-director of Maxwell Communications and director of the Maxwell Pergamon Publishing Corporation. The Investment Club was established jointly by the French National Audiovisual Institute and the Community. It has since been joined by the Caisse des Dépôts et Consignations (France), Maxwell Communications Corporation (United Kingdom), Philips International (Netherlands) and Thomson Techniques de Communication (France). Soon to be partners are RAI, Italy's national broadcasting company, and NOB, the technical division of the Dutch television company NOS. The Club is an investment body that aims to contribute to the training of creators of new technologies, to the design and production of audiovisual works, as well as to the development of software for creating images and other assorted uses.

Sir Richard Attenborough is chairman of another important project in the MEDIA program, the SCRIPT Fund, the aim of which is to promote cultural creation in the audiovisual industry by providing aid for screenplays at the writing, development and pre-production stages. Explaining his views to the international press when SCRIPT was launched in late 1988, the E.C. Commissioner then responsible for the audiovisual industry, Carlo Ripa di Meana, said he thought this project was one tool developed by the MEDIA 92 program that would allow the "audiovisual Europe" to meet its challenges. €

Gérard de Selys is a journalist with the Belgian Broadcasting System (RBTf). Anne Maesschalk is a freelance journalist based in Brussels.



**EUTELSAT**

**The European Investment Bank**

hereby notifies the completion  
of a total sum of

**250,000,000 ECU**

(European Currency Units)

to

**EUTELSAT**

The European Telecommunications  
Satellite Organization

as follows:

75 MECU at 7.2 per cent repayable 1993-1996

100 MECU at 7.7 per cent repayable 1993-1995

75 MECU at 8.15 per cent repayable 1991-1993

*This appears as a matter of record only*

VANESSA O'CONNOR

European communications satellites came of age in the 1980s. The decade began with the development by the European Space Agency (ESA) of one experimental satellite, the Orbital Test Satellite (OTS), and is ending with a fully fledged European telecommunications satellite organization operating a fleet of four satellites, with five more on order.

These four European satellites are operated by Eutelsat, a 26-member organization based in Paris. The organization dates back to 1977 and was involved in the OTS program, but really entered the business in 1983 with the launch of its first satellite, Eutelsat I-F1, designed and developed by ESA. Since that launch three more satellites, more or less of the same design, have successfully been placed in orbit. All are monitored, promoted and marketed by Eutelsat and used mainly for international use by the organization's members.

There are a number of characteristics of the Eutelsat satellites and the organization itself that reflect the convergence of interests and activities within Europe. One is that Eutelsat's complement of 26 members means that it embraces the E.C.'s 12 member states plus 14 other European countries, among them the Nordic countries, Yugoslavia and Turkey.

This strong cooperation proves that there is unanimous agreement within Europe that satellites are an essential element of its communications infrastructure. The operational participation of the very small countries may be limited to a few telephone circuits and some occasional transmissions, but none can do without the benefits of satellite time availability.

In fact, in the early 1980s, only two European countries embarked on national telecommunications satellite programs, and only for specific needs that could not be met by the Eutelsat satellites. France implemented the Telecom I program, largely to ensure links to the non-European French *départements* and for military links. West Germany will soon launch the first of its DFS Kopernikus satellites, largely to ensure communications to West Berlin. Other countries with considerable communications demands have been happy to rely on Eutelsat for national and international communications.

A European effort on the scale of Eutelsat has also been crucial to the development of Europe's space and telecommunications industry. The contracts

# THE AGE OF THE SATELLITE

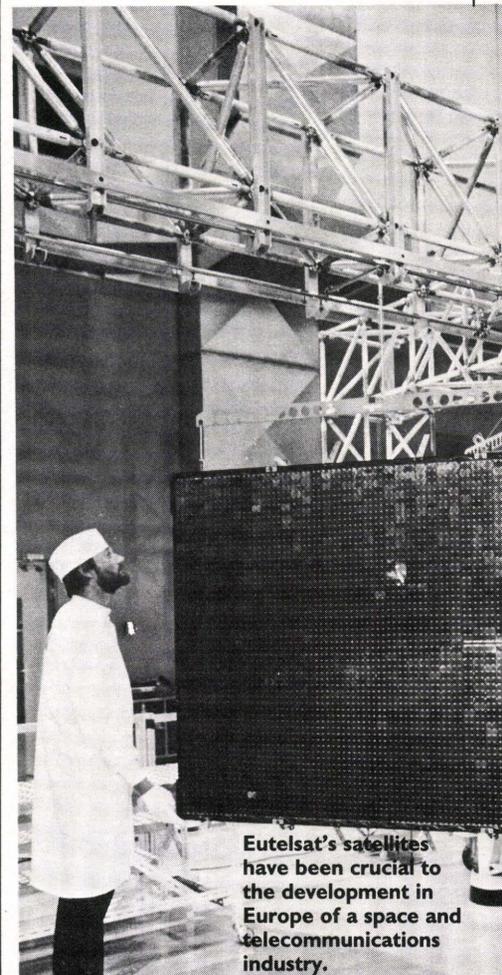
ONE ASPECT OF EUROPEAN UNIFICATION BEGINS THOUSANDS OF MILES ABOVE THE EARTH.

awarded for the construction of the satellites and the support systems on the ground have enabled many companies to gain experience that has subsequently put them in a position to bid for—and win—other contracts. Moreover, the opening up of a market for reception equipment on the ground has sparked a major area of growth for the professional and consumer electronics industries. Increasingly, common acronyms such as TVRO, MAC and VSAT would not have emerged so quickly without Eutelsat's satellites.

The extent to which satellites are used testifies to the necessity of the Eutelsat system. Nevertheless, how it is used has taken some by surprise. When the system was first conceived in the 1970s, it was expected to link approximately 20 stations across Europe, equipped with costly and large 14-meter to 18-meter antennas, in order to provide an alternative and complementary transmission medium for public switched telephony. The transmission of some television signals was also planned for the European Broadcasting Union (EBU) via these very large antennas.

Ten years later, television transmissions have emerged as the greatest generator of revenue for Eutelsat, accounting for 70 percent of income in 1988. Today, 21 television programmers and 14 radio channels use the Eutelsat-I satellites to distribute their signals to cable networks, SMATV systems and also domestic TVRO installations. Direct reception at the center of the most powerful beams on each satellite (The Spot West, Spot East and Spot Atlantic beams) is widely achieved with antennae under one meter.

Capacity is also used on the satellites for occasional television transmissions, such as current events and sporting venues. In 1988 these included the Reagan-



Eutelsat's satellites have been crucial to the development in Europe of a space and telecommunications industry.

Gorbachev summit in Moscow, the E.C. summit in Rhodes, coverage of the Armenian earthquake disaster, the European Cup soccer games and the Paris-Dakar motor rally, to name but a few. A number of broadcasters use transportable uplink stations with 2.2-meter antennas to cover news-breaking events.

Europe's television market will some day reach saturation point, but market studies predict considerable new growth in the 1990s, in particular with the advent of high-definition television. The changes underway in the structure of broadcasting legislation in many countries are expected to see a number of existing and aspiring television companies turning to the satellite alternative.

The remaining 30 percent of Eutelsat's income is generated by telephony services, business communications and EBU traffic. Four transponders providing 12,500 circuits are currently allocated to telephony services (which also include telex and facsimile calls). In particular, countries on the periphery of Europe rely on the system for telephone links. British Telecom, for example, relies on Eutelsat for economical communications to Eastern Mediterranean countries. Turkey and Spain are also large users of Eutelsat's telephony circuits.

Business communications are expected to be another area of particular growth for Eutelsat in the 1990s. They are accommodated by the organization via a special package available on three of the satellites currently in orbit, known as the Satellite Multiservice System (SMS). Toward the middle of this year, Eutelsat will activate its second SMS transponder, and it is expected that, by the mid-1990s, up to eight transponders will be dedicated to traffic of this sort.

Business communications mean networks of small dishes used for video-conferencing, computer-to-computer dialogue, database updating, remote printing and news dissemination, among many other applications. The system is already used by European news agencies to distribute text and photos, by European stock exchanges to distribute financial information and by a number of large corporate organizations such as Mars, Shell, BP, Mobil and IBM, for internal communications. More recent applications include the automatic collection of environmental data (seismographical, vulcanological and hydrogeological) by the Italian Civil Protection Agency.

