

Europe and the Clinton Victory

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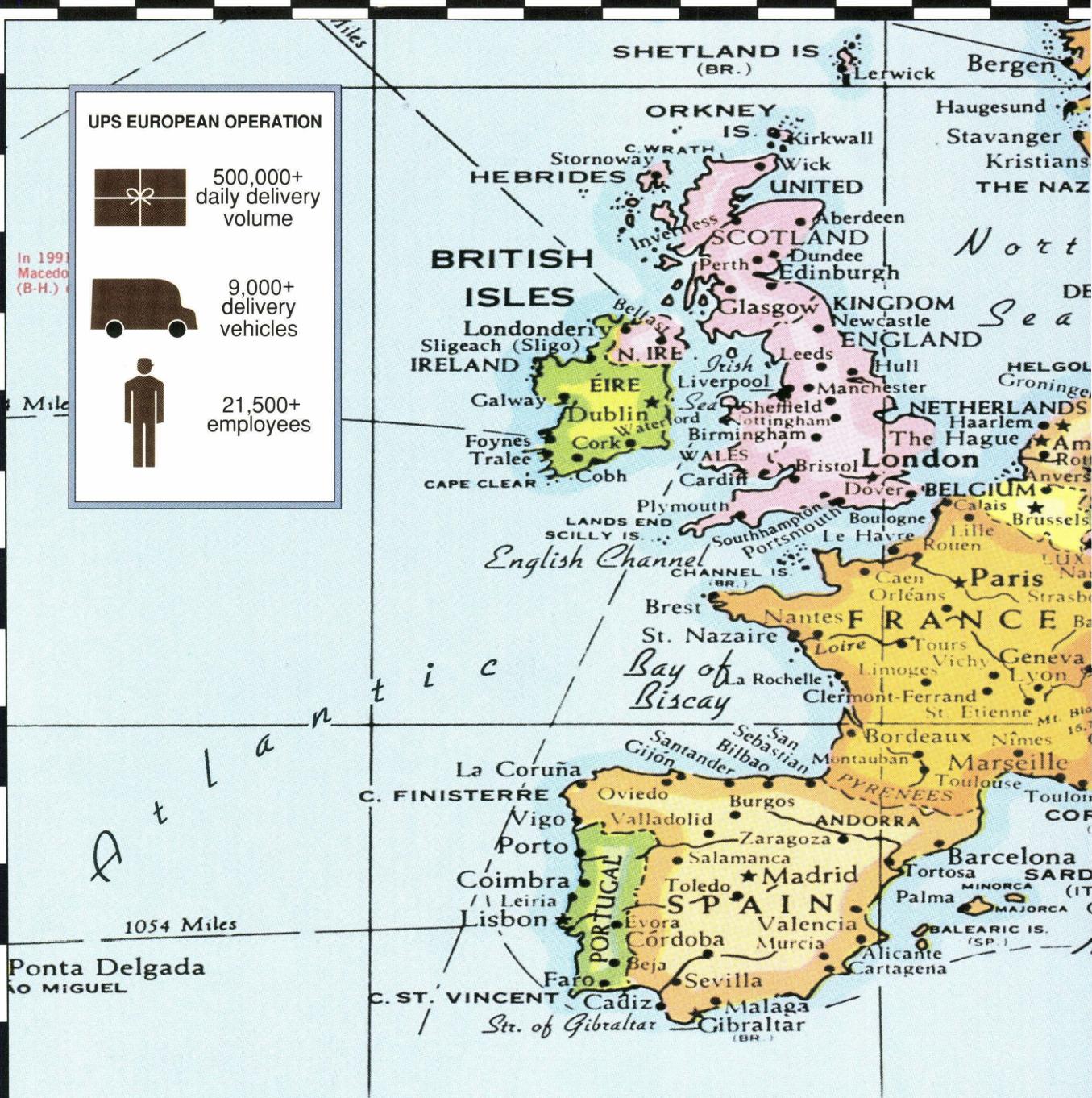
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# EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY

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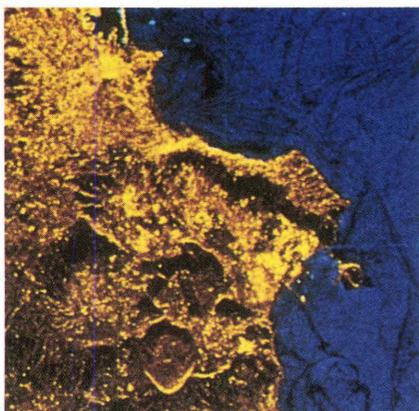
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# Letter From the Editor

The privatization of formerly state-owned industries is like a wave sweeping through Europe, from eastern Germany to the Czech republic to Russia. But is it really the economic cure-all that many tout it to be? Barry Wood takes an in-depth look at where the shift from state ownership toward private enterprise began and where it is headed. Martin Walker, Washington bureau chief for the *Guardian*, writes about Moscow's privatization efforts, and Robin Hodess profiles Germany's Treuhandanstalt, the organization set up to sell industries operated by the former East German government, and its efforts to encourage U.S. and other foreign investment in eastern Germany.



European sports fans do the wave.

*Inside Europe* looks at how the Clinton victory will affect U.S.-E.C. relations. Our European correspondents provide an overview of how the European press described Clinton's win and how Europe's view the President-elect.

Luxembourg is our featured member country. James Spellman gives an update on events in the Luxembourg business community, and Helmut Koenig offers some hot tips on traveling in and around the E.C.'s biggest little country.

In our Business section, *EUROPE* features an exclusive interview with Motorola CEO, George Fisher and asks him about his company's special commitment to quality. Fisher also talks about Motorola's strategy for doing business in the single market and in Japan. Also, Axel Krause, corporate editor for the *International Herald Tribune*, writes about European business operations in Latin America.

GATT chief Arthur Dunkel speaks with *EUROPE* about the future of the Uruguay Round trade talks. Dunkel discusses GATT's accomplishments and failures and what GATT will face in the next decade.

Also with the November issue, *EUROPE* takes a look at the new frontiers of the European Space Agency, which has quietly begun to push NASA for the title of the world's most efficient space agency. And if you think your children are destined to explore the heavens, you can give them an edge by sending them to space camp in Belgium. Diana Scimone reports on the popularity of space camps in Europe and the United States.

Next month *EUROPE* presents our year-end double issue (Dec./Jan.) with a detailed description of politics in Europe and the European Parliament. Plus, a firsthand look at the new players involved in U.S. European policy coming from the new Congress and the Clinton Administration.

Robert J. Guttman

Robert J. Guttman  
Editor-in-Chief

# EUROPE

## Publisher

Peter Doyle

## Editor-in-Chief

Robert J. Guttman

## General Manager

Anne Depigny

## Managing Editor

Peter Gwin

## Editorial Assistant

Christie Gaskin

## Contributing Editors

Bruce Barnard

Reginald Dale

Axel Krause

## Editorial Interns

Daniel P. Galo

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Jonas Weiss

## Design

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



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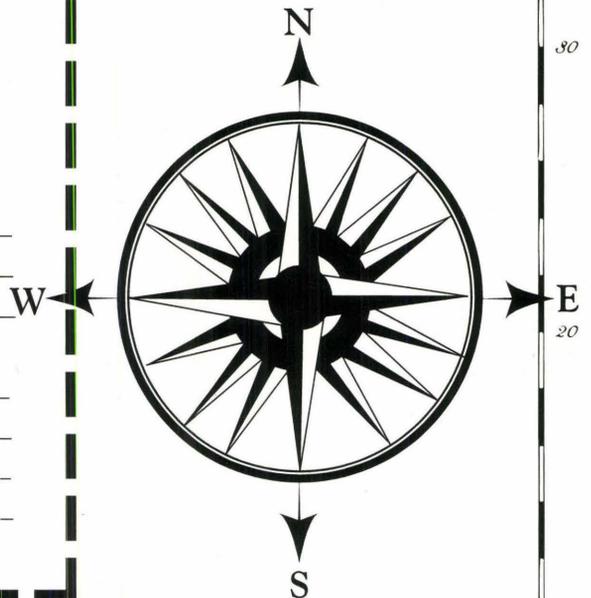
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# CATCHING

**Privatization**

**Is Sweeping**

**Through**

**Europe.**

**P**rivatization, the foremost public policy trend in the world today, is a wave washing over the planet. It is touching every continent and

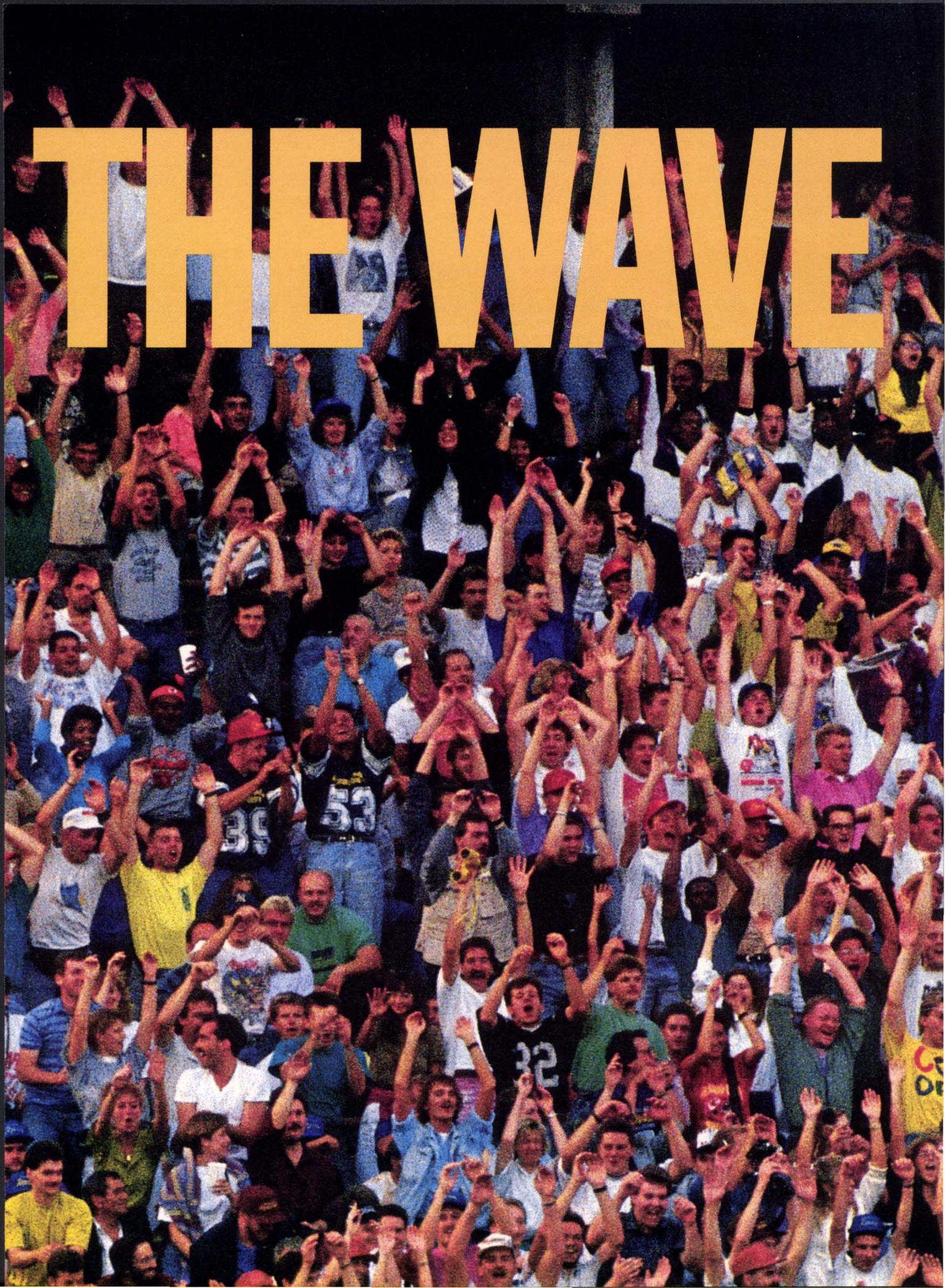
land—from Russia to Mexico, from Germany to New Zealand. That state participation in the economy should be reduced has in the 1990s become an axiom accepted as much by China's aging communists as by libertarian capitalists like Czech Prime Minister Vaclav Klaus. The de-nationalization process—tested in Chile in the 1970s and vigorously pursued by the U.K.'s Margaret Thatcher in the 1980s—is driven by the goals of boosting enterprise efficiency and trimming fiscal deficits. Privatization, whether for ideological or pragmatic reasons, is seen

as a vital component in boosting national competitiveness. It is the foremost public policy trend in the world today.

**By Barry D. Wood**

It is a measure of how fast the world is changing to recall that as recently as the early 1980s some Western governments were still nationalizing private enterprises. François Mitterrand, before his astonishing reversal of policy two years later, nationalized French banks after assuming the presidency in 1981 on a platform that promised an expansion of the state sector.

# THE WAVE



As late as the mid-seventies Portugal nationalized the biggest sectors of its economy. In Africa, Latin America, and most of developing Asia it was de rigueur for governments to essentially run the economy.

Typically the state ran the airline, the shipping company, the steel mill, road transport, as well as the public utilities. Wholesale nationalization was defended as the best way to achieve both growth and social welfare. Competition was seen as a dubious luxury, inappropriate for developing economies, and it was even argued that there was efficiency to be derived from having the state as a monopoly producer. Entrepreneurship was never mentioned.

By 1992 this statist economic model had collapsed along with the Berlin Wall and the Soviet Union.