The European Broadcasting Union has been using Eutelsat on a daily basis since 1984 for its Eurovision transmissions. Because of the wide band-width on the transponders of the Eutelsat-I satellites, the EBU has been able to maximize its capacity by accommodating two video channels with associated sound, plus one separate audio channel, on one single transponder. This spring, it expects to introduce the same configuration on its second transponder in order to meet demands by its member broadcasters for satellite time.

Eutelsat expects the ratio of television and radio traffic to the other services it carries to level off at about fifty-fifty over the next five years, but not at the expense of losing its television and radio customers. With the introduction of its second generation of Eutelsat-II satellites, it will be able to keep its existing base of clients and also to take on a lot of new business.

While each of the four Eutelsat-I satellites can operate up to 10 transponders simultaneously, each Eutelsat-II satellite can operate 16 transponders simultaneously, thereby increasing capacity by 60 percent. This means that Eutelsat-I will be able to transfer all services on each Eutelsat-I satellite to a Eutelsat-II satellite and, at the same time, offer considerable additional capacity for new clients.

As well as more space, the Eutelsat-II satellites will offer more power. Each will be equipped with two sorts of beams: The

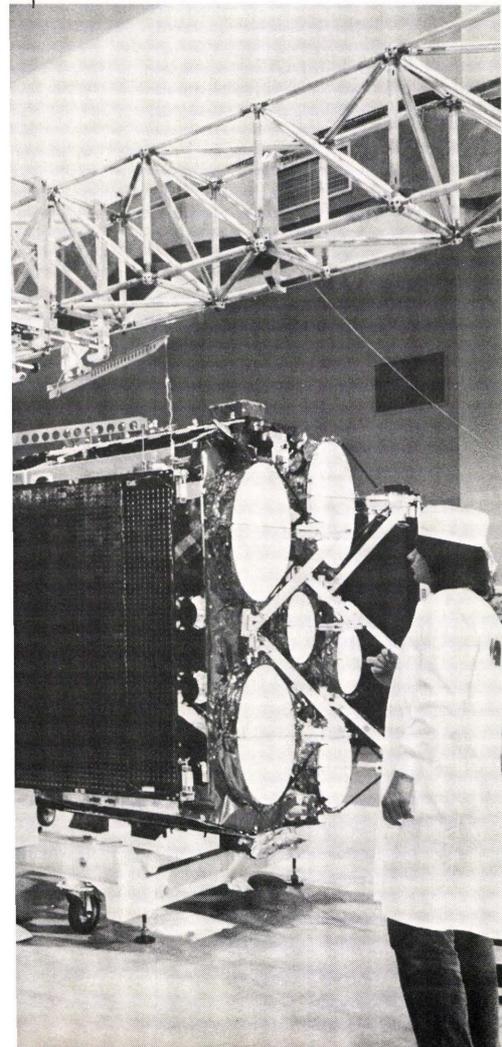
Widebeam will in effect combine the coverage areas of the Spots West, East and Atlantic beams of the Eutelsat-I fleet and provide reception throughout most of Western Europe for dishes of no more than one meter. This coverage has been designed to be of particular interest to users looking for a very broad coverage of Europe such as broadcasters aiming at the cable and SMATV markets. Eutelsat's Superbeam is the more powerful alternative, offering coverage of the most densely populated areas of Europe with a strength that will enable dishes to shrink to 60 centimeters. This could be particularly attractive to users targeting the direct-to-home and VSAT markets.

Five Eutelsat-II satellites are being built by a consortium headed by the French company Aérospatiale. The first will be ready for launch in spring 1990, with subsequent launches following at approximately six-month intervals. Since two of the Eutelsat-I satellites will still be operational until 1994-95, Eutelsat will have a very extensive network of seven satellites working and available for business. Fourteen of the 26 members of the organization have already booked 49 transponders and backed up their reservations with non-refundable deposits. All EBU, telephony and business traffic will also be gradually transferred to the new satellites as they go up.

The implementation of the Eutelsat-II system will usher in an exciting new phase for European communications. Nor will it stop there. Eutelsat is already planning the generation of satellites to follow the Eutelsat-IIs to take us into the 21st century. It is also looking at the possibility of high-power direct broadcast satellites for Europe, via a system called EUROPE-SAT.

From its early vision of only 20 large dishes in Europe carrying mainly telephone calls, the Eutelsat satellites have given rise to many communications networks that directly benefit Europeans in many different ways. If expectations of the development of the satellite market were off the mark 10 years ago, the satellites had the in-built flexibility and strength to cope with this. There is little reason to believe, and Eutelsat does not presume, that the shape of demand for communications is now fixed. That is why the same flexibility and adaptability will also be present in the design of the Eutelsat-II satellites and for all follow-on systems so that Eutelsat can continue to serve Europe's ever-increasing demand for satellite communications. **€**

Vanessa O'Connor is Press and Information Officer of Eutelsat.



COURTESY EUROPEAN SPACE AGENCY

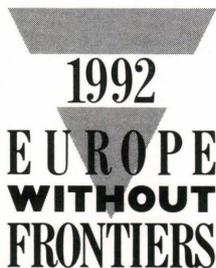
**T**hey may or may not like the fact, but European executives are increasingly recognizing that Brussels has become an indisputable element in their marketing and investment strategies for the 1990s and beyond.

By "Brussels" one means, in this context, not only the Belgian capital city itself, but also the complex of E.C. institutions. The city is home to the E.C. Commission, the E.C. Council of Ministers, the E.C.'s Economic and Social Committee and, to a large and growing extent, the European Parliament. Among them, these bodies originate, develop, amend, approve and administer the vast network of regulations that will bring into being and determine the shape of the 1992 single European market.

"Brussels is as central to the business climate of the 1990s for European companies as Washington is to the medium- and long-term outlook for U.S. corporations," a senior Commission official observes. While there is some clear self-interest in the comment, there is also more than a grain of truth in it.

Because the single market involves the dismantling of 12 national markets and their reassembly into one seamless whole, it will tread on ground that has until now been jealously guarded from competition. The opening up of financial services, the assault on Europe's highly protected civil aviation market and the harmonization of environmental and consumer protection laws, for instance, will spell real pain to some industries in some countries. But since the process, although complex, is taking place in public (and can be understood and influenced), Brussels has proved a lush breeding ground for lobbyists, consultants, advisers and general "experts."

"Consultancy has become Brussels' major growth industry," a Belgian newspaper proclaimed recently and, while there are no real statistics to prove it, the point is surely a good one. From high-powered industrial pressure groups to the activities of Euro-Parliamentarians and free-lance journalists maintaining a part-time "watching brief" on E.C. legislation, Brussels is awash with single market "consultants." In some cases, their purpose is to lobby openly for changes in regulations as they pass through the institutional machinery, in others to identify future market trends and in still others merely to analyze and explain legal and



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FOR INTERNATIONAL  
BUSINESS.**

technical developments.

A reasonable guess is that more than a thousand persons earn their livings as full-time consultants on 1992 in Brussels and, if one counts in the employees of major companies specifically charged with looking after their own special interests, the figure must be far higher.

For the most part, the clients of the consultants are European businesses uneasy about tougher competition in the single market or bewildered by the complexity of the emerging legislation. But such concerns are not unique to Europe. Rightly or wrongly, the 1992 market has evoked fears in non-E.C. countries of the emergence of a "Fortress Europe"—a massive internal market shielded from international competition by the very same technical, non-tariff barriers to trade that it has dissolved between its members. American, Japanese and other non-Community businesses may have no

influence in the drawing up of 1992 legislation, but that is not to say that they may not profit from the single market by establishing themselves within it at an early stage.

"All these developments are of major importance to any American corporation considering business in or with the E.C. in the coming years," says a senior U.S. banker in Brussels. "Corporations will draw up their European investment and marketing plans in accordance with the tax and other concessions offered by the individual member states, their communications, language and economic conditions. They may choose Belgium but, even if they decide to locate in another Community country, the need for close and constant access to the flow of legislation in Brussels will be indispensable."

A good deal of this information is made available to the non-E.C. business community through their countries' missions to the E.C. in Brussels. The U.S. mission, for example, maintains a scrupulous watch on the flow of directives through Brussels and reports back to Washington where the information is published by the State and Commerce Departments. Like those of Japan and Canada, the U.S. mission also publishes a newsletter on E.C. developments and arranges briefings in Brussels for business executives. Nevertheless, it still comes as no surprise to learn that many of the keenest clients of the consultants and advisers in Brussels are American and Japanese corporations and that a growing number of such consultants are offering specialized services for non-E.C. investors.

But the business and investment traffic through Brussels is two-way and extends well beyond the reach of the single market. About a dozen American states, for instance, have established offices in Brussels, partly to promote their exports to Europe but also to solicit investment from E.C. companies.

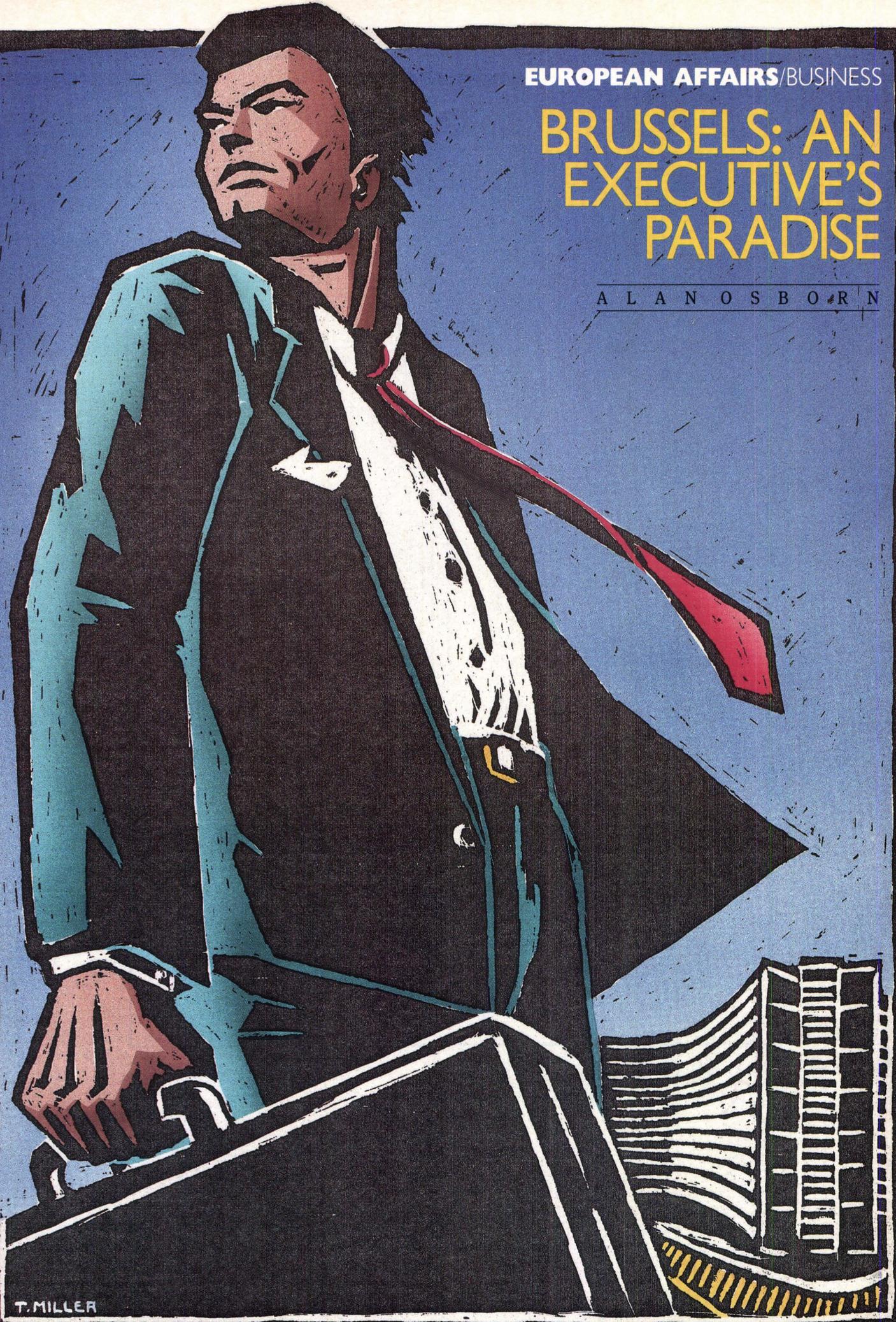
"About half of our activity is in assisting U.S. companies in the European market, by advising on distribution, licensing, joint ventures and so on, and half in providing E.C. investors with information on sites, taxes, wages, et cetera, in our state," says Susan Stiehl, Director of Trade at the State of Illinois' office in Brussels. The office, with a staff of nine, is the largest of its kind and last year assisted in the investment of \$292 million

Continued on page 47.

EUROPEAN AFFAIRS/BUSINESS

# BRUSSELS: AN EXECUTIVE'S PARADISE

A L A N O S B O R N



T. MILLER

ILLUSTRATION BY TIM MILLER

**ECONOMIC  
RESURGENCE  
MEANS  
TACKLING  
NEW  
RESPONSIBILITIES  
AND OLD  
CHALLENGES.**

# ITALY

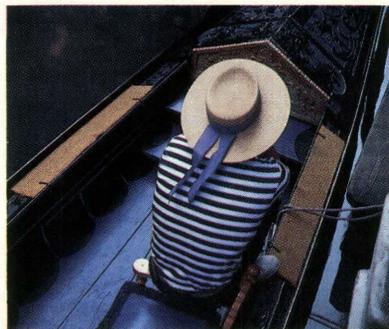
NICCOLÒ D'AQUINO

Italy never ceases to amaze. For five years now, Italy's economic growth rate has exceeded the norm in the industrialized world, and the Paris-based Organization for Economic Cooperation and Development (OECD) confirmed its continuing success in its latest report. Italians have traditionally underestimated their economic performance with ironic comments, and there was surprise when

"Our country is becoming increasingly wealthy . . . We judiciously distribute our overall revenues between consumption and savings, and the number of people able to own their own house is growing." In 1986, 59.4 percent of the adult population were home owners; in 1987, that number had risen to 61.8 percent.

Being richer, however, also involves more responsibilities. The United Nations, for example, taking note of the latest figures, has substantially increased Italy's annual contribution to the budget and special U.N. interventions. While all the other members of the E.C. presented official statistics showing a reduction or a standstill in their economies (which prompted the U.N. Secretary-General to reduce their quota), only Italy proved the exception. For the next three-year period, the Italian contribution will register the most consistent percentile growth of the 12 members of the Community. In absolute terms, only Japan's quota will have increased more. And the Italian administrators, with admirable promptitude and without batting an eye, immediately paid what was due.

So is everything rosy, then? Up to a certain point, yes. The past 12 months have once again proved that the 57 million Italians who make up this country are a people of many facets and many contra-



Italy's standard of living has increased spectacularly over the past years. Left: Venice.

© LEE SNIDER/PHOTO IMAGES

the OECD reported that the country registered 3.5 percent economic growth in 1988, which the Italian Central Bank confirmed in another analysis. Not even the typically self-indulgent official government estimates had dared predict such a figure.

Italy is progressing at a rapid pace not only in Europe, but in the entire international marketplace. As Azeglio Ciampi, the Governor of the Bank of Italy, said:

Italy is enjoying growing international credibility as a business partner, as several recently announced business deals have shown. This page: The Victor Emmanuel gallery in Milan.



## 1992 EUROPE WITHOUT FRONTIERS

Italy is presented with a great opportunity: the fully integrated Europe of 1992 and a single market of 320 million consumers. The problem is understanding what this means and doing the few basic things to benefit from it.

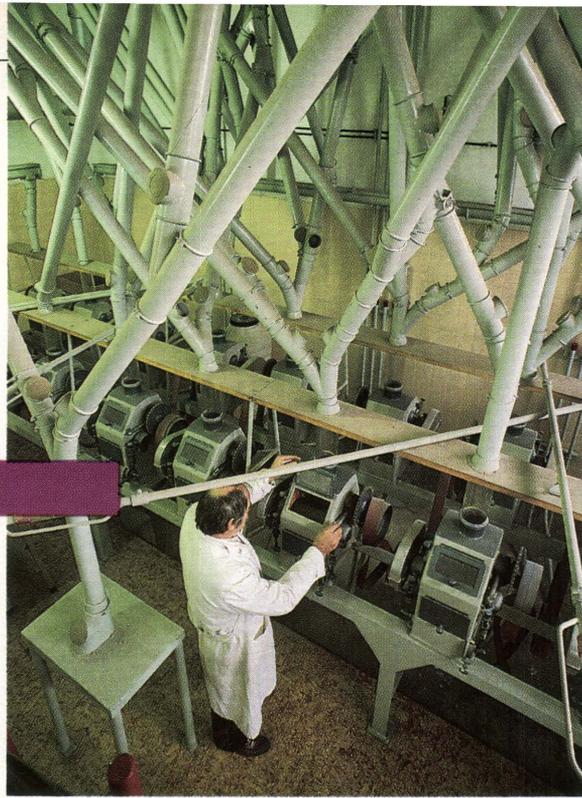
Imagine a market that, in terms of population, is greater than North America and triple that of Japan; a market where the technical standards are uniform and no longer constitute a barrier to the circulation of goods; where citizens [of the member states] move from Palermo to Copenhagen with no need for passports and where everyone has the right to start a business in the [member]



**Carlo De Benedetti: Faith in "Europe 1992" is a necessary precondition for its success.**

country of his choice without being discriminated against on the basis of nationality. Think of a market where customs controls are eliminated and freight carriers consequently reduce almost by half the time and cost associated with the transport and delivery of goods; or even a market where the value-added tax is the same all over and where public orders for goods (which today represent 20 percent of the economic activity of the E.C.) are in open and free competition with the E.C.'s private enterprise; a market where every citizen can open a current account in whichever country he or she pleases and where there is open competition in banking and financial services. The completion of this market by December 31, 1992—the date set by the governments of Europe—can become the flywheel in a new phase of development for Italy.