The word privatization first appeared in the late 1960s and is attributed to the Vienna born management guru and professor Peter Drucker. He spoke of the need to "re-privatize" state enterprises if the goals of consumer satisfaction, efficiency, and profitability were to be at-

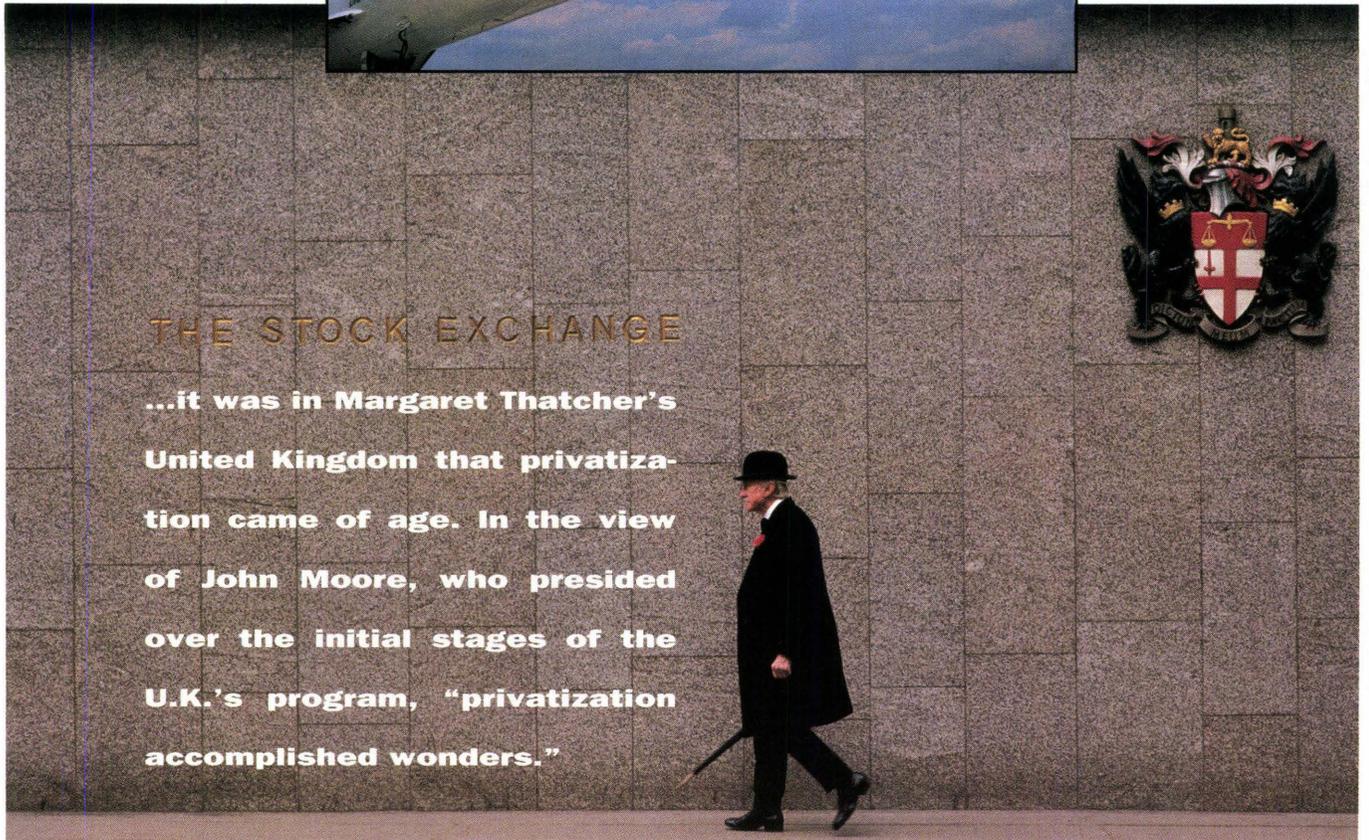
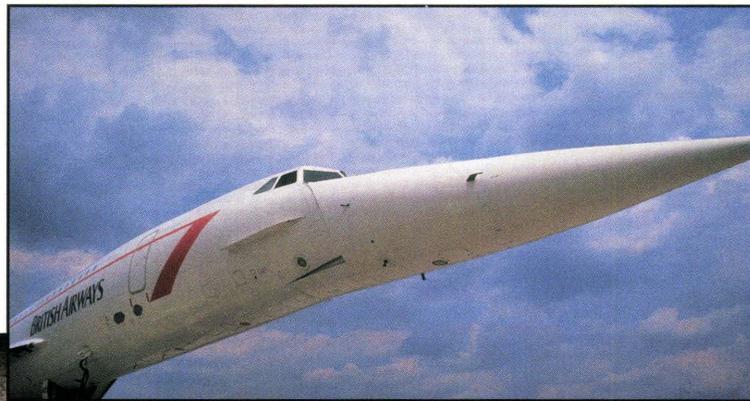
tained. The word, "privatization," however, made it into Webster's dictionary only in 1982.

The systematic practice of selling off state assets began in Pinochet's Chile. Beginning in the late 1970s, Chile sold off 250 state enterprises that accounted for approximately 25 percent of economic output. Entire sectors of the economy were privatized—steel, electricity, telecommunications, airlines, nitrates, sugar, and banking. The result stunned observers both inside and outside the country. While the rest of Latin America declined, Chile's economy grew. Significantly, the democratically-elected Aylwin government that succeeded Pinochet in 1990 chose not to reverse the privatizations undertaken by the discredited dictator. Chile became a model, as its pioneering privati-

zation experiment was emulated throughout Latin America. Mexico established a privatization ministry in 1988 and has sold off 1400 companies, something that has earned the government \$23 billion dollars. Argentina in the past two years has privatized in a massive way—selling off telecommunications, transport, and other basic industries, earning \$2 billion in the process. Argentina wants to have 90 percent of its state industries privatized by the end of this year.

But it was in Margaret Thatcher's United Kingdom that privatization came of age. In the view of John Moore, who presided over the initial stages of the U.K.'s program, "privatization accomplished wonders." It improved enterprise performance in every area—profits, productivity, labor relations,

and customer service. Begun as what Moore calls a radical experiment, privatization "not only rescued individual industries and a whole economy headed for disaster, it transformed public attitudes toward economic responsibility



and the concept of private property." Altogether the U.K. has privatized 46, or two thirds, of its state enterprises over the past decade. The public impact of this transformation has been profound.

Alan Walters, who was a close Thatcher adviser, says all agree that the former state corporations—whether British Steel, Airways, Telecom, Gas, or Petroleum—are far better off under private ownership. John Moore stresses the pluses of spreading share ownership and the financial gains to the government. State enterprises, he asserts, cost the exchequer three billion pounds in 1979 while privatized companies in 1989 and 1990 fattened the state purse by two billion pounds.

Moore identifies the 1984 sale of British Telecom as a watershed. Not only was it the world's largest share offering to date (four billion pounds), but it was nine times oversubscribed. More than two million people sought shares, demonstrating in his view, that ordinary people understand equity markets and the benefit of share ownership.

Indeed more than 90 percent of British Telecom employees bought shares in their company, a practice repeated at British Aerospace, British Ports, and Cable and Wireless. Stock ownership, confined to a tiny seven percent of the British population in 1979, has grown to 25 percent, which compares to 21 percent in the United States.

In the view of Milton Friedman, the Nobel Prize-winning economist, the success in the U.K. is the main reason the Germans, French, Italians, and even Swedes, are launching their own privatization programs today.

Doubts persist whether the privatization wave will have the same impact on the western part of the continent that it had in the United Kingdom. In the view of Harvard business school professor Jack Donohue, the author of *The Privatization Decision*, there is less of an ideological divide on the continent between the public and private sectors. The Germans and French, he says, are more pragmatic about state enterprises and tend to run them better on a commercial basis. Milton Friedman agrees, and doesn't expect the privatization trend to penetrate very deeply into the principal West European economies.

Nonetheless, in July of this year the German government announced cabinet approval for a far-reaching plan to sell off the profitable telecommunica-

tions unit of the Deutsche Bundespost, reduce to 25 percent (from 51.6 percent) the government holding in Lufthansa, and sell off the loss-making, combined railways of eastern and western Germany by the year 2002.

Jack Donohue, who enthusiastically favors privatizations where the economic environment can be competitive, has serious doubts when it comes to selling off public utilities. He believes the U.K. would have been better off if it hadn't privatized the gas and water utilities, and he believes Germany will regret selling off its state owned rail system. "Have you ridden (western) German trains recently?" he asks. "They're fantastic; so why tamper with them."

Arrayed against that view is the sharp pencil perspective of Heinz Durr, the German railways new chairman. He is alarmed at the prospect that the combined railways could lose a staggering \$8 billion this year (nearly \$5 billion in western Germany). The former chief of the AEG electrical group says, "the main reason for west German railway's dismal performance is that it is run as a public authority."

But even in the U.K. privatizing the railways presents huge problems. Current plans are for British Rail to be sold off piecemeal. Freight operations will be sold outright, but passenger services will be franchised out, while ownership of the rails will continue to be a state enterprise. The traditional privatization goals of increased competition, greater efficiency, and broadened consumer choices are more difficult to achieve where public welfare considerations—like maintaining passenger service to remote areas—predominate.

For Milton Friedman, however, there's no problem. "The priority," he says, "has to be to get the state out of the economy."

Like Germany, Italy's yet to be finalized privatization program is driven by fiscal considerations. In Italy the state accounts for a European Community high 17 percent of output. The Italian state is involved in a myriad of industries, ranging from steel to energy, transportation, telecommunications, semi-conductors, foods, insurance, banks, and oil and gas exploration. Threatened with financial calamity from a public debt that exceeds 100 percent of output, Italy is desperate to stop the hemorrhaging of its budget. The new government of Giuliano Amato,

awaiting parliamentary approval of a draconian budget, has converted the four giant state holding companies into joint stock companies and wants to sell off 45 percent of their assets. There is an urgent need for the government to obtain revenue from the planned sale to reduce the public sector deficit from its current 11 to 13 percent level. Indeed, should the Maastricht formula for monetary union proceed, Italy—like other Community members—will have to get its fiscal deficit down to the mandated limit of 3 percent of GDP by 1996.

In France, where the state makes goods as diverse as cars, trucks, and television sets, there is less of a fiscal imperative to privatize. Nonetheless, state participation has been reduced in several industries—including oil, insurance, and banking—earning the government around \$2 billion this year alone.

Privatization, say the experts, is no panacea for achieving growth. But as the World Bank unequivocally states, "Private ownership itself makes a difference. Some state-owned enterprises have been efficient and well-managed for some periods, but government ownership seldom permits sustained good performance over more than a few years."

Will the privatization wave be for the 1990s what deregulation and entrepreneurship were for the 1980s? No one knows, but the movement is still expanding, not contracting. Ironically, the United States lags behind in privatization. While its public sector was never as big as Western Europe's, the Libertarian Reason Foundation in Los Angeles has identified \$200 billion in federal assets that it believes could be sold. Ed Hudgins of the conservative Heritage Foundation faults the Bush administration for being "on the wrong side of history, slowing down a profoundly important global trend."

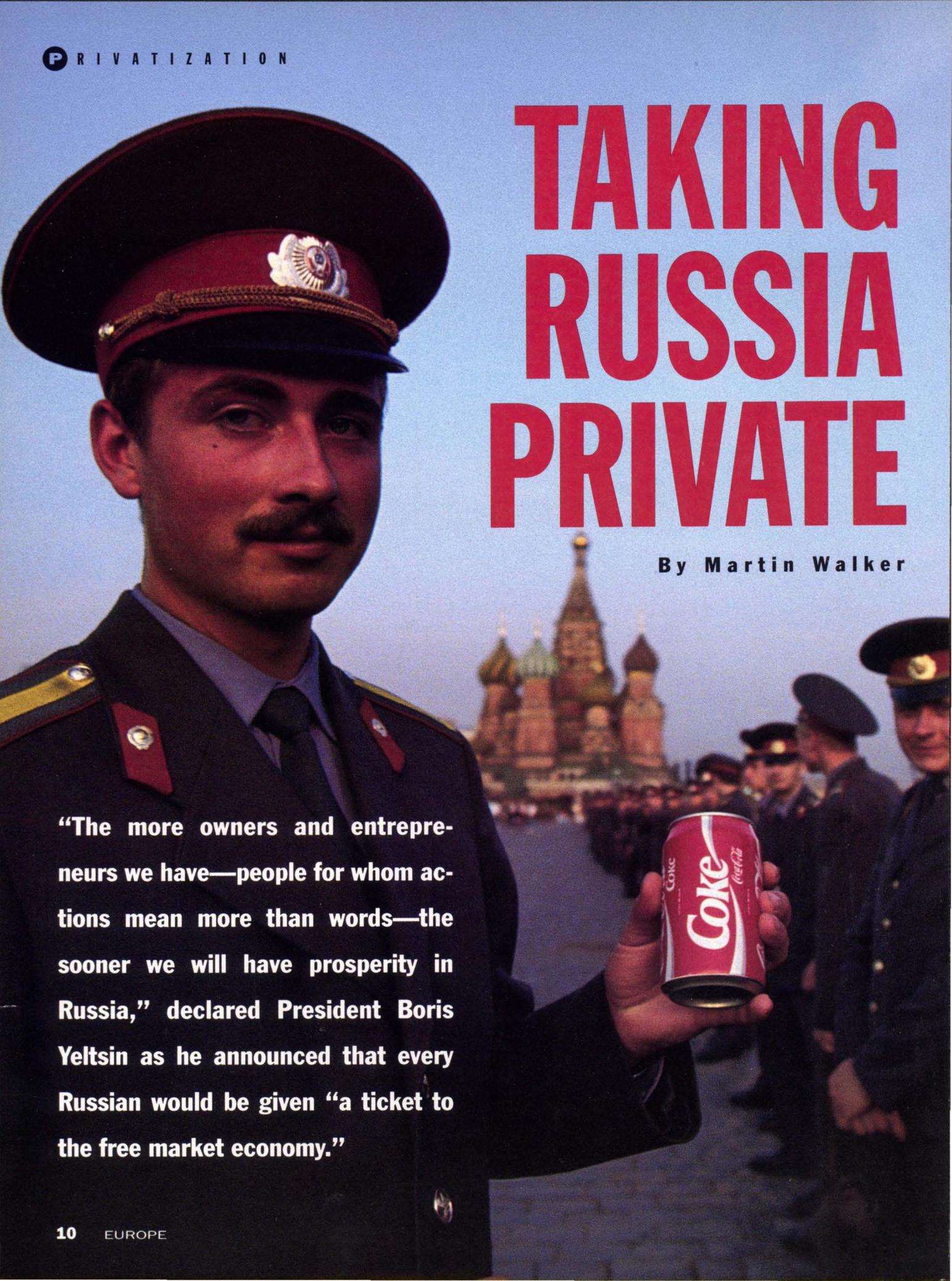
Privatization is the triumph of Adam Smith over Karl Marx. It is the recognition that "private" can mean "better," for all concerned—workers, managers, consumers, and the public at large. It is a global trend borne of the belief that a privatized firm is not only more efficient but far more flexible and better equipped to profit in a dynamic global economy. **E**

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*Barry D. Wood writes about international economics from Washington, D.C. His article, "The Eastern Bloc Two Years Later," appeared in the March issue.*

# TAKING RUSSIA PRIVATE

By Martin Walker

A man in a dark blue Russian military uniform with a peaked cap and a mustache is the central figure. He is holding a red can of Coca-Cola in his right hand. In the background, St. Basil's Cathedral is visible, and other soldiers in uniform are partially seen. The scene is set outdoors during the day.

**“The more owners and entrepreneurs we have—people for whom actions mean more than words—the sooner we will have prosperity in Russia,” declared President Boris Yeltsin as he announced that every Russian would be given “a ticket to the free market economy.”**

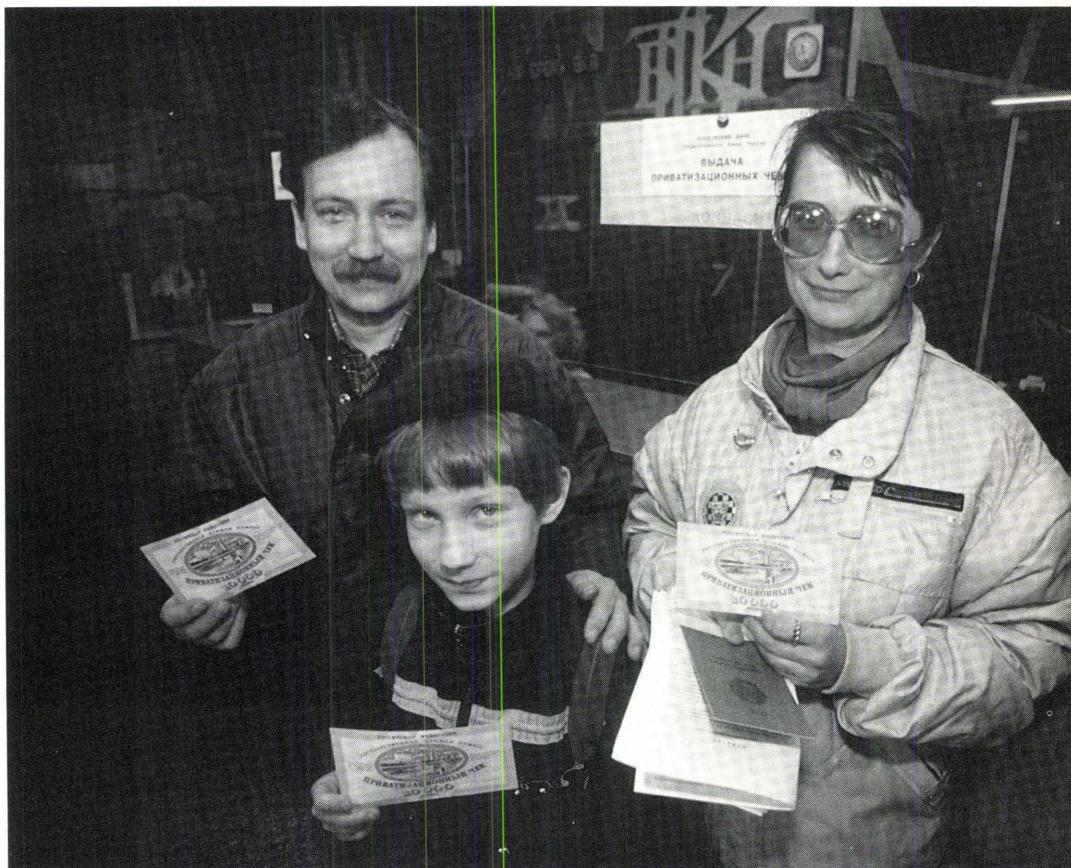
**P**resident Yeltsin chose August 19, the first anniversary of the failed Moscow coup, to announce the new privatization program to give each of Russia's 150 million citizens a share in the country's shrinking industries. The date was chosen to symbolize the crucial political character of this reform, whose ambition goes far beyond the economy.

"The task is to transform the Russian national character, to recover from the effects of 70 years of a Communist system which tried to abolish the entrepreneurial instinct as a matter of state policy," says Anatoly Chubais, the director of the privatization program. "This is the starting point of the capitalist education of the Russian people."

Distribution of the vouchers, each worth 10,000 rubles, about three months of the average Russian salary or roughly \$30 at the latest exchange rate, began on October 1. It was not an overwhelming success, coming just two days after Economy Minister Alexander Nechayev reported that industrial output was expected to drop a further

ten percent in the first six months of next year. (That will mean industrial output is less than two-thirds of the level in 1989.)

In eastern Siberia, *Itar-Tass* reported, ruthless brokers toured remote villages offering 200 rubles in cash for the mysterious vouchers. Some brokers even came across the border from China. At the Moscow Commodity Exchange, 30-day futures in the vouchers were being traded at less than 8000 rubles, a 20 percent discount on the face value. So far, few foreign investors have chosen to exercise their right to buy vouchers and to use blocks of them to buy shares in privatized companies.



**The Russian vouchers are only valid until the end of this year—by which time they are supposed to be redeemed either for shares in an individual company or in one of the many mutual funds or investment trusts which are springing up.**

But Western media magnates should not dream of buying Russian television. The privatization scheme does not cover all sectors of the economy. Broadcasting, energy, gold mining, and defense industries are all excluded, as well as nuclear power stations. Also, vouchers cannot be used to buy land.

The formerly state-owned enterprises can choose from various kinds of privatization, whose main common element is to ensure that the majority of shares are reserved for the existing workers and managers. And in some "strategic" industries, the government has reserved a large block of shares for itself. Moscow's giant Zil works, which produces the obsolete Moskvich car, the hand-built Zil limousines (which used to carry the Politburo members), and an array of armaments, will remain 49 percent government-owned.

The vouchers are only valid until the end of this year, when they are supposed to be redeemed, either for shares in an individual company, or in the mutual funds and investment trusts which are springing up. The government literature, on display in post offices and savings banks and being broadcast over radio and television, suggests groups of friends or workers put their vouchers together and buy up a store or small repair shop.

The program has many critics, most notably Mikhail Gorbachev, who, without explaining his reasons, denounced it as "a fraud against the people." One legislator stomped up to the parliamentary seat of the program's author, Anatoly Chubais, and contemptuously tossed a heap of vouchers at his feet. Western economists, who already dread the prospect of hyperinflation in Russia, note that the voucher program represents an injection of another 1.5 trillion rubles into a badly strained economy.

But Western governments and ex-

perts are trying to help. The World Bank's International Finance Corporation is making privatization handbooks available to every municipality. The United Kingdom's Know-How Fund has been used to train Russian businessmen in the way to set up and trade mutual funds. And the European Bank for Reconstruction and Development (EBRD) is helping devise programs for the eventual privatization of the very largest enterprises, which will for the moment be kept out of the joint stock program.

If the voucher program seems to

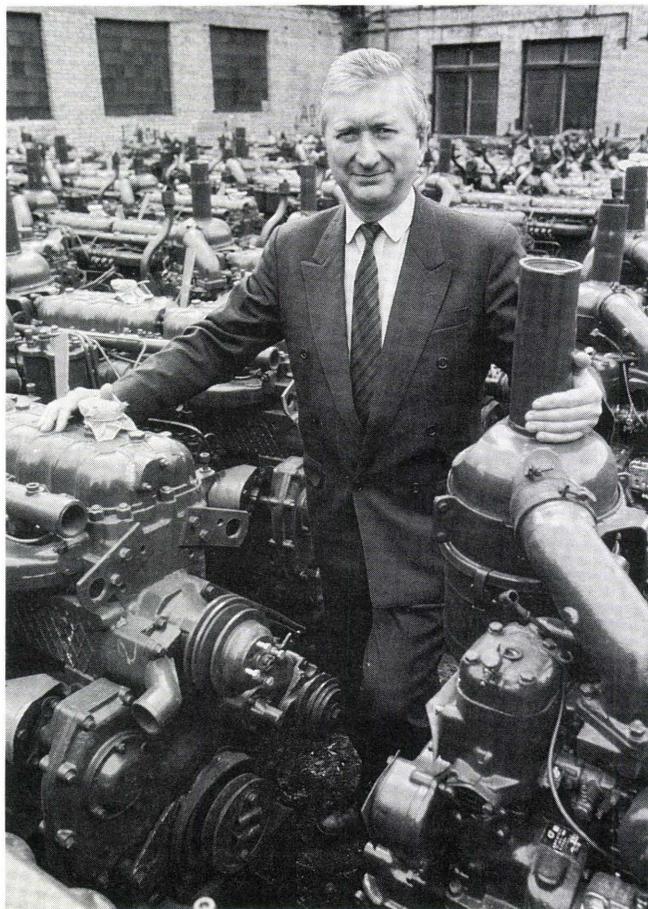
the Yeltsin government unless they are allowed to buy more than just 51 percent of their firms.

The other main group of home-grown critics have not been bought off. These are the new businessmen and entrepreneurs in Konstantin Borovoi's new Party of Economic Freedom, who want privatization to eat much further into the government's reserved share. Borovoi, a passionate advocate of the free market, made himself into a ruble multi-millionaire through the Commodity Exchange.

"The habits of government planning and control run very deep. These people have a planner's mentality, and so do not realize that the market must be set free to establish a real price for the various enterprises," Borovoi told radio listeners. "If that does not happen now, it will have to happen later. But many enterprises which could be saved and restructured could have collapsed by then."

By the end of this year, Chubais estimates that about 70 percent of Russia's industrial enterprises will fulfill his requirements for transforming themselves into classic joint-stock companies. But he is not too clear about the fate of the remaining third of the country's industry. He hopes to satisfy the critics, explain all the wrinkles, and answer all the outstanding questions with the government's planned information blitz at the end of the year. But already, the vouchers carry a government health warning.

"Don't sell your voucher as soon as you get it. During the first several months after receiving your voucher, the market price might vary," says the information poster in the post offices. "Remember: The state does not guarantee that your investment won't be lost. There is only one guarantee of your success—your common sense." **E**



**Russian citizens can choose to trade their vouchers for shares in a variety of enterprises, such as this Siberian motor factory.**

give the inside track to the managers and best-organized workers in existing enterprises, that is exactly what it is intended to do. The system has been deliberately structured to buy off the two largest groups of critics, with the biggest political clout. These are the traditional managers and trade unionists who have come together in a political movement called the Civic Union. They complain that economic reform is going too far, too fast and keep threatening to mount a political challenge to

*Martin Walker, formerly the Guardian's Moscow bureau chief, is now the bureau chief in Washington. His article, "Welcome to the Euro-Future," appeared in the July/August issue.*

**N**izhny Novgorod means Lower Newtown. But the old Russian trading city of Nizhny Novgorod became infamous under its Soviet name of Gorky, the closed city of defense industries to which Nobel human rights laureate Andrei Sakharov was exiled. Now it is the showcase for Russia's bold new privatization program.

Back in Tsarist days, there was a saying "St. Petersburg is the brain, Moscow is the soul, but Nizhny Novgorod is the wallet of Russia." And since April of this year, the old wallets have been coming out again for the auctions to buy the formerly state-owned shops which are put on sale each week.

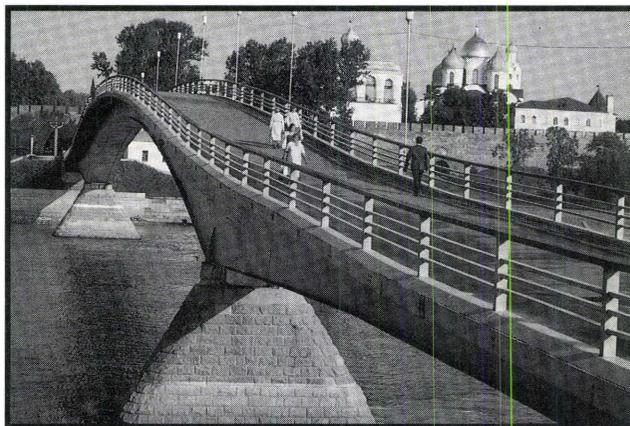
With advice and administrative support from the International Finance Corporation (IFC), the private sector arm of the World Bank, Nizhny Novgorod became Russia's symbol of privatization when Vera Pavlova bought the ornate pre-revolutionary Dmitrievsky cheese store for 4.5 million rubles.

With the 30 percent discount for groups of employees buying the shop where they had worked, Vera Pavlova and her workmates finally paid just over 3 million rubles—around \$30,000 at the then rate of exchange. Nine of the 22 shops sold on the first day, which ranged from a small electrical repair shop to a crystal and glassware store that sold for 10 million rubles, went to former employees.

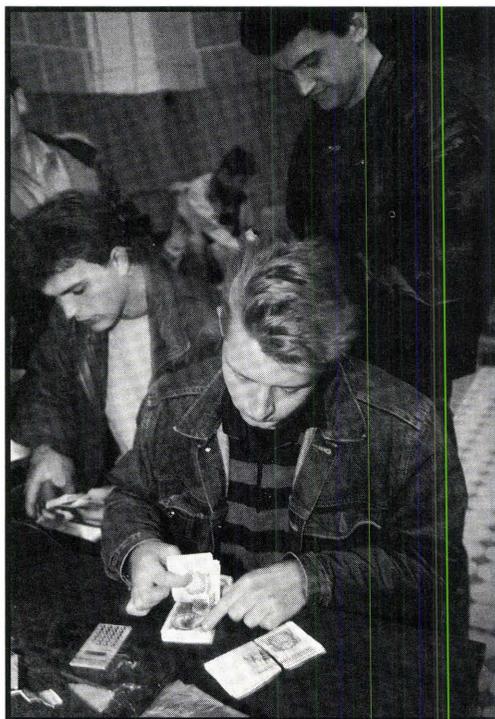
"We have finally been able to form a basis for privatization," declared Yegor Gaidar, the acting prime minister and chief architect of Russia's historic return to capitalism, as 50 bidders vied to become entrepreneurs. "I see what was done today as wonderful work, a model which could be repeated throughout Russia."