In other countries—in France and



**Despite the economic vitality, some are cautioning that the imbalance in the national budget must be reduced. Right: A laboratory in Rome.**

dictions that, more often than not, appear incomprehensible to foreign observers. The numbers must be read carefully, however, for then a picture emerges of a society that is still far from homogeneous, and of a country where the north is ever wealthier and more conscious of belonging by right to the community of the First World, while the south is ever more emarginated and removed from the productive cycle.

On paper the contrasts are remarkable. The standard of living is higher (mean family income has increased in one year with an increment both gratifying and hard to match elsewhere: +23.9 percent), but there is more unemployment. There is more consumption (+4.3 percent), but also more solitude. And along with this last aspect goes that perennial corollary of all highly industrialized societies: a frightening rise in the number of suicides—55 percent in the last seven years. As Italy's most widely-read daily newspaper, *Il Corriere della Sera*, states, "Italy truly is rich, cruel and immature"—in many ways it is still a "child country" that perhaps grew up too fast. "We are still a divided nation," commented the daily *La Repubblica*. "We judiciously distribute our overall revenues between consumption and savings," the paper wrote of the unusual propensity of Italians for saving. "But we continue to be a country in which the existence of a large middle class does not eliminate social differences, the historical imbalances between north and south, between men and women." To be a male college graduate living in the north means to earn more, to own more and to have more

opportunities than the others.

In macroeconomic terms, little has changed in the last few years. Just as in the United States, where the gigantic federal deficit seems insurmountable, the main worry in Italy remains the persistent imbalance in the national budget. The deficit is equal to 12 percent of gross national product and, besides other grave consequences, involves an enormous waste of resources.

It is therefore understandable that in this chorus of satisfaction, a few voices of caution are beginning to be heard. "We must not let ourselves be blinded by the general recognition of our economic vitality," one analyst warns. "This kind of growth cannot go far." And from the Via Nazionale, the street in Rome where the Bank of Italy has its headquarters, Governor Ciampi has leaked the news that the monetary axe is poised and ready to fall.

For now, however, these preoccupations only alarm the economic experts. The average Italian is not worried at all. If anything, Italians by nature are more interested in the evolution of political debates and changes in the balance between the political parties. This discussion still revolves around the two "strong men," the Christian Democrat Ciriaco De Mita and the Socialist Bettino Craxi. De Mita, after having tried for months to succeed in an endeavor that is almost without precedent in recent history—to be simultaneously both Italian Head of State and Secretary of the Christian Democratic Party (CD)—in the end had to yield the reins of the party to a member of the CD old guard, Arnaldo Forlani. The cruel laws that regulate politics dictate

Spain, in particular, but also in West Germany and the United Kingdom—the 1992 deadline has unleashed intense political debate, accompanied by keen analysis of the advantages and disadvantages for each sector and the measures and counter-measures to be adopted. These countries realize that the change will be great and the impact on the economy and society will be considerable. In Italy I do not see the same awareness of, or attention to, the problem. Italian politicians have often considered the E.C. to be a bureaucratic nuisance entangled in its own political power struggles.

It is no wonder that the goal of Europe's full integration is considered utopian, especially in the light of the long list of failures and disappointments which have occurred since the signing of the Treaty of Rome 30 years ago.

The need for change was recognized much later by politicians than by the

• Add a more European dimension to the structures governing production.

Creating a modern state means confronting the tendency, inherent in many of Italy's bureaucratic structures and public services, to stubbornly resist change. It means creating an infrastructure of European dimension, comparable to those of our major trading partners. And it means creating legislation that leaves room for the growth of the market and of enterprise, while simultaneously ensuring against violations and, above all, providing a guarantee that the rules of the game will be fair and clear for all.

Resolving the public deficit problem requires a greater sense of responsibility on the part of politicians. It is intolerable for a country to have a national debt as great as the annual income generated by its production. We are continuing to feed a mechanism that sooner or later will explode: When we buy Treasury bonds

prises. In the past, some wanted Italy's strength to lie in an industrial fabric made up of small, but extremely flexible and mobile, enterprises. Today, however, myriad small enterprises will not secure our success in Europe, and the very concept must be reevaluated, for that which is small for the Italian market can appear microscopic on a European scale.

Conditions must be created that allow small industry to grow. These are not realizable by merely offering more readily available financial resources. Enterprise should be provided with more strategic support to make a greater contribution to professional development and cultural growth, and to provide greater access for international contacts and technological innovation.

All this requires a climate in which enterprise has the freedom to establish itself, grow, forge alliances and even go under—because only through continuous and dynamic renewal is it possible for an industrial system to maintain a healthy equilibrium.

The entire structure of production must prepare for a new scenario; the map of European industry is changing and, if the Europe 1992 project comes to fruition, the competitive encounters of the 1990s will take place between new—or profoundly altered—clusters of enterprises. In recent years, Italy—especially Italian industry—has demonstrated that it can realistically aspire to a prominent position in the developments leading to 1992. Italian industry has proved this above all.

For Italy, it is no longer possible to continue this journey by relying solely on the driving force of the engine of state; the bold departures of the business community must be complemented by equally valiant attempts by the public sector to invigorate the institutions of state and public administration.

In a Europe, integrated and without frontiers, the handicap of services that do not function, collapsing public bodies and skyrocketing national debts are no longer tolerable. Nor is it tolerable for an industrial system that, in the last few years, has stunned the world with its entrepreneurial dynamism. €

## MEMBER STATE REPORT/BUSINESS

# “EUROPE 1992” IS A NECESSITY FOR ITALY—AND EUROPE

## ITALIAN INDUSTRY IS PREPARED TO FACE THE SINGLE MARKET CHALLENGE, BUT IS THE GOVERNMENT?

CARLO DE BENEDETTI

Italian business community, which had already begun to access other European markets to achieve a European dimension. Today, industry, banks and consumers are putting pressure on the politicians to implement the project of the single European market by the established deadline. This is why we should keep faith in the construction of “Europe 1992.”

In order to resolve its own problems, Italy must move in harmony with the rest of Europe. There are many areas in which Italy must remodel, in particular in terms of production, regulation and monetary and fiscal policy. I believe that, in order to take full advantage of the opportunity presented by the single market, at least three things must be done:

- Create a state that is modern in its structure, its services and its law-making capacity;
- Resolve the public deficit problem;

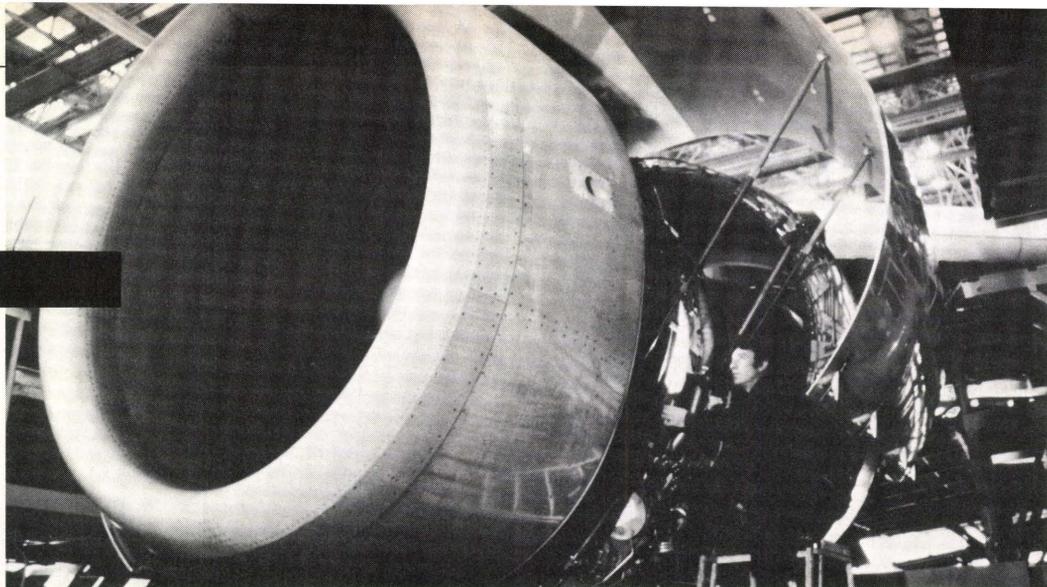
we delude ourselves that we are accumulating a little wealth while, in reality, we have just bought back a portion of the national debt, which is essentially the debt of every citizen.