Since the auctions began in April, more than 400 shops have been sold to private owners, or to co-ops of former employees. The IFC has produced a glossy booklet explaining how to launch a similar auction system for shops and retail trade in other cities in Russia. But the very success of the Nizhny Novgorod has thrown up a series of other hurdles in the path of Russia's lurching progress toward a mixed economy, and eventually toward full-scale free enterprise.

First, the retail sector is the easy part, with the individual shops small and inexpensive enough to be accessible to many Russian savers. There are more than 600 industrial enterprises in the city, rang-



## THE RUSSIAN WALLET



**Nizhny Novgorod (Gorky) was known in the Tsarist days as the wallet of Russia.**

ing up to the vast Gorky Automobile Plant with its 20,000 employees. Many of the rest, around 70 percent, were linked to the defense industries, from the MIG aircraft factory to the secret nuclear research city of Arzamas-16. Just outside the Nizhny Novgorod boundary was where the young Sakharov made his name by developing the Soviet hydrogen bomb.

Second, the retail trade is just the tip of the iceberg, the most visible and symbolic part of a much more ambitious program to privatize the wholesale trade and distribution system. There are some 2,000 retail outlets in the city, of which just 20 percent have now been sold at auction. But they employ fewer than a third of those in the wholesale and distributive sector. The IFC plan to privatize the city's trucking industry means breaking the system down into 38 separate enterprises—but it still remains dependent on state-owned supplies for trucks, spare parts, and fuel.

Third, the new entrepreneurs are already running into trouble, in securing new stocks of goods, in paying off the loans they took out to buy the shops, and in fighting off the threat from organized crime and extortion.

"We didn't want to be sold," Vera Pavlova complained to Western journalists in August, four months after buying the cheese shop. "We were raised in a state distribution system, and the store always had a good image. But now we are choked by taxes and payments. All that remains at the end of the month is enough to pay salaries."

When the auctions began, the Russian government officials who came to attend were booed and jeered by angry demonstrators, complaining that only well-heeled former Communist officials or members of the fast-growing world of organized crime could afford to buy the shops which really belonged to the people.

The city's mayor, Dmitri Bednyakov, has campaigned to persuade the doubters that "This is not a test site, not an experiment, but part of a normal working process which will endure for a long time."

With even some of the new entrepreneurs having second thoughts, the success of privatization faces an uphill battle. But the staunch backing of the Russian government, the IFC, and the Mayor gives Nizhny Novgorod a fighting chance to become once more the "wallet" of Russia.

—Martin Walker

By Robin B. Hodess

**What kind of enterprise is set up with the aim of putting itself out of business in less than five years? The answer is the Treuhandanstalt (THA), the agency in charge of privatizing business and real estate in the former East Germany. With its unique mission, THA has the tricky task of transforming a region whose economy is plagued by the inefficiencies accumulated during 40 years in the grip of communism.**

# THE

# TREUHANDANSTALT

## IN BUSINESS TO GO OUT OF BUSINESS

THE TREUHANDANSTALT was established in Berlin in March 1990. Charged with the daunting task of privatizing the economy in the five new federal states (Bundesländer), THA assumed legal ownership of all companies and property in the former East Germany—some 12,000 companies and 34.5 billion square meters of land. Its aim was to ready enterprises for eventual purchase and then to match interested investors with appropriate business opportunities.

The decision for a government agency to restructure companies before putting them on the market was not made in all the former Eastern Bloc countries. However, the July 1990 monetary union with West Germany subjected the German Democratic Republic (GDR) to instant hard currency competition, a situation particular to the former East Germany. "The government had no choice but to restructure companies (before selling them) because companies could not profit in this climate," said Peter Richthofen, a researcher on privatization at University College, London, referring to the economic situation in eastern Germany after monetary

union made one East German mark equal in value to one Deutsche mark.

With so many assets in its stead, including approximately four million employees, THA was immediately engaged in a volume of mergers and acquisitions that even the premier investment banks operating at the peak of merger mania in the late 1980s could not have imagined. But unlike commercial M&A departments, Treuhand had distinct social aims driving its activities. As Christoph Urban, until recently the managing director in charge of the New York office of THA, stressed, "The most important thing for THA is not the price offered, but the good business concept—how the company will be run. Treuhand looks at what the company will do in terms of investments, especially in technology...and at investment guarantees."

In practical terms, this means a THA offering does not necessarily go to the highest bidder. In fact, the selling price is often low in order to compensate for a buyer's commitment to retain (and later create) a certain number of jobs, to invest in equipment, and to assume partial responsibility (along with THA) for the clean-up of damage done to the

environment. In return, Treuhand offers investment incentives, including various grants, depreciation allowances, tax exemptions, etc. "If you are a mid-term and long-term thinker—and you have to be, otherwise you wouldn't go to Germany and Europe—usually you see the immense opportunity," said Urban.

By October 1992, more than 8700 companies had been privatized by THA, with proceeds of \$22 billion, investment guarantees of \$100 billion, and employment assurances numbering more than 1.2 million. Along the way, however, THA has liquidated some 1700 firms. And according to Richthofen, the German government will be \$300 billion in debt by the end of the decade because of Treuhand activities. As a result, THA's methods are not without their critics—due both to the free reign THA has been given in determining the fate of East German enterprises and to the social unrest emerging as a result of skyrocketing unemployment in the East. One Treuhand source puts the jobless rate as high as 40 percent in some regions of the former GDR. But regardless of the pace



**A worker at a paper plant in eastern Germany awaits the privatization wave.**

of change in the eastern länder or the unforeseen obstacles, the German government will continue to shoulder the burden of unification, hoping to bring the East up to economic speed as quickly as possible. Presently, Bonn is making direct infusions of capital—some \$100 billion per year through 1995—into an area about the size of Ohio with approximately 17 million inhabitants.

With all this intra-German activity, why bother to open an office in the United States, which THA did in New York in November of 1991?

It was obvious after THA's first year of operation that Germans were the investors most interested in purchasing East German businesses. Part of this was simply logistics. Investors in the United States, Christoph Urban noted, faced obstacles in the form of distance, culture, and language. Placing a branch office in New York allowed the Treuhand to redress some of these disadvantages.

"Interest has risen tremendously in America," commented Urban, who is returning to Siemens after two years with THA. "We have about 35 companies in ongoing discussion—serious discussions of serious investment." Still, foreigners, including Americans, have purchased only 450 companies in eastern Germany. At just under five percent of the total number of sales,

this number falls short of THA's stated goal of 15 percent.

Even with so many eastern German companies already sold, Urban believes that significant opportunities remain for American businesses, especially in those industries associated with building up the infrastructure of a country—construction, telecommunications, and energy. Business opportunities around the environment are also plentiful, as are the markets for the automotive industry.

Thus far, approximately 48 American companies have invested in eastern Germany, and the United States recently passed France to gain the top spot among foreign investors in the region in terms of investment guarantees. The American firms who have set up in the former GDR include multinationals such as Coca-Cola, Procter and Gamble, RJR/Nabisco, and Philip Morris, many of which had the advantage of existing European and German operations and, therefore, familiarity with the local markets.

Not all of the American activity in eastern Germany, however, is by multinationals. In fact, one of the main marketing pitches of THA's New York office has been to attract American companies who have shown little interest in or knowledge about entering the eastern German marketplace—mid-

sized firms. This is because of the 4000 or so companies left to be privatized, more than 80 percent have fewer than 250 employees. The appeal by THA to smaller American firms has resulted in several trips for Urban and his colleagues to the Midwest and other areas where Treuhand believes there are a number of companies whose owners have historic ties to Germany.

Treuhandanstalt officials remain optimistic for American investors who want to buy in eastern Germany. After all, they say, the region offers a gateway to both the E.C. and Eastern Europe—a combined market of almost 800 million people. Productivity is high in eastern Germany, chiefly due to strong growth rates and a skilled workforce motivated, some say, by fear of unemployment. Still, wages in the new länder are on the rise—Richthofen expects them to surpass those in the United States by 1993.

Nevertheless, Christoph Urban's sense is that American firms are slowly becoming more eager investors in eastern Germany because they recognize that there is a very competitive market in Europe. "If you, the company, do not go where the competition is, the competition comes to you," Urban states. "That's what happened with the Japanese...when they came to this country."

As for the notice of the THA putting itself out of business, Urban is very matter of fact. He says that the New York office should close shop by the end of 1993, about the same time Treuhand intends to finish its primary tasks. After that, THA will likely remain a sort of holding company for those firms which are in the process of being reconstructed in order to be privatized.

"After the Second World War in almost every country you had state-owned companies. But...people realized that it is not good to have companies [remain] in the ownership of the state," noted Urban. So after it plays its monumental, if temporary, role as the catalyst of change in the economy of the former East Germany, the Treuhandanstalt will slip off stage and quietly take its place among the other relics of a momentous time in European—and world—history. ☹

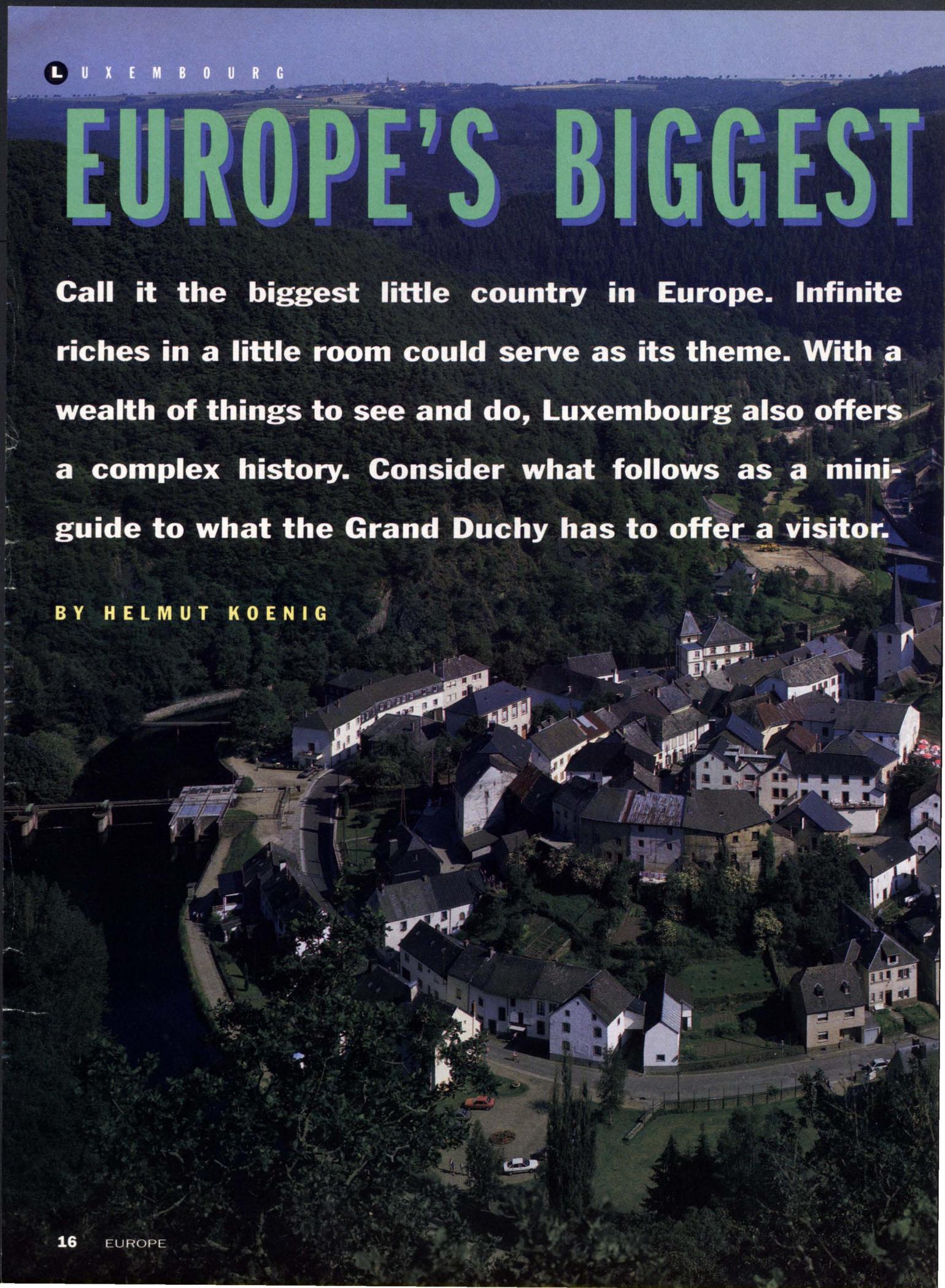
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*Robin Hodess is Assistant Director of European Security Programs at the Center for War, Peace, and the News Media in New York. She is also a freelance writer.*

# EUROPE'S BIGGEST

**Call it the biggest little country in Europe. Infinite riches in a little room could serve as its theme. With a wealth of things to see and do, Luxembourg also offers a complex history. Consider what follows as a mini-guide to what the Grand Duchy has to offer a visitor.**

**BY HELMUT KOENIG**





# LITTLE COUNTRY

**THE CAPITAL.** Any visit is likely to start in the thousand-year-old capital, as dramatic an Old World metropolis in a stunning setting as anyone could hope to reach.

Once upon a time the House of Luxembourg dominated a significant part of Europe. Luxembourg Castle, situated at the strategic crossroads of the continent, ranked among the mightiest fortresses of its time.

For four centuries, various powers battled for control of this virtually impregnable bastion, known as the Gibraltar of the North.

Tourists can follow a walking tour that includes one of the most dramatic promenades in Europe and continue along the line of fortifications to the remains of a 10th century castle and a tower built by Vauban in 1685. Here, originally, three massive defensive rings were set with 53 forts.

In summer, guided tours lead into the Casemates, a 17-mile network of underground passageways cut into solid rock that once sheltered soldiers by the thousands along with horses, workshops, and kitchens.

All this should dispel any notion that what we have here is a stage set from Franz Lehar's operetta *The Count of Luxembourg*.

The walk continues across several of the city's 110 bridges, affording splendid views of the Alzette and Petrusse Valleys far below, then winds its way down into those romantic worlds bisected by meandering streams.

Back on the high ground of the old town, Grand' Rue follows along the spine of the one-time Roman road between Paris and Trier. Nearby, Place d'Armes, an airy square rimmed with cafes, serves as the city's liveliest meeting place.

Landmarks include the Grand Ducal Palace, National Museum, Cathedral, and several noteworthy churches.

**GRAND TOURING.**

Leave the city in almost any direction and you'll soon find yourself amid seductive landscapes. The marvel of the Grand Duchy is the extent to which it has remained green and pastoral, earning the sobriquet "The Green Heart of Europe."

A third of the country's area remains unspoiled forestland.

To the west, a sinuous route follows the river Eisch through the Valley of Seven Castles, passing dense forests and peasant villages. Ancient castles look down from the heights.

In the opposite direction, a short drive leads to Luxembourg's picturesque vineyard country on the Moselle.

From the main wine town of Grevenmacher it's a comparative hop, skip, and jump to Echternach, on the river Sure. Cobble streets lined with medieval facades angle off from the central market square up a steep hillside. Nearby stands a Benedictine abbey, founded in the 7th century by St. Willibrord, the Celtic monk.

Each year on Whit Tuesday, pilgrims gather from far and wide to celebrate a feast in honor of this saint.

Echternach serves as gateway into the ravishing sector of forested domain known as "Little Switzerland." Hiking trails lead through great gorges and along rocky slopes.

Farther north, Vianden ranks as a foremost beauty spot. Ramparts and watchtowers encircle the town on the Our. The scenery has a wild and rugged grandeur. The formidable 9th century castle rates as one of the largest feudal structures on the continent.

Victor Hugo spent part of his exile in Vianden and in his writings waxed poetic on the glories of the scenic surroundings. A chairlift transports visitors into the heights for views across town, castle, and countryside.

Deep in the Ardennes, Clervaux makes for an idyllic place to base oneself for Luxembourg explorations. Dominated by a Benedictine abbey, with a 12th century castle as centerpiece and forested hills all around, here one awakens to the sound of church



**Echternach serves as gateway into the ravishing sector of forested domain known as "Little Switzerland."**

bells. Good little restaurants and pleasant hotels that offer fair prices are not difficult to find (See Details). The castle houses the famed *Family of Man* photo exhibit created by Luxembourg-born Edward Steichen. Marked walking trails lead off into the surrounding forests. Country roads tie in with other nearby destinations.

Such as Wiltz, built split-level style, 500 feet separating upper and lower parts of this old town strung along high ridge lines.

At Asselborn, the restaurant of the small, family-run Hotel Vieux Moulin serves trout straight from its own stream.

Finally, there's Esch-sur-Sure, in a most dramatic setting. Narrow, slate-roofed houses huddle around castle ruins set on a steep rock, encircled by the river Sure. One gets to this stunning hideaway via two tunnels through the mountains.

But the act of getting from one place to another makes a visit to Luxembourg so special, tooling along narrow, winding roads that you may have all to yourself, passing through open country where views are of fields of flowers, weathered barns, and lines of trees silhouetted along the horizon.

The essence of Luxembourg is in terms of intimacy and the fact that one is far from the maddening crowd. This is a safe and prosperous little country with minimal problems. With a little luck with the weather, one could hardly think of a more pleasant place for a European sojourn.

**Details**

By way of recreation, Luxembourg offers the most dense network of

marked walking paths in the world. Brochures with detailed maps are available from tourist offices in each area. Add opportunities for golf and tennis, hunting and fishing. Mondorf-les-Bains offers spa treatments, the Leisure and Sports Club has facilities for tennis, squash, and riding. Casino 200 features slots, black jack, and roulette.

Luxembourg city's most highly regarded hotel is the century-old

Cravat, overlooking the Petrusse Valley. The new, centrally located Arcotel has 30 comfortable rooms at competitive prices. Patin d'Or, on the outskirts of the city, features award winning French cuisine at prices commensurate with the dining experience.

In Clervaux, a mini-chateau has been converted into the rustic eight-room Hotel du Parc, with an ambitious restaurant on the premises. Hotel Koener, on the traffic-free area, has been under the same family management for 100 years.

Asselborn's jewel-box Hotel Vieux Moulin is built around a former watermill turned into museum. The chef-owner does wonders with the freshest of fish, and game in season, all in a pastoral setting ideal for getting away from it all.

Luxembourg's cuisine combines the delicacy of French cooking with generous portions favored in neighboring Germany. Among specialties include famed Ardennes ham, varied river fish, including trout and crawfish, served with fine white wines of the Moselle region, or locally brewed beer.

Icelandair offers the only direct transAtlantic service between the U.S. and Luxembourg (with a stop in Reykjavik). Luxair, national carrier of the Grand-Duchy, provides frequent flights between Luxembourg and all major European airports.

For information on Luxembourg, contact: Luxembourg National Tourist Office, 801 Second Avenue, New York, NY 10017, telephone: (212)-370-9850. 

*Helmut Koenig is a travel writer based in New York City.*

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# AROUND LUXEMBOURG

By James D. Spellman

## CEDEL Strengthens Computer Bridge

Europe's two largest securities clearing organizations—Brussels' Euroclear and Luxembourg's CEDEL—

Euroclear, which handles all clearing and settlement transactions at night.

"CEDEL and Morgan Guaranty Trust have progressed a long way from the early days when physical deliveries took place over the Pont Adolphe Bridge in Luxembourg," said Andre Lussi,

customers enter transaction instructions. It works with General Electric's network and SWIFT, the Brussels-based money-transfer system between banks. CEDEL's nearly 400 employees handle on average between 20,000 and 25,000 transactions daily, a dollar volume of between \$15 and \$20 billion.

Celebrating its 22nd anniversary earlier this year, CEDEL moved its operations center into a new building in the city of Luxembourg. Located on Rue Brasseur, the state-of-the-art facility houses the largest fiber-optic cable network (53 kilometers of cable) in the Benelux region. A duplicate system is being

currently handles about 65 percent of the clearing and settlement business, while CEDEL serves the remaining 35 percent.

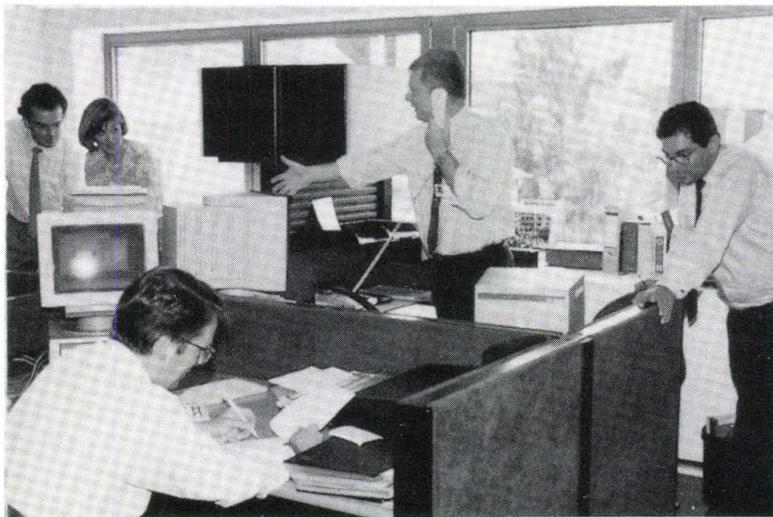
## Lufthansa Takes a Stake in Luxair

Lufthansa, the German airline, announced in mid-October that it will acquire a "significant" stake in Luxair.

Under the terms of an agreement in principle, the two airlines would cooperate more closely in technical and operational matters and in providing passenger and air-cargo services. During the next few months, the final details will be worked out.

The announcement follows months of speculation concerning which foreign airline would buy into Luxair. The speculation was sparked by an E.C. directive that limits share ownership of private companies to 10 percent and by the announcement that the Luxembourg television network, Compagnie Luxembourgeoise de Telediffusion S.A., intended to sell its 12 percent share.

Belgium's Sabena had ex-



plan to launch their renegotiated, long-awaited expanded "bridge" in the first half of 1993.

The improvements in the existing data link promise to give banks, brokers, and other financial institutions quicker turnaround time in clearing and settling bond and stock transactions in more than 30 countries. As a direct result of faster transactions, financial institutions will be able to convert securities into cash more easily. The book value of assets handled by the bridge is estimated at \$1.7 trillion for 1992.

Under the accord, CEDEL will move to a nighttime, multiple processing cycle so that it can operate in parallel with

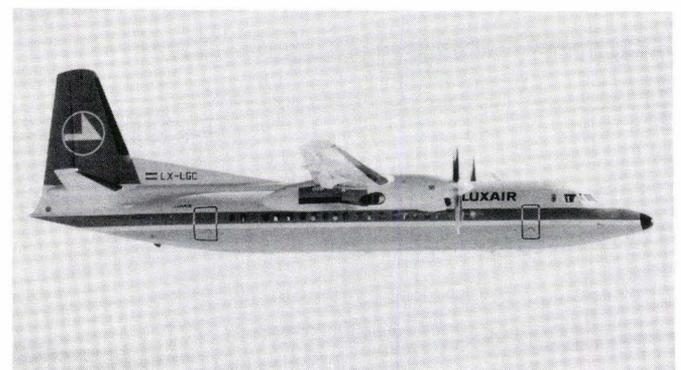
Chief Executive Officer of CEDEL.

CEDEL is owned by 105 different financial institutions worldwide, including Citibank, Union Bank of Switzerland, Credit Lyonnaise, and the Bank of China. No one shareholder owns more than five percent of the share capital. It performs clearing and settlement services primarily for bond transactions (about 90 percent of its business). Cash lending can be provided to dealers directly by CEDEL or through tripartite arrangements with CEDEL as the agent and a bank as the source of funds.

CEDEL operates its own telecommunications system called "Cedcom" in which

maintained at the headquarters as an emergency backup.

An expanded "bridge" was sought by both to deal with an exponential increase in securities transactions between the two, from \$100 million daily in 1980 to around \$7 billion daily this year. Euroclear



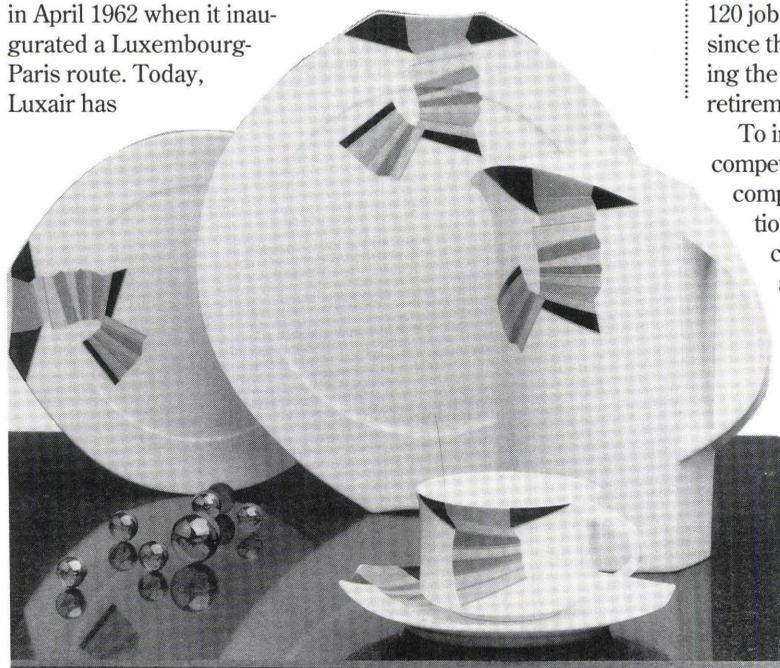
pressed interest in acquiring a stake in Luxair. That had apparently annoyed Lufthansa, which was reported to be in the best financial situation to buy a 25 percent share. Luxembourg's Communications Minister Robert Goebbels is said to have rebuffed Sabena's earlier offer, because of the airline's financial weaknesses. Exploratory talks with Air France failed.

As it celebrated its thirtieth anniversary this spring, Luxair, the national carrier, announced sharp losses in passenger traffic last year.

Luxair's true founding was in April 1962 when it inaugurated a Luxembourg-Paris route. Today, Luxair has

flights. In 1991, E.C. airlines saw their revenues plummet as passenger trips dropped to record lows. The continued worldwide economic slump has posed further difficulties.

Luxair has responded to the challenges of the highly competitive market with a number of measures designed to cut costs and boost profits. The airline has also embarked on a fleet renewal program, acquiring four new Boeings and four Fokker jets. But to compete in the 1990s, the strategic alliance with another airline was inevitable.



regularly scheduled passenger service to most of Europe's key airports, as well as Nairobi, Johannesburg, and the Canary Islands.

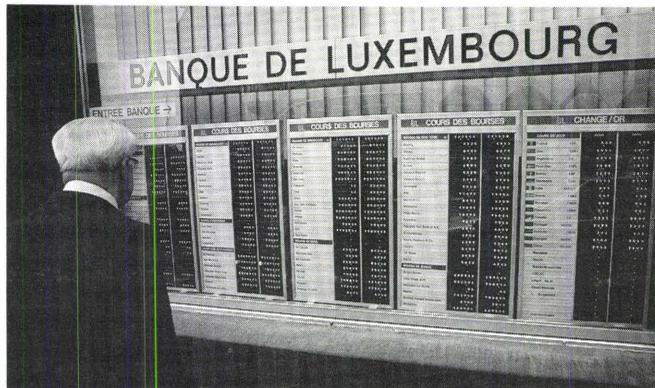
The state owns about 23.1 percent of the airline, with the Banque et Caisse d'Epargne de L'Etat and BIL Participations S.A. each owning a 13 percent share. The Banque Generale du Luxembourg and CLT each hold a 12 percent share.

Last year was a difficult one for the airline industry worldwide. The Gulf War and a global recession forced business and holiday travelers to postpone or cancel

## Villeroy & Boch Cuts Work Hours to Bolster Revenues

The legendary manufacturer of everything from bathroom fixtures to dinner plates is weathering another tough year. Its German parent reported in September that the company does not expect to make a profit this year, citing weak export markets and fierce price competition.

The Luxembourg subsidiary posted annual losses of about \$500,000 in 1990 and 1991. Almost all of its production is exported, largely to



Germany, the U.K., and the United States.

This summer the company cut back working hours for most of its 1200 shop-floor workers and a quarter of its 50 white-collar workers. About 120 jobs have not been filled since they became vacant during the last two years through retirement and attrition.

To improve profitability and competitiveness, the parent company is shifting production from Germany to cheaper plants in France and Hungary and expanding retail outlets in major export markets.