It is not true that the national debt problem can only be attacked by means of difficult spending cuts and unpopular tax increases. There are at least three relatively painless ways of correcting it: recovering the revenue lost through tax evasion, increasing the extremely low productivity of public administration, and promoting a courageous program of privatization that would benefit the state in terms of capital revenue and provide wider scope to private initiative. Some of the larger entrepreneurial groups are already doing this, often meeting with opposition at home and abroad.

This process, however, must be extended to small- and medium-sized enter-

Carlo de Benedetti is the Chief Executive Officer of Olivetti.

As a result of Italy's substantial economic growth rate, which has now exceeded the norm in the industrialized world, it is the only E.C. country whose U.N. contributions were recently raised. Right: Alitalia's hangar in Rome.



© ANGELO GIAMPICCOLO/IFPG INTERNATIONAL

that not only the men of the so-called "Palazzo" Chigi, the seat of the Italian Government, but also the man on the street view this as an unforgivable defeat destined to provoke serious changes in the delicate balance of power. Bettino Craxi, a synonym for "antagonist" (as far as De Mita is concerned), certainly will not let the opportunity slip by to gain an advantage for his own party and for himself.

It is not by chance that, after years of historical obscurity, Craxi has resurrected the phantom of a leftist "alternative." This time, however, the old and never-realized utopia of a coalition between Communists and Socialists would have the roles reversed: The Socialists, not the Communists, would guide the confrontation between the forces of the moderate Christian Democrats and the minor centrist parties (Social Democrats, Republicans, Liberals), even if, in terms of votes, the Italian Communist Party continues to reap a larger electoral consensus than do the Socialists.

In theory, therefore, if a political alliance with the Socialists should ever come about, it should be led by the Communists. They, however, are going through a seemingly irreversible crisis. In order to overcome their internal malaise, the new Party Secretary, Achille Occhetto, is studying a strategy that would move the party more toward the center of the political spectrum. The International Communist Party, in step with Gorbachev's *glasnost*, appears to want to carry the latest suggestions from the Kremlin to the limit. Political commentators are almost unanimous in viewing Occhetto's maneuvers as an effort to moderate the image and substance of the party, making it more like the West German Social Democrats.

Craxi is trying to play the moderator and indispensable go-between between center and left in this new situation. In

truth, not many analysts seem seriously convinced that the Socialist leader really intends to reach out to the Communist Party, since the Socialists so dramatically broke off relations with them in 1921. Craxi's initiative is viewed above all as a scheme to get the Christian Democrats to negotiate and to sell his backing in a coalition government at a higher price.

As many observers emphasize, Craxi recently accentuated his pro-West, pro-Washington position. For example, he cautions against expanding commercial relations between Rome and Moscow, although De Mita strongly recommends these. It therefore seems unlikely that the Socialist Secretary will decide to push his party more to the left, just when on the international level he wants to present himself as the guarantor of Atlanticism in Italy.

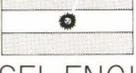
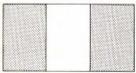
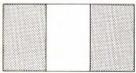
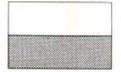
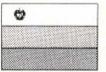
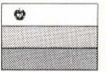
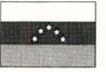
The repercussions of this traditional struggle between Socialists and Christian Democrats are currently being felt on another level—by the unions. Events in 1988 confirmed what had been suspected during the preceding years: The trade unions, who had led the workers' protests since the end of World War II, are definitely in their own crisis. The union rank and file was both surprised and displeased by the shift to center of the Communist Party, which has always been the rallying point for the wing of the trade union movement with the most aggressive followers. Another large group of workers was alienated by Craxi's government's ambitions for his Socialist Party. These factors caused new union organizations to be formed, spontaneously and in juxtaposition to the traditional trade unions, the CGIL (Communist), the CISL (Christian Democrat) and the UIL (Socialist). These new organizations, called "Basal Committees" or "Cobas" (stemming from the rank and file), were able to organize general strikes in such vital sectors as transportation, paralyzing the country and re-

calling what was thought to be a bygone era: the "hot autumns" of the 1960s and 1970s, which seethed with trade union tension. But there is one substantial difference. This unrest does not generally have the same consensus as that of 10 or 20 years ago; it is based exclusively on wage claims. Therefore, there is no political justification with the man on the street who, in Italy, is notoriously politicized.

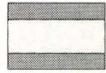
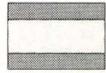
But there is no doubt that this unrest is a symptom of malaise. And it is not by chance that recent episodes of violence have caused fear of a new explosion of terrorism by the Red Brigades, a group that had been thought to have been completely defeated. While these were isolated episodes that the forces of law and order and the political and government structures seem to have been able to handle, there is nonetheless a long shiver of worry. A return to terrorism and the so-called "years of lead" seems extremely anachronistic in an era in which the entire country—from the political-administrative structure to the economic-financial structure, from the large companies to the small businessmen and tradesmen—for the first time is seriously determined to consolidate the position of prestige it so recently acquired worldwide.

A series of international accords (including recently announced plans for a partnership between Italtel and AT&T) point out not only the credibility that Italy enjoys with its partners, but also the Italians' desire to finally overcome technological gaps (such as defective telephones and an inefficient mail service) that have become intolerable in a country that prides itself on being one of the leaders in the Western world. €

Niccolò d'Aquino is the special correspondent for foreign affairs at the Italian daily *Il Mondo*.

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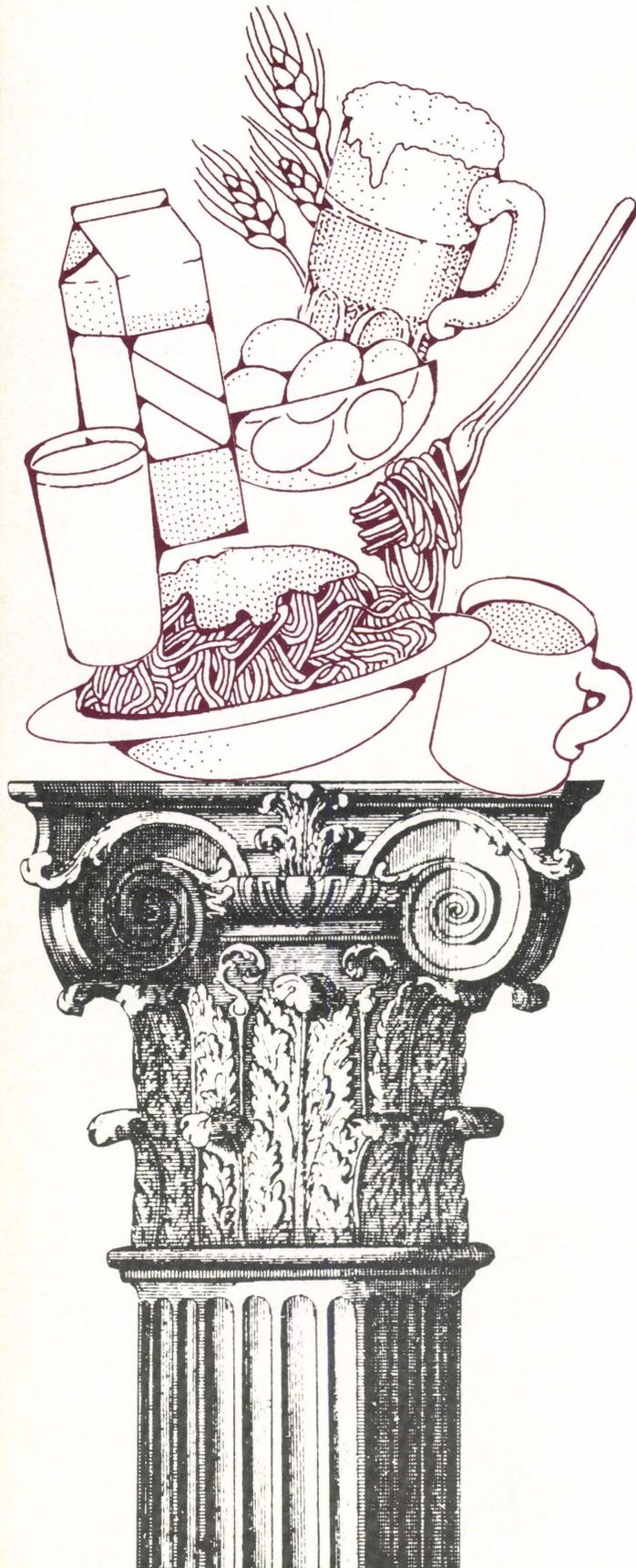
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# NEWS OF THE E.C.