## Two New Banking Schools Open

Between 1970 and 1990, the number of banks

that set up offices in Luxembourg increased four times to 190. Total assets grew more than seventy-fold, from \$5 billion to \$370 billion during the period. That translates into a 15 percent share of the country's gross national product. About nine percent of Luxembourg's workforce is employed by the banking industry.

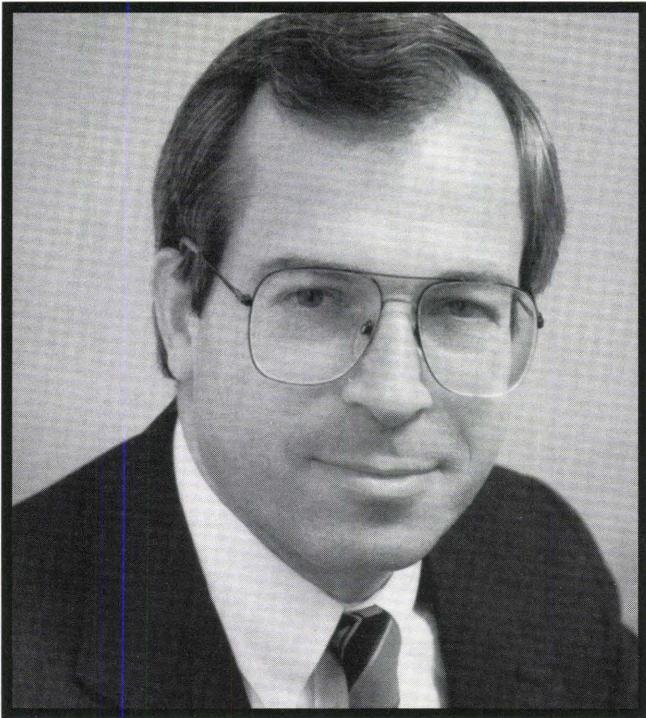
With a substantial portion of the country's economy resting on the international competitiveness of its banks, ensuring and strengthening the banks' position is a key goal for the government and the business community.

That explains why two new bank training centers opened this year. One, the Institut de Formation Bancaire (IFB), was launched by the Luxembourg Association of Bankers (ABL) to prepare students for entry-level positions and to keep banking employees up to speed on new developments. The second is the European Academy of Banking. It is a partnership among ABL, IFB, London's City University Business School and others. Taught in English, French, and German, the courses last two years and are aimed largely at middle management bankers. At this pace of expansion, banking schools may outnumber banks along the city's Boulevard Royale.

## Guide to 1992 Business Opportunities

The 15th annual guide to doing business in Luxembourg is available from the country's Chamber of Trade. Published in English, French, and German, the handbook provides information on the country's 750-plus companies. Names and addresses for banks, consultants, government offices, and others make the book an essential reference tool for anyone wanting to do business in Luxembourg. Contact: Handelskammer Luxembourg; 7 rue Alcide de Gasperi; Luxembourg-Kirchberg 2981. Tel: (352) 435853. Fax: (352) 438326. Cost: approximately \$13.

# Motorola's Main Man



## CEO George Fisher

**O**n December 1, the European Community's Consuls General (in association with the Mid-America Committee and the E.C.'s Washington Delegation) will present Motorola's CEO George M.C. Fisher with the E.C.'s 1992 *Business Award*, which salutes those U.S. individuals and institutions who have made an outstanding contribution to European development.

Fisher, who has a master's degree in engineering and a doctorate in applied mathematics from Brown University, has been with the 64-year-old company since 1976. He has been chairman of the board and chief executive officer since 1990.

Fisher recently answered *EUROPE's* questions about his views on the single market, Motorola's operations in Europe, his company's quest for quality, and Motorola's strategy for the 21st century.

**How is Motorola preparing for the single market? Will the single market affect the way you conduct business in Europe?**

To most people, the term "Europe '92" suggests a unified marketplace and a breaking down of trade barriers. To me, it means more than that. Over the years, Motorola has done well in Europe, not by becoming European, but by becoming British—or French—or German. We served national markets by becoming part of each nation's economy. But Europe '92 means that we will face greater competition, and we will compete in terms of cost and quality. Period. That means coming up with the right products and services, and continuously improving quality.

A single Motorola identity is becoming more important

in Western Europe. The unification of markets requires some changes in the way Motorola deals with customers, competitors, and suppliers. Our European Corporate Headquarters in the U.K. is engaged in programs to strengthen our position in a unified Europe. We need to be in a position to offer our expertise in the process of making the rules.

**Could you explain Motorola's business operations throughout Europe? Do you have one central office or are you involved in all of the E.C. countries?**

Motorola opened its first European manufacturing plant 25 years ago in Toulouse, France. By 1970 we had sales of \$65 million and about 1,600 employees. In the next 10 years, sales grew to \$245 million and employment rose to 5,900. By 1990, sales had jumped almost tenfold in one decade, to \$2.3 billion, and employment reached 11,000. Today, we have 10 manufacturing plants and 53 other facilities, such as design centers and major sales offices, in Europe. Our European corporate headquarters is in the U.K.

Our customers include the leaders of Europe. BMW has chosen one of our microcontrollers for a new series of engines. In a partnership with Philips, we developed components for a CD-I, or compact disc interactive, system for consumer entertainment. We make communications chips for Alcatel and Siemens, as well as Ericsson, a Swedish



**Motorola products are at the heart of the communications networks of many global companies, including ASEA Brown Boveri (ABB) in Stockholm.**

company that is also our biggest competitor in the cellular telephone business. We supplied ASEA Brown Boveri with a networking system based on the Motorola Codex 5290 fast packet TI/E1 Multiplexer to meet its demand for increased bandwidth. And the guards at the Louvre use Motorola's land mobile products to protect some of the finest art treasures in the world.

**What percentage of your revenues are generated from your business in Europe?**

Of Motorola's total sales of \$11.3 billion last year, 21 percent were in Europe. More than half of our sales are in wireless communications—two-way radios, pagers, and cellular telephones. We're the world leader in all three. About a third of our sales in Europe are in semiconductor components. We have the broadest portfolio of semiconductors in the world.

Over the years, we have evolved from a U.S. company exporting to Europe to a global company in which European operations are essential to serving customers throughout the world. Our non-U.S. sales as a percentage of the total have risen from 25 percent in 1985 to 48 percent last year. More than half of our semiconductor and cellular telephone sales are outside the United States.

**Is Motorola involved in any Eastern European country, Russia or any other former Soviet republic?**

Motorola personnel are continually meeting and working in Bulgaria, Romania, Hungary, Czechoslovakia, and Poland. We participated in a trade show in Moscow and we sponsored a workshop for Eastern European telecommunications ministers. We opened an office in Budapest and Prague, and we are opening additional offices throughout the region to present a single Motorola identity to customers. This year we are assessing opportunities in the republics that made up the former Soviet Union and are starting to introduce wireless communications systems.

Why are we doing this? We believe the potential regional market for telecommunications products and services will be more than \$30 billion within the next 10 years, or about 15 percent of the projected world market. More than 35 million people are on telephone waiting lists in Eastern Europe and the former Soviet republics. In those republics alone, more than 60 million phones would need to be installed to provide every family with a phone. That's an opportunity we cannot ignore. Patching up the existing phone systems in those countries just won't work. Our wireless solutions can solve the problem very quickly. A cellular system can be installed much more rapidly than a wire and cable system. Over the long term, our goal is to exceed the market share we enjoy in each comparable business in Western Europe.

**How has Motorola been able to so successfully penetrate the Japanese market?**

Any company's success depends on its ability to serve its customers with the right kinds of products of superb quality, together with a commitment to continuous improvement. If you can satisfy a Japanese customer with your products you can satisfy anybody, because Japanese customers are the most demanding in the world. Quality is a key to participating in the Japanese marketplace.

Having said that, however, in the last few years Motorola's efforts to participate more fully in Japan's marketplace have attracted a lot of attention. Motorola has worked very hard to overcome impediments to participation in the Japanese marketplace. We've also achieved a certain degree of success there by being aggressive and vocal about issues such as market access. But all those efforts would have been useless if we hadn't come up with the right products to serve the market and if we hadn't stepped up our quality effort over a decade ago. These are the same factors that have enabled us to succeed in Europe.

**Will everyone be walking down the street in several years talking into their own personal cellular telephone? Could you give us your views on the future "wireless world?"**

Today we can envision one small wireless device that could put you in touch with virtually everything in a global communications network. It would combine voice, data, fax, and images. Think of sitting on a beach on a remote island and attending a meeting with your hand-held video conference center.

The convergence of microelectronics, wireless digital communications, and computing promises to make this vision a reality. We are on the verge of a ubiquitous world of wireless digital communications. It's going to mean a drastic change in the way you do business, and a new definition of how you serve customers.

Cellular telephone systems are only part of the story. CT-2, or second generation cordless telephones, can be used in an office, at home, or outside those areas through base stations known as telepoints. They may be located anywhere you see a pay phone today. These low-cost systems are ideal for densely populated areas with pedestrian traffic, like Singapore and Hong Kong.

In the United States, a number of experimental systems are being launched that fall under the generic term "personal communications services." In some cases, they give customers a single telephone number, making them reachable at home, in the office, or on the road. They point to the day in which you will call a person instead of a location when you make a telephone call.

And that person could be anywhere in the world. A low-earth orbit satellite global personal communications system such as Iridium could reach the most remote regions of the planet, as well as densely populated areas. It could even function as a phone booth in a remote village—a potential

vehicle to overcome previously insurmountable barriers—not only to economic development, but also to the health and safety of millions of people in emerging nations throughout the world.

The Iridium system Motorola proposes envisions a constellation of small satellites in low earth orbit. It would operate like a cellular system in the sky, but with the cells moving, rather than the people. As a space-based system, it could provide communications after earthquakes or hurricanes, even if land-based systems were disabled. It would be all-digital, making it ideal for both data and voice.

The potential impact of wireless communications is nothing short of miraculous. Managing that miracle promises to make the next decade and century more exciting than anything we've ever seen.

**The potential impact of wireless communications is nothing short of miraculous.**

**How can you afford to allocate so much money to research and development?**

Motorola spent \$1.08 billion in research and development in 1991, up from \$1.03 billion in 1990 and \$839 million in 1989. As a percent of sales, the company continues to invest slightly less than 10 percent of every sales dollar in product development and technological advances. I sincerely believe Motorola cannot afford to spend any less on R&D than it already does. It is an investment in the Motorola of the future.

Just 15 or 20 years ago Motorola could count its major competitors fairly quickly. Today we have scores of competitors in the various arenas in which we compete—and all of them are very, very good at what they do.

The electronics industry is a fiercely competitive global arena in which only the best survive. More often than not,

whoever is first to market with a new product gets the lion's share of that market, so innovation, through R&D, is key to success.

**Do you believe the United States needs an industrial policy in order to compete more effectively around the world?**

I believe that the U.S. government and U.S. industry need to communicate more than they have traditionally. The marketplace has changed from what it was just five or 10 years ago. Ten years ago U.S. industry was still thinking domestically. Now we are thinking and acting globally. We must. Two of the U.S. greatest international competitors are Japan and Germany. Each of those country's governments has a means for communicating with the industries that contribute to their economic growth. Their governments are encouraging and supportive of what industry requires to be competitive by providing a favorable environment in which to conduct business. Is that industrial policy? I would call it common sense. It certainly has given Japan and Germany a competitive edge. The U.S. government and industry could learn a lot from each other by talking more, and the U.S. economy would be helped in the process. **E**

# Inside

# EUROPE

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## EUROPE'S REACTION TO CLINTON

Carter or Roosevelt? *Le Monde's* rhetorical question summed up the uncertain reaction in Europe to Governor Bill Clinton's victory in the U.S. presidential election.

President-elect Clinton is a virtual unknown to most Europeans, so even the most well-informed commentators in the media and politics remain hard-pressed to predict how he will perform in the one area which matters to Europe: foreign policy.

At the same time, most agreed that Clinton's win over President George Bush represents a decisive break with 12 years of Reagan-Bush Republicanism, and the prospect of a new beginning in which the role of government and domestic affairs would assume greater prominence.

Writing in the *Financial Times*, Edward Mortimer proclaimed the end of the "Reagan-Thatcher era," the end of the age of tax cuts, privatization, deregulation, of the leveraged buy-out, and the real estate boom. Clinton's victory could signal a new global political current with more attention to employment, social policy, and "entitlement."

Inevitably, the search began for historical comparisons between Clinton and Democratic predecessors in the White House such as Franklin Roosevelt, Jimmy Carter, or John F. Kennedy.

*Le Monde's* Washington correspondent observed that Clinton's win was reminiscent of Roosevelt's victory over Herbert Hoover in 1932. "The situation which Clinton inherits is not as catastrophic as after the Great Crash of 1929," he wrote, "but the stagnation has been compared, rightly or wrongly, with the Great Depression, especially among the (American) middle class..."

Other British correspondents pointed out the superficial similarities between Clinton and Carter, both Southerners with little experience in Washington. *The Times of London* wrote in an editorial: "He (Clinton)

must prepare now to rein in what could easily be a runaway Democratic Congress ready to pander to all the party's numerous special interest groups in the name of a Great Society Mark II."

The *Guardian* declared enthusiastically that America had done itself a power of good in electing Clinton, but it warned that the stark economic problems facing the President-elect mean that his victory did not mean Morning again in America, any more than a revived New Frontier.

Turning to foreign policy, the *Daily Telegraph* said the great unknown was whether Clinton would assume the mantle of world leadership. America was turning inward, and there were grounds for doubting whether Clinton would risk his political capital at home for the sake of endeavors abroad. "Where Reagan and Bush sent troops into action, we fancy Clinton will stop at economic sanctions. The Old World Order may be coming to an end."

The *Independent* wondered aloud how Clinton would cope with his first foreign policy crisis, starting perhaps with the complete economic collapse of the former Soviet Union and the rise of Russian nationalism.

Official reaction in Europe was more guarded. European diplomats noted Clinton's promise of "continuity" in U.S. foreign policy. Manfred Woerner, NATO secretary general, described the President-elect as a staunch supporter of the Atlantic Alliance, in an effort to dispel fears of further U.S. troop cuts on the Continent.

In an interview with *Le Soir*, the Belgian daily, Hugo Paemen, a senior E.C. official, predicted that a Clinton administration would remain engaged in Europe and would turn to the United Nations to resolve world conflicts. But he also raised questions about future U.S. economic policy, particularly international coordination via the Group of Seven industrialized

## EUROPE'S REACTION TO CLINTON CONTINUED

countries whose operation in the last few years had been "disappointing."

European policy-makers are worried about the fall in the value of the dollar vis-a-vis European currencies as well as the steady drop in U.S. interest rates to boost recovery in the run-up to the election. Paemen noted that it was in Europe's interest that the U.S. economy should be strong, but the "fundamental disequilibrium" between the U.S. and Europe was in part responsible for the recent turmoil in the European Monetary System.

Economic differences between Europe and the U.S. surfaced in the week of the election with the apparent collapse of the GATT world trade talks. At the time of writing, the U.S. had announced plans to impose \$300 million in penalties on European farm exports, primarily on French products, lighting a fuse on a potentially ruinous international trade war.

For Clinton, who has made clear that his top priority is to "rebuild America," a GATT agreement could provide a vital boost to business confidence. Instead, it risks becoming a needless distraction which could end up hurting relations between the U.S. and Europe, well before Clinton enters the White House next January. This is why many European officials believe that Clinton would really like Bush to strike a deal on the trade talks before he leaves office.

—Lionel Barber

## REACTIONS TO THE U.S. ELECTION

Dear Governor Clinton,  
May I on behalf of the Commission of the European Communities and myself offer you my warmest congratulations on your election as president of the United States of America.

Your Presidency will begin at a moment of unprecedented change, unprecedented challenge, and unprecedented opportunity.

The European Commission dearly hopes that we meet this challenge together and that the coming years will be marked by the quality and the efficiency of our transatlantic relations. Together we can bear more fruit than separately.

We are looking forward to a constructive and lasting working relationship.

—*Jacques Delors*

"In the changed world of today, the transatlantic alliance that has developed over decades, as well as the proven German-American friendship, remain of vital importance. I am particularly keen to join with you in further consolidating our relations in the years ahead. I would welcome the opportunity of meeting with you soon."

—*German Chancellor Helmut Kohl*

"President Kennedy, on the eve of his election, rightly remarked that a rigorous election campaign was "the best

## NOTEBOOK: JAPANESE INVESTMENT IN EASTERN EUROPE

**Japan's corporate giants are staying clear of Eastern Europe, giving their American and West European rivals a head start in the race to exploit lucrative new markets.**

Japanese companies have committed, at most, a paltry \$400 million to Eastern Europe, less than a single American company Philip Morris paid for a Czechoslovak cigarette manufacturer.

The cautious Japanese are waiting for the dust to settle after the overthrow of the communist system barely three years ago. With two modest investments so far in the auto and glass sectors, Japanese investors do not show signs yet that they are about to embark on a spending spree.

Japanese firms are too busy nursing their near \$70 billion investment in the European Community and preparing for the launch of the single market next January to move into new territory.

Eastern Europe has opened up too early for the Japanese whose investment drive in the E.C., spurred by the strength of the yen and fear of protectionism, took off only 10 years ago.

**West European firms, by contrast, can easily tap into a new market on their doorstep, while big American companies have more than two decades experience of running pan-European operations which generate annual sales of over \$650 billion.**

Japanese companies also are still testing the water in continental Europe, having concentrated around 45 percent of their spending in the U.K. They are also shifting their investments from greenfield sites to joint ventures and acquisitions, a change in strategy that doesn't give them much time to tackle alien Eastern Europe.

Meanwhile, Japan's investment in the E.C. is slowing down, totalling \$9 billion in the year to end-March against \$14 billion the previous year. The downturn in Japanese investment likely will continue as their domestic economy sinks into recession forcing firms into unaccustomed retrenchment.

European and U.S. firms are basking in Japan's absence from Eastern Europe. For many, Eastern Europe provides a low cost base from which to export back to the E.C., undercutting Japanese manufacturers who are

education" for the Presidency. We in Ireland are confident that, as with President Kennedy, the campaigning skills and political vision you have shown will translate into a Presidency of high and historic achievement."

—*Irish Prime Minister Albert Reynolds.*

"Much impressed by your personal electoral success I am convinced that the long-standing friendship between the American people and the Grand Duchy of Luxembourg will be strengthened even more. I am confident that through our combined efforts, prosperity and well-being will be further developed in the pursuit of our common goals of peace, security and freedom in the world."

—*Prime Minister of Luxembourg Jacques Santer.*

"We hope the isolationist sentiments which periodically resurface in the United States even in responsible circles will not prevail."

—*Italian Foreign Minister Emilio Colombo.*

"Mr. Clinton is not a well-known man, but the movement that he led to victory was not new. We have felt for a long time in the American people a desire for change."

—*French Foreign Minister Roland Dumas.*

"After 12 years with the Reagan/Bush administration, and the great foreign policy successes it has accomplished, the American electorate has now voted in favor of change, and for placing domestic problems first on the agenda."

—*Swedish Prime Minister Carl Bildt.*

**Gianni Agnelli** is to step down as chairman of **Fiat**, the giant Italian auto firm, in 1994, when he celebrates his 75th birthday.

Agnelli, Italy's richest man with a personal fortune of \$4 billion, has had a rough year. While Fiat was reeling from an abrupt downturn in European car sales, Agnelli was beaten by Swiss food conglomerate **Nestlé** in a bitter battle to acquire **Perrier**, the French bottled water company.

Few believe Agnelli will loosen his grip on the family firm just because he is vacating the chairman's suite.

...

**Maytag** is slugging it out with other U.S. household appliance groups in the fiercely competitive, but potentially lucrative, European market.

Maytag, which owns the **Hoover** brand in Europe, is forming a business alliance with Germany's **Bosch-Siemens Hausgerate**, Europe's second largest household appliances group after **Electrolux** of Sweden.

The Maytag move, which falls short of a share-swap, follows earlier efforts by its U.S. rivals to bolster their European market shares. **Whirlpool** has taken over the domestic appliances unit of Dutch electronics giant **Philips**, and **General Electric** formed a joint venture with its British namesake.

Maytag, which acquired Hoover four years ago, narrowed its losses in Europe to \$865,000 on sales of around \$500 million in 1991 from a \$22.9 million deficit in the previous year.

rapidly building up substantial market shares in key sectors, from computers and electrical machinery to consumer electronics and construction equipment.

The biggest battleground is the auto industry, with four Japanese manufacturers, Nissan, Honda, Mitsubishi, and Toyota, on target to roll out some 700,000 cars a year from European assembly lines by the mid-1990s, adding to their current 11.5 percent share of the market.

U.S. and European manufacturers, frantically restructuring to meet the Japanese challenge on their home turf, have moved into Eastern Europe, partly to generate new "local" sales and partly to ship cars to the European Community.

Volkswagen is sinking around \$6 billion into Skoda of Czechoslovakia. Fiat is investing \$2 billion in a joint venture company with FSM of Poland, and General Motors is building cars at a new plant in Hungary.

Japanese exposure is limited to Suzuki's \$150 million investment in a joint venture in Hungary.

European companies are taking advantage of Japanese caution to build up commanding market shares in

Eastern Europe. Philips, the Dutch electronics group, hopes to generate between five and ten percent of its sales in Eastern Europe, vowing it won't take second place to Japanese or Korean competitors in any sector of the market.

The few Japanese investments in Eastern Europe are already paying dividends, underscoring their potential to challenge U.S. and European firms when more Japanese firms decide to enter the new market.

Glaverbel, the Belgian glass company controlled by Asahi Glass, has scored with its \$80 million investment in a joint venture with Sklo Union of Czechoslovakia. It has trimmed the original 5,000 payroll by 1,500, and boosted output by a quarter of which 65 percent is being exported to the West.

The respite for Japan's rivals won't last. "The Japanese are waiting for others to make the mistakes and then go in. That's what they usually do," remarked a European working for a Japanese trade organization.

—*Bruce Barnard*

## BUSINESS BRIEFS CONTINUED

Two non-E.C. transport companies, **Danzas AG** of Switzerland and Sweden's **ASC** group, are in pole position to exploit the E.C.'s post-1992 single transport market after an agreement to coordinate their services.

The alliance will create a giant transport combine with annual sales of nearly \$9 billion and a 20,000-person payroll.

Under the accord, Danzas will withdraw from Nordic markets where its operations will be taken over by ASG. The Swedish company will quit partnerships elsewhere in Europe, handing over its activities to Danzas.

The two companies will cooperate in marketing, product development, and telecommunications.

...

**Skoda**, the Czech auto firm, in which **Volkswagen** of Germany is amassing a 70 percent stake, is on target to break even this year, and has penciled in a profit for 1993 as sales and productivity surge.

Domestic sales, which slumped to 27,000 cars last year, have rebounded to an estimated 85,000 in 1992, buoyed by the launch of a revamped "Sport Line" model and higher tariffs, which have made imported cars more expensive.

Exports to Germany, mainly to its eastern states where there is a pent up demand for cheap cars that will scale to 60,000 this year, accounting for 60 percent of Skoda's exports to the European Community.

Skoda plans a \$5.3 billion investment to double production capacity to 400,000 cars a year by the mid-1990s.

...

Europe's Big Three food companies, **Nestle** of Switzerland, Anglo-Dutch **Unilever**, and **BSN** of France, are riding out the recession affecting most other sectors, boosting or at least maintaining earnings and expanding market share.

Unilever, which pumped up marketing expenditure when sales faltered, lifted pre-tax earnings by 14 percent to \$818 million in the second quarter of the year and is heading for a full year profit of some \$3 billion according to analysts.

Nestle is tipped to increase 1992 net profit to around \$2.05 billion from \$1.5 billion in 1991, with rising sales in the

U.S. and the rest of the world compensating for a European slowdown.

BSN is expected to be virtually unscathed by the drop of income in Italy and the U.K. whose currencies have been devalued, with analysts forecasting 1992 net profits down only slightly to \$745 million from \$764 million last year.

...

While Japanese companies, busily restructuring at home, are slowing investments in Europe, their American rivals are boosting transatlantic deals.

U.S. manufacturers notched up 650 investments abroad in 1992, according to accountants Ernst & Young, with over 50 percent in Europe with pharmaceuticals and chemicals attracting most interest. The U.K. maintained its pole position as most popular European location, followed by Germany which is becoming increasingly popular despite its sky high labor and social security costs.

The Japanese slowdown is partly due to the fact that most companies, from auto firms to consumer electronics groups, have already built plants in Europe to position themselves for the post-1992 single market.

But for the first time, Japanese firms are pulling out of Europe or scaling down their activities. **Toyoda Machine Works**, a unit of **Toyota Motors**, is closing a machine tool plant near Nantes, northeast France, next year. Several other Japanese manufacturers are also reviewing European investments which were strategically sound in the 1980s but have since become a burden to troubled parent companies.

In another sign of the times, **Nomura**, Japan's largest securities house, shut its London market—making activities in continental European shares, with the loss of 50 jobs.

...

**Mitsubishi** of Japan plans to export 5,000 cars from Australia to Europe next year to skirt quota limits on direct shipments from Japan.

The company began exporting cars to Europe from an assembly plant in the U.S. last year following an E.C./Japan agreement to limit Japanese direct exports until the late 1990s when the Community market will be totally liberalized.

...

**Skandia**, the leading Swedish insurance company, is rethinking the future of its U.S. reinsurance operations after rejecting a \$500 million bid by a New York investment group for its troubled U.S. unit **Skandia America Corp.**

Skandia, which has already trimmed its U.S. exposure by selling a majority stake in SAC through a public offering, said the offer from John Head & Partners was too low.

...

**Deutsche Shell AG**, the German unit of Anglo-Dutch oil major **Royal Dutch Shell**, will spend \$500 million to build 150 gas stations in Eastern Germany over the next five years. The company has opened 50 stations since unification two years ago.

...

The European airline business is in a state of flux as carriers prepare for an "open skies" regime next January.

**British Airways** upped the stakes by taking over the troubled British carrier **Dan Air**, sparking protests from other British airlines, including **Virgin Atlantic** which vowed to launch a European short-haul service to challenge British Airways.

British Airways, which has rattled U.S. carriers with a plan to buy a 44 percent stake in **USAir** for \$750 million, is spreading alarm throughout the European airline industry by moving into its home turf. It has acquired large majority stakes in **TAT** of France and **Deutsche BA** in Germany and is on the prowl for new acquisitions.

The Europeans are hitting back. **Air France** has taken a 37.5 percent stake in **Sabena** of Belgium, while vulnerable carriers like **Swissair** and **SAS** are forging ever closer ties in what some analysts believe is a prelude to a full scale merger.