## INTERNAL MARKET

### COURT OF JUSTICE BANS SOME NATIONAL FOOD LAWS

The European Court of Justice is beginning to chip away at national laws that ban the imports of some foreign foods, originating in another E.C. member state, to enter their markets. The Court regards these laws, disguised as consumer protection, as barriers to trade and obstacles to the creation of the single market. Examples of the Court's action in this area include its recent ruling outlawing the West German ban on foreign sausages. In the past, it has struck down national laws that prevented the export of French beer to Germany, German pasta to Italy and Italian salami to France.

The aim was not to impose official recipes for a European-wide cuisine, but to draw up and enforce common safety standards, such as the safety of food additives and wrapping materials, said Paul Gray, the E.C. Executive Commission's leading food expert, adding that Community-wide food hygiene legislation was also being written. "Hygiene is suddenly being recognized as an important issue," he said, referring to recent scares in Britain over salmonella in eggs and listeria in cheese. But increased hygiene would not be effective solely on a national scale. "We have to make sure the chain of control and checking isn't broken at any point," Gray emphasized.

The Court's decision on foreign sausages is Germany's latest defeat in its attempt to defend its food and drink purity laws. In 1979, it was forced to admit imports of French Cassis de Dijon, a blackcurrant-flavored liqueur that, Germany argued, was too low in alcohol content to qualify as a liqueur. Two years ago, it lost a very major battle in an attempt to uphold the country's medieval *Reinheitsgebot* and keep out

foreign beer. Now the Court has ruled that German shoppers do not need protection from the milk, eggs or soybeans present in foreign versions of sausage. Instead, products are to be clearly labelled to distinguish the genuine all-meat *wurst* from other products.

Although West Germany has most recently borne the brunt of the new trend in food legislation, Italy, whose pasta is made only with hard, durum wheat, was last year forced to allow imports of German pasta made with soft wheat. Also last year, the Court ruled that France must allow the imports of non-dairy coffee whiteners and imitation cream for desserts.

—Reuters

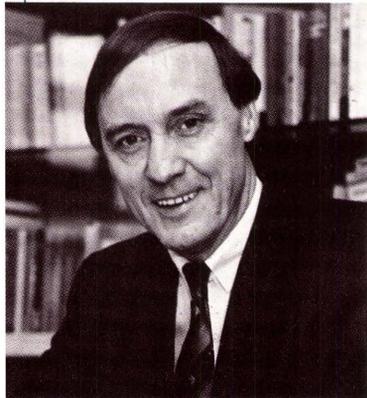
### AGREEMENT ON PROTECTION OF WORKERS' RIGHTS

In February, E.C. workers and employers reached broad agreement on the protection of workers' rights in the single market. But their representatives, meeting within the Economic and Social Committee (ESC), a consultative body set up to advise on E.C. policy, held back from a more comprehensive proposal to set up an E.C. charter of basic rights.

The ESC said that employers, workers and other interest groups had agreed on the need to protect basic rights and insist that companies consult their workers ahead of mergers or restructuring. It also called for E.C. member states to introduce the necessary legislation to protect social rights.

Commission President Jacques Delors, who has stressed the importance of the "social dimension" of the E.C.'s single market, had asked for ESC suggestions before the Commission presented a detailed proposal on social and workers' rights. As the E.C. removes trade barriers, the question of protecting workers' rights is becoming a controversial issue. Socialist governments and trade unions insist the new poli-

cies are needed to protect workers from exploitation. They fear that, without any protection, the benefits of the E.C.'s open market will go primarily to big businesses, which will be able to go to those parts of Europe where labor is cheapest and rules less strict.—*Reuters*



E.C. Commissioner Karel Van Miert.

## NEW EMPHASIS FOR E.C. CONSUMER POLICY

In a February address to the Consumers' Consultative Committee, E.C. Commissioner Karel Van Miert pledged that E.C. consumer policy would be given a new priority. He said that in the run up to the completion of the internal market, it was becoming increasingly clear that more attention must be given to consumer interests and to policy in the social and environmental fields.

He outlined that priorities for such a policy should include people's health and safety, the improvement of consumer representation, consultation, education and information, and legal protection.

Van Miert explained that the consumer should be able to expect a better choice of products and services due to the increased competition in a single market once border controls and technical barriers to the free movement of people, goods, services and capital have been eliminated by 1992. This would, however, mean a new set of problems for the consumer, such as product quality, guarantees and legal protec-

tion. Van Miert noted that the single market could be effective only if these interests were taken into account and consumers' aspirations were satisfied by improving the quality of their daily lives.

He stressed that consumers should be fully informed about market operating rules, and that the market should be transparent and offer consumers adequate health and safety protection. In a dispute, the consumer should have easy access to a flexible and efficient legal system—which implies a European legal area. In this context, he stressed the need to improve the consumer's legal position throughout the Community, by, for example, cutting the cost of legal proceedings, simplifying complaint procedures—especially for cross-border cases—and lowering the legal fees for consumer protection cases. Collective complaints or actions brought by groups of associations should also be facilitated.

He added that due to the current unprecedented opening up of markets, particularly in services such as insurance, transport, financial services, tourism and maintenance, firms' operating methods would change and it was essential for the consumer's approach to change accordingly. The Commission has demonstrated the importance it attaches to consumer policy by setting up a new department that will draw up guidelines for consumer policy. These guidelines then will be sent to the Commission for adoption.

## MEP URGES END TO SOCCER PLAYERS' "SLAVERY"

Jim Janssen van Raay, a Member of the European Parliament, recently called on European soccer clubs to drop their system of transfer fees and allow players to move freely between soccer clubs in the E.C.'s member states. He pointed out

that the Parliament's legal committee had adopted a resolution calling the current system of transfer fees "a modern form of slavery," and advocated the elimination of the current limit of two to three foreign players per club, because these restrictions contravened E.C. policy of allowing people to move and work freely within the Community.

While the European Parliament has no power to impose its will in such matters, Janssen van Raay said he expects the Commission to urge individual clubs and UEFA, European soccer's governing body, to adopt the resolutions. The E.C. Commission and UEFA had previously met in June 1987, but talks then ended in deadlock. National and international soccer federations say that this proposal would undermine the sport and lead to clubs becoming ragged mixtures of different nationalities.

Janssen van Raay said that if the UEFA failed to comply with the resolution this time, the Commission should consider fining clubs for breaching E.C. policy and, if necessary, take the issue to the European Court of Justice.—*Reuters*

## SCIENCE & TECHNOLOGY

### E.C. AND JAPAN SIGN AGREEMENT ON FUSION RESEARCH

An agreement between the E.C. and Japan for cooperation on fusion power research was signed in February in Brussels by Vice-President Filippo Maria Pandolfi, the Commissioner responsible for Science, Research and Development, and Technology, and Ambassador Muneoki Date, the Head of the Japanese Mission to the European Community.

This is the first formal agreement between the two parties in the scientific field, and will facilitate cooperation between

the fusion research programs of the E.C. and Japan. It reflects the important role of the E.C. in science and technology, especially in fusion, and the growing Japanese emphasis on research with long-term goals.

Fusion is expected to become an attractive source of energy in the next century. Because of the nature of the science and technology involved, fusion reactors could offer very significant safety and environmental advantages, and would run on almost inexhaustible and widely available raw materials. The development of fusion power still requires a major and sustained research effort, however.

The E.C. has a long-term integrated program that brings together all controlled nuclear fusion research carried out in member states and in Sweden and Switzerland, countries that are associated with the program. It has enabled the E.C. to undertake important projects in this field, notably the Joint European Torus in Culham near Oxford, the largest tokamak experiment in the world. (A tokamak is a ring-form construction inside which fusion reactions that liberate temperatures of several millions of degrees centigrade are confined.)

Japan, the United States and the Soviet Union have comparable fusion research programs. Although their particular avenues of research are different, cooperation is possible between these programs because their strategies are broadly similar. Since no single program can encompass all avenues of research, access to experiments and the sharing of experience, results, and research and development tasks can be of mutual benefit and could accelerate progress towards useful fusion power. To bring such closer cooperation about, the E.C., the United States, Japan and the Soviet Union agreed in 1987 to work together in this field through the ITER project, which brings together all four major fusion programs as equal partners in the conceptual design of an engineering test reactor.

## TRANSPORT

### SINGLE AIR CONTROL PROPOSED

At a February meeting in Murcia, Spain, E.C. Transport Ministers proposed setting up a single air-control center to ease traffic in Western Europe's busy skies. Spain's Transport Minister, Jose Barrionuevo, chairman of the meeting, said that the Ministers agreed on the need to strengthen international aviation institutions, and suggested that one way of doing so might be to establish one control center replace the existing 10. He added that Spain and Italy would apply to join the Eurocontrol air traffic organization. Italian Transport Minister Giorgio Santuz proposed a further security measure: an investigation by the E.C. into the hazards caused by aging airlines.

The meeting came in the wake of the crash of a Boeing

747 in the Azores, in which all passengers and crew were killed, while trying to make a routine refueling stop. Portugal's Transport Minister Joao Maria Oliveira Martins told his colleagues that a preliminary investigation into that crash had ruled out an air traffic control error.—*Reuters*



Abel Matutes, responsible for relations with Latin America.

## FOREIGN AFFAIRS

### E.C. BACKS CENTRAL AMERICAN PEACE PLAN

At a meeting with their Central American counterparts in Honduras, E.C. Foreign Ministers pledged to increase economic

aid to all five nations in order to bolster a regional plan for peace and democracy, signed by the countries of that region a few weeks earlier.

"In the past ten years, Central America has gone through the worst crisis in its (post-colonial) history," Spanish Foreign Minister, and spokesman for the Council of Ministers, Francisco Fernandez said. "Now there is a real possibility of leaving the crisis behind." This position indicated E.C. support for the peace plan, which calls for the disbanding of the Nicaraguan Contra rebels and the dismantling of Contra camps in Honduras, in return for democratic reforms in Nicaragua. Fernandez warned that the countries must comply with those accords, and E.C. Commissioner Abel Matutes, responsible for Latin American relations, said that aid would be cut to those who did not do so.

Part of the Central American aid request is for a \$172-million fund that would help revive trade between the five nations

over the next two or three years. Matutes said he had met with U.S. Secretary of State James Baker, who had a "very positive view of the [E.C.'s] actions," and expressed interest in carrying out joint economic projects with the E.C. and Japan in Central America. This position was made despite U.S. doubts that Nicaragua would obey the peace plan accords and grant democracy and free elections by February 25, 1990, as promised by Nicaraguan President Daniel Ortega.

Honduran President Jose Azcona stated that there was a transition from armed to peaceful struggle in the region, one sign of which was Salvadorean President José Napoleon Duarte's willingness to hold new peace talks with Salvadorean guerrillas. Azcona also said he wanted to help revive trade within Central America and would propose eliminating customs barriers on all food products at a planned Central American summit in Honduras later this year.—*Reuters*

## EUROPE IN 1992: THE LARGEST MARKET IN THE WORLD



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PROGRAMS.

DESMOND DINAN

If a catchy acronym is a key to success, then the European Community Studies Association (ECSA) is off to a good start. ECSA, as in *excellent*, may not become a household word, but should soon be familiar to students, scholars, business people and lawyers who work on E.C. issues.

ECSA was founded in November 1987 by a group of Europeanists meeting in Washington, D.C. Its objective can be simply stated: to foster and promote study of the E.C. in North America. After an impressive burst of activity in the late 1950s, 1960s and early 1970s, American scholarship on the E.C. languished. Now, after a lengthy hiatus, research and courses on the E.C. are once again on the rise in American universities, largely in response to recent initiatives within the Community itself—notably the decision to establish a single European market by the end of 1992.

ECSA seeks to reinvigorate and stimulate E.C. studies in a number of ways. First, by organizing seminars, workshops and conferences, at which scholars and practitioners of E.C. affairs can discuss each other's work, explore areas of common interest and launch collaborative projects. Second, by promoting E.C. studies in university and college curricula and by encouraging graduate students to pursue research on the Community. Third, by developing trans-Atlantic contacts with European academics, associations and institutions engaged in E.C. studies. Finally, by publishing a newsletter to keep ECSA members informed of the latest developments in the rapidly developing field of E.C. studies.

Membership of ECSA is open to anyone

with an interest in the Community. Dues are \$20 a year, or \$10 for students. At present, the Association has approximately 200 members. You can join by sending your name, institutional affiliation (if any) and address, together with a check payable to ECSA, to: Leon Hurwitz, Department of Political Science, Room 1744, Rhodes Tower, Cleveland State University, Euclid Avenue at East 24th Street, Cleveland, Ohio 44115.

The members of ECSA's interim executive committee, chosen at the November 1987 Washington meeting, are Glenda Rosenthal (Columbia University), Roy Ginsberg (Skidmore College), Leon Hurwitz (Cleveland State), Don Puchala (South Carolina), Pierre-Henri Laurent (Tufts) and myself (George Mason University). Glenda Rosenthal, Roy Ginsberg and Leon Hurwitz edit the newsletter, and have so far produced two outstanding issues.

One of the interim executive committee's first tasks was to write a constitution for the Association. The draft constitution, which appeared in the first issue of the newsletter, will be voted on at ECSA's first business meeting. The membership of the Association will also elect the first executive committee (as distinct from the *interim* executive committee) at that time.

The business meeting will be held during ECSA's inaugural conference at George Mason University in Fairfax, Va., on May 24-25, 1989. Calls for papers for the conference, on "The European Community in the 1990s: Emerging Concepts and Policies," were made last fall in advertisements in magazines and journals, and in a mass mailing to potential participants. In terms of volume, range and quality, the response was exceptional for

an inaugural event. At a meeting in Washington on January 21, ECSA's Program Committee—Leon Lindberg (Wisconsin at Madison), Louis Orzack (Rutgers), Hugo Kaufmann (Queen's, New York) and I—considered more than 140 paper abstracts and panel proposals. Submissions came from as far afield as India, Africa and New Zealand, as well as from Canada, the United States and Europe.

The provisional conference program lists panels and discussions, not only on the causes and likely consequences of the unified market decision, but also on other political, economic, legal, sociological, scientific and technological developments within or related to the European Community. Conference participants will include some of the leading European and American authorities on the single market, the Common Agricultural Policy, European Political Cooperation and European company law, to name only a few of the areas and issues to be covered.

The conference is open to the public. Individuals from all academic disciplines, the public sector and the business community are encouraged to attend. For further information, write or call me at the Department of History, George Mason University, 4400 University Drive, Fairfax, Va. 22030; Tel.: (703) 323-2244.

Finally, I would like to say that ECSA's fledgling accomplishments, especially producing the newsletter and organizing the conference, would not have been possible without the generous financial and professional support of the E.C.'s Washington Delegation.

Desmond Dinan is Professor of History at George Mason University.

# BOOKS IN REVIEW



**Europeans.** By Jane Kramer. New York: Farrar, Straus & Giroux. 561 pages. \$22.95

MICHAEL D. MOSETTIG

In a tradition nearly as old as the magazine itself, the *New Yorker* has based a journalist/essayist in Paris to write letters home on events and trends from that capital and other European venues. For five decades, that assignment was carried out by Janet Flanner, writing under the name of Genet. Her reportage chronicled not only the passage of both epic and minor events, but the many moods that coursed through Paris and other European locales. Her beat extended far beyond politics, capturing the excitement of literary, artistic and social Paris and the numerous and sometimes famous expatriates drawn to it.

The tradition goes on under Jane Kramer; but her approach is considerably different. There are some short letter-like pieces, but also in-depth reports. Flanner's pieces gave the impression that the writer knew everyone and everything of importance. Kramer probably does as well, but her preferred method of telling the bigger story is through the words, expressions and feelings of the kind of people who normally do not spend their time in the company of journalists.

Kramer's book is a collection of her *New Yorker* reportage through this decade. Most of the pieces individually stand the test of time, but there is a dated feel in some and the craving for an update. This is most noticeable in her work from England (covered for the magazine on a more regular basis by Mollie Panter-Downer, from World War II until 1986). A look at the economically and socially troubled Britain of a politically embattled Prime Minister Margaret Thatcher in 1981 sits awkwardly against what has happened since—two landslide re-elections and an economy now growing faster than any in Europe.

The essays that do stand up are those about people and ideas in France and elsewhere. The tale of a farm family of minor nobility brings alive the French attachment to the land, the idea of France drawn from the experience of the countryside and the struggle of French farmers to stay afloat amid the changing rules and enthusiasms of E.C. agricultural policy.

Another side of France, encapsulated in the rise of the racist National Front political party, is portrayed in the lengthiest report, on the town of Dreux, the first municipality in which the Front came to power. The story is told through numerous townsfolk—the local politicians, but also an Arab in the public housing ghetto, a teacher and a Portuguese immigrant. The reporting underscores the point that all politics are local, but its larger message comes in the opening sentence of a Dreux school child's essay on immigration: "*L'inconnu fait peur.*"

Kramer is hardly sentimental about France. Her essay about the *philosophes*—the young writers who were on the barricades in 1968, but who later turned against the left—asserts they were articulating for the middle class a fact ignored in the last 20 years of ideological obsession: France and its institutions always prefer injustice to disorder. She quotes André Malraux's observation that, for the French, ideas were guests, little celebrities invited in for a short while, but rarely allowed to overstay their welcome.

Whatever her criticisms of France, they are presented with a sense of empathetic understanding. Even more sentiment goes to the Portuguese, the subject of three essays. She observes that they have been dazzled by the "prosperity" of their first years in the E.C., years of credit and subsidy for which the bills are now coming due.

Where her sympathies stop is at the German border. Her reporting on the

Federal Republic of Germany—on Anglophilic Hamburg dealing with Bader-Meinhoff terrorists, or the village of Schlitz awaiting the deployment of Pershing II missiles—has a harder edge. The lessons of Nazism, in her view, seem only dimly learned, especially in what she sees as a trampling of individual civil rights in the quest for civil order against terrorism. In the environmentalist Green movement that came to prominence partly because of the missile dispute, she sees an effective appeal to German nationalism that works because it creates a way to be German again, by land and language, and not by history.

Her most withering portrayal is of Kurt Waldheim (who she says left the United Nations Secretary-General's post with the organization's silver set) and the people who elected him President of Austria.

From Italy to England, Kramer has sketched parts of Europe and infused them with enough reporting to inform, but not to overwhelm. With very deft writing she has given American readers a sense of its moods and sometimes conflicting passions. But for all this book's many gifts, the totality of the Europe portrayed here is one largely of the anxieties of the earlier part of the decade, of unemployment, renewed Cold War jitters and Europessimism, though she never uses that term. It does not show a Europe more recently relaxed as Soviet leader Mikhail Gorbachev and former U.S. President Ronald Reagan defrost the Cold War, more optimistic with renewed economic growth and suffused with confidence and purpose, partly brought on by the 1992 internal market project. Perhaps the vagaries of publishing deadlines allowed Kramer only to catch the beginning of this shift of mood and direction. More likely, she is skeptical that it really has occurred. €

Michael D. Mosettig is senior producer for foreign affairs and defense at the *MacNeil/Lehrer NewsHour*.

## BUSINESS IN BRUSSELS

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in Illinois by 32 European corporations.

Similarly Brussels is proving a useful "catch point" for the Belgian communities and regions to promote their charms as investment locations to the international business community. "Foreign executives visit Brussels mostly for E.C. reasons, but it would be foolish of us to ignore them for that reason," says an Antwerp city official.

Thus delegations from other countries are regularly exposed to trade and investment promotions by local authorities in Belgium. There is now some evidence that, after falling behind in the competition for U.S. investment, in particular, over the past 10 years, Belgium is re-asserting its claims with some success. Given the country's striking recovery from its recent economic austerity and the bold moves being made to liberalize its financial sector, a number of consultants are telling clients that Belgium must now be ranked as a leading contender for direct investment in the context of 1992's single European market. €

Alan Osborn is the Brussels correspondent for *The Daily Telegraph*.

## THE U.S. AND 1992

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the Community's European Political Cooperation. But, informally, there remain doubts about the implications of greater West European independence in the fields of security and foreign policy. This is particularly so regarding cooperation in defense production and procurement, the management of East-West relations, and attitudes toward so-called out-of-area issues, especially the Middle East.

It is clear that the development of the E.C., looking to 1992, cannot be viewed simply in its own terms or simply as an economic exercise. While key institutions do not have identical memberships—NATO Europe lacks Ireland and the E.C. lacks Norway, Turkey and Iceland—the intersection of economic, political and security issues cannot be denied, either within Europe or in relations with the United States. As the magic year beckons, therefore, relations across the Atlantic must increasingly be managed in all these areas, together. €

John Yochelson is Vice President for Corporate Affairs, and Robert E. Hunter is Vice President for Regional Programs, at the Center for Strategic & International Studies.

## EMS

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(ERM) countries have lower inflation but also slower rates of growth than other E.C. countries, the United States or Japan, but it is difficult to argue that the EMS restricts growth. The EMS clearly shows up the interdependence between E.C. economies. Without it, domestic demand in West Germany could well have grown more slowly, but EMS adjustment rules have not pushed Germany to test whether stronger growth would have been compatible with its inflation target.

### Narrow fluctuation limits and realignments by common accord

The success of the EMS stems in large part from the formal and public commitment to visible and known currency fluctuation limits (+/- 2.25 percent around the bilateral central rate with each other ERM currency, except in the case of Italy, whose fluctuation limit is +/- 6 percent). Narrow fixed margins are credible in the currency markets, and recent convergence of inflation rates has allowed a change of emphasis to allow currencies to fluctuate within their ERM margins, thereby discouraging speculation and reducing realignments. Further narrowing of the margins is unlikely before the

## TELECOMMUNICATIONS

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### Standardization

To ease the way toward a legislated integration of the telecommunications markets, the Commission is also fostering industrial efforts within the year-old European Telecommunications Standards Institute (ETSI) to work out the European telecommunications standards for future generations of products.

The development of these standards will be crucial, particularly once the mutual recognition of type approvals is introduced for telecommunications equipment. The Commission services are putting the finishing touches on this proposal, which should be made public later this spring. If adopted by the Council of Ministers, this would mean that, once a product has been authorized for sale by one national PTT, this type of approval would have to be accepted by all other PTTs.

Without harmonized standards, however, a single type of approval has little impact because manufacturers would still have to produce according to 12 different national standards—a difficult way to reach out and touch someone. €

Elizabeth de Bony is a journalist based in Brussels.

United Kingdom, Spain and Italy are full ERM members and adhere to the 2.25-percent band. The second key to success is that realignments may only take place by common accord, thereby emphasizing the commitment of all ERM countries to the new parity grid and ruling out competitive devaluations.

The EMS does not explicitly coordinate policies in relation to other currencies, but that can take place outside the Community framework. This can create problems, for example when the U.S. dollar fluctuates. A stronger reserve role for the ECU would have made an external dimension of the EMS easier to accomplish.

The EMS rules and procedures have proved strict enough to prevent short-term pressures from diverting governments away from medium-term monetary stability goals, yet flexible enough to react to a varying monetary environment. By stabilizing exchange rates, it has contributed to general economic integration and international trade because business has avoided the risks of currency changes. In short, the EMS marks an important step in the process of monetary integration, but must meet the challenge of the full liberalization of capital movements after July 1, 1990. €

## EUROPEAN AFFAIRS

The quarterly European Affairs, published by Elsevier, is entering its third year of publication in a new format to allow for more artistic creativity. More importantly, the editorial scope of the magazine has been broadened, and, in addition to the usual contributions from well-known authors, the new issue (No. 1/1989) includes four articles on relations between the E.C. and Japan. These have been written by Jean-Pierre Lehmann, Director of the Inter-Matrix Group; Frans Engering, Permanent Under-Secretary at the Ministry of Economic Affairs of the Netherlands; Akio Morita, President of the Sony Group; and Yusuke Kashiwagi, President of the board of directors of the Bank of Tokyo.

Also noteworthy are the results of an exclusive "Eurobarometer" poll on the attitude of Europeans toward defense problems, and a special supplement on research and development programs in the Community.

# THE COMMUNITY BOOKSHELF

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