—Bruce Barnard

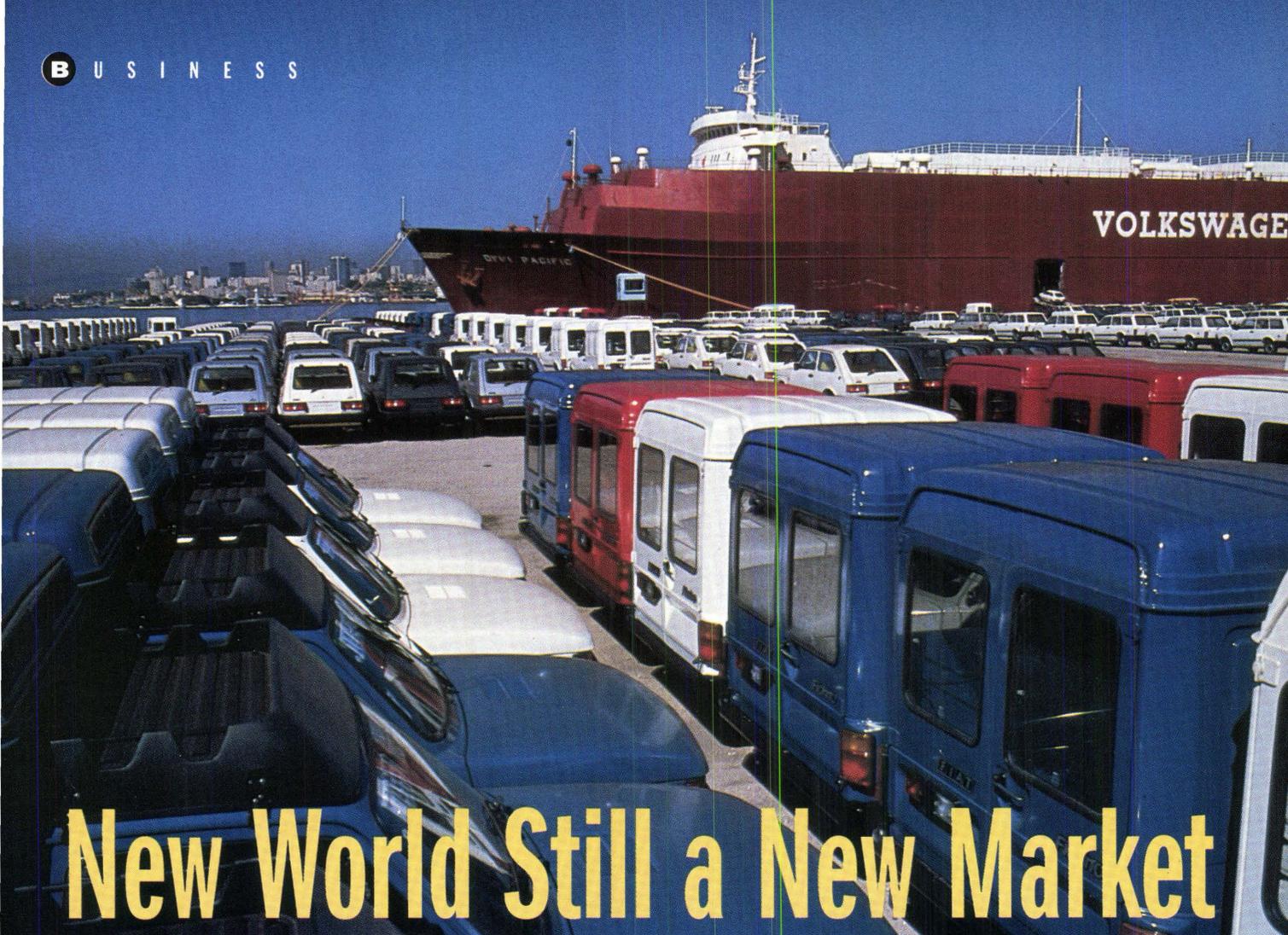
### INSIDE EUROPE

#### Correspondents

Lionel Barber  
Bruce Barnard

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# New World Still a New Market

**Germany's Volkswagen has stepped up its investments in assembly and services operations in Brazil.**

**F**or decades, Spain has fervently believed it has a privileged position in Latin America and should serve as Europe's voice in the region. Spain's historical, linguistic, and cultural ties were highlighted in the controversial celebrations that surrounded last month's 500th anniversary of Christopher Columbus' first voyage to the New World in 1492, and, at a political level, during the second Ibero-American summit meeting of some 20 Latin American leaders hosted jointly by Spain and Portugal in Madrid last summer.

"From now on we want to speak with a single voice," said Spain's Foreign Minister Javier Solana as summit delegates, including Cuba's Fidel Castro, arrived in the capital city of what many Latin Americans still refer to as their *madre patria* or motherland. "Because of our cultural similarities and the fact that we speak the same language, we have an edge," said Francisco Luzon, chairman of Argentaria, an influential Spanish banking group. "We consider Latin Americans our cousins...because of these ties, we are at home there," added a senior Spanish diplomat.

**By Axel Krause**

But increasingly in Madrid and other E.C. capitals, and particularly throughout Latin America, that notion is being questioned, debated and frequently rejected outright by bankers, industrialists, politicians, and analysts from other European countries. Just prior to the Madrid summit, Latin American leaders called on key E.C. leaders, strongly urging them to turn their interest away from Eastern Europe and invest in their hemisphere. Mexico's President Carlos Salinas de Gortari told France's President François Mitterrand during a one-day visit to Paris that Mexico was deeply committed to reducing its heavy dependence (70 percent of its trade) on the United States, and he urged French business to be more active. He repeated that message with a British slant in London.

Added a Chilean minister who visited several other E.C. capitals prior to the summit, "Spain has no monopoly...we now look to all of Europe for investments and aid programs run by the European Community which are small, but growing."

Indeed, Spain's direct investment in Latin America has been declining compared to other E.C. members. A report published last year by the Institute for European-Latin American Relations showed that between 1977 and 1988, Spain's investment totalled only \$1.8 billion, ranking it third, behind Germany (\$3.5 billion) and the front-running United Kingdom (\$5.7 billion). Combining the eight E.C. countries surveyed, the total investment rose to \$15.5 billion, just behind the United States with \$17.3 billion.

However, if all 12 E.C. members and Switzerland are included, the total European investment figure would be substantially higher, and Spain would drop to sixth place. "The Spanish are very strong in Latin America when it comes to software, such as educational and cultural exchanges, while hard trade and investment is something else," said Wolf Grabendorff, the German director of the Madrid-based institute, which was founded in 1984 as an E.C. Commission project and is supported actively by the European and Latin American parliaments.

"Europe will certainly not replace the United States as an investor and trader...but [Germany, France, the U.K., and Spain] and the E.C. are in-

creasingly active—with Latin American encouragement," added Grabendorff.

As David de Pury, co-chairman of the giant, Zurich-based Asea-Brown Boveri industrial group told a conference co-sponsored by the *International Herald Tribune* and *Argentaria* held in Madrid on the eve of the summit gathering, "Latin America is back on the world economic map...we at ABB have been there for 70 years, looking for ways to develop there. The race for Latin America has started and the latecomers will lose out."

Not surprisingly, Spanish companies have been highly active. Telefonica, which is 30 percent government-controlled, has made major investments in Argentina to help modernize the country's antiquated phone system. Iberia Airlines has acquired a 30 percent stake in Aerolineas Argentinas and similar stakes in Chilean and Venezuelan airlines.

Other major European companies outside of Spain include: Germany's Hoechst and France's Rhône-Poulenc in chemicals; France's Société Lyonnaise des Eaux in water treatment; Anglo-Dutch Unilever in detergents and food products; and NMB Postbank, one of The Netherlands' largest banking groups, and the United Kingdom's Latin American Securities Ltd., one of a number of fast-growing investment groups. Automobile companies, such as Germany's Volkswagen and France's Renault have been stepping up their investments in assembly and services operations, notably in Brazil and Mexico.

One of the major attractions for European investors is the feverish, politically-popular drive in virtually every Latin American country to deregulate and privatize almost everything from banks and airlines to telecommunications companies. Stock markets are booming in most capitals as newly-elected democratic governments have sold off their government holdings, while pursuing anti-inflationary policies. What is happening is nothing less than a dramatic recovery from what Enrique Iglesias, president of the Inter-American Development Bank, describes as the "lost decade" of the 1980s, which was marked by military dictatorships, hyperinflation, and low growth.

The gregarious Iglesias, formerly Uruguay's foreign minister, who in 1986 chaired the ministerial meeting

that launched the GATT trade liberalization bearing his country's name, told the Madrid conference that "there is a new climate, perceptions are changing there and here," noting that the regions' economies are expanding at more than three percent annually, that balances of payments have improved, and that the drop in inflation has been "spectacular." But, he quickly warned delegates, "this is not to say there are no risks and dangers."

Iglesias, whose Washington-based bank was created in 1959 to promote economic and social development in Latin America and the Caribbean, was referring to the fact that reform programs in the area have failed to focus on equity. Living conditions, which deteriorated throughout the 1980s in virtually every country, have continued to decline. Many governments are still struggling to supply basic services such as sanitation, clean water, and health care. The middle class and particularly the poor throughout Latin America are clearly not benefiting from the new, upbeat economic climate. Widespread poverty is widely described as Latin America's "ticking time bomb."

The European Community has provided a model as Latin American countries seek to build a single market or regional groupings with a minimum of barriers to the flow of people, investments, goods, and services. A striking example is the four-nation Southern Common Market, or Mercosur. The aim is to promote economic growth by linking Argentina, Brazil, Paraguay, and Uruguay, a market of nearly 190 million people, a GNP of \$425 billion, and Latin America's largest industrial base. "The Mercosur group already does 30 percent of its trade with the E.C. and has the strongest ties to Europe and will benefit heavily from new E.C. aid programs," said Grabendorff, adding that E.C. aid to Latin America is scheduled to rise by 72 percent over the next five years. Currently, the Community grants about \$1.3 billion to Latin America, slightly higher than the \$1 billion provided by U.S. government aid programs. **E**

*Axel Krause is a contributing editor for EUROPE and the corporate editor of the International Herald Tribune. His article, "Four Visions of Europe," appeared in the July/August issue.*



GATT  
DIRECTOR-  
GENERAL

# Arthur Dunkel

**T**he final stretch of the negotiating process in the GATT (General Agreement on Tariffs and Trade) Uruguay Round of trade talks has proven to be a particularly demanding experience for participants on both sides of the Atlantic. With the end of the process hopefully now in sight, politicians and negotiators from the E.C., the U.S., and elsewhere are hoping to turn their sights to new challenges in the international trading arena.

In response to those challenges, the GATT and its member nations are now adjusting their horizons to prepare for a role which goes beyond the issues that were its primary concern in the past four decades.

GATT, the Geneva-based organization which has sought to liberalize trade and promote international economic efficiency since its inception in January 1948, orchestrates and oversees

talks between its 108 member countries, or "contracting parties" as they are known—seeking to reduce tariffs and barriers to trade worldwide.

The Uruguay Round, which began in Punta del Este, Uruguay in September 1986, has been the largest-ever series of multilateral trade negotiations. In addition to tariffs and anti-dumping, the current round has sought for the first time to deal with non-tariff-barriers to trade, as well as trade in textiles, services, and agriculture, sectors previously not included in GATT discussions.

Since 1980, Arthur Dunkel has been Director-General of GATT and has thus been chief flag-bearer in the crusade for more competitive world markets throughout the Uruguay Round. Dunkel, 60, is a Swiss national and veteran of more than two decades of international trade negotiations—representing his own country at the international negotiating table during the Tokyo

Round, (1973–79) before taking the helm of the GATT itself.

Born in Lisbon the son of an emigre Swiss textiles merchant, and fluent in five languages, Arthur Dunkel entered public service over 25 years ago in the Swiss Federal Office for Economic Affairs. His term as Director-General of GATT, due to expire at the end of this year, has been renewed pending the conclusion of the Uruguay Round. After GATT, he has vowed to leave behind the life of a top international civil servant and go out again into what he describes as "the real world."

What are Dunkel's thoughts on the prospects for a successful conclusion of the Uruguay Round and the future which lies beyond? Colin Waugh, a contributing editor to *EUROPE*, met with Arthur Dunkel at his office in GATT's Geneva headquarters before the latest round of negotiations had begun.

**The Uruguay Round has remained deadlocked for months now as deadline after deadline has failed to produce agreement. Can the major parties finally resolve their differences, and what is at stake if they fail?**

The recent public statements of all the major participating countries underline their recognition of the importance of a well-functioning trading system in ending the current recession. I find it ironic therefore, that we are having such difficulty in getting them to act.

As chairman of the Trade Negotiations Committee (TNC), I also see an element of disenchantment, of fatigue, among certain members who have potentially staked their political lives on the successful outcome of the talks; I think this is dangerous.

**As the successful outcome of the round seems to be blocked by disagreement in only one or two areas, can you reflect on the positive achievements of the negotiations to date, those areas of agreement that are at risk if the talks should be abandoned?**

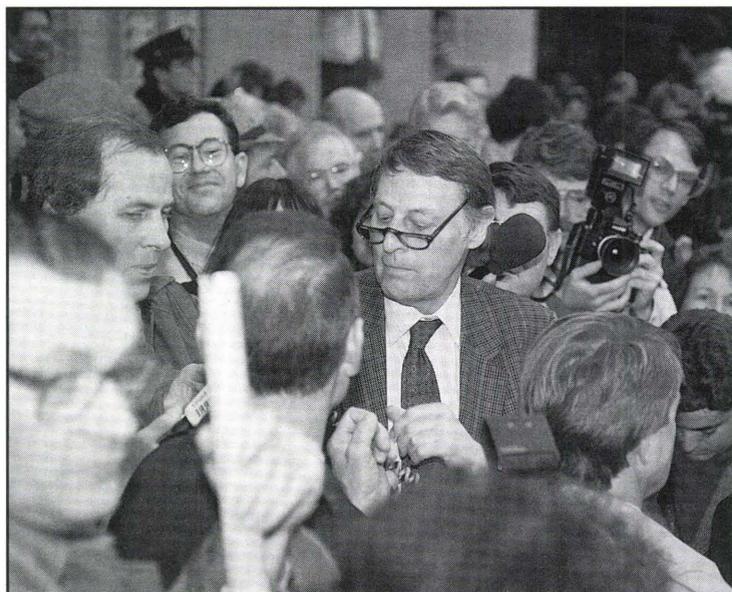
One central part of the result achieved so far, a point which has been very much left aside, is the drastic modernization and liberalization of trade policies which has occurred in a great number of the participating countries. A successful round will have the effect of binding these accomplishments into a lasting framework.

For the newly independent states, and in particular for the Baltic States and members of the Commonwealth of Independent States, the GATT is increasingly seen as an essential vehicle for their relations with each other and for their integration into the world economy. A growing number of them are seeking observership in GATT as a first step to membership.

There have been far-reaching improvements in the structure of GATT, itself, and the institutional arrangements according to which countries go about settling disputes. We have broken new ground in reducing barriers to trade in the area of services, in intellectual property and in textile markets.

**Recent years have seen greater emphasis on "fairness" in trade in both Europe and the U.S., rather than the "free" trade, which was much in vogue in the early 1980s. Looking toward the year 2000, can we expect a different approach from GATT toward reforming international trade?**

We used to talk about "tariff negotiations" in previous GATT rounds. This is no longer an accurate description of our work. The reality is that, in order to do a good job, negotiators can no longer concern themselves only with tariffs at the border. It is also necessary to look at how imported goods are allowed to compete with products inside



the national market.

This dramatically widens the field of analysis and responsibility. It raises questions of standards, licenses, and quotas, as well as issues such as sanitary measures and the environment in general. Then there is the whole area of services, where we are discussing national legislation and not border duties at all.

Therefore, true trade liberalization now concerns conditions of competition. Fairness is not quite the word which best describes our goal. If anything, I prefer "undistortedness," since it is market distortions which we are most accurately targeting in our reforms.

Sir Leon Brittan has already stated, even before we finish this round, that future talks must deal with restrictive trade practices—which can circumvent

good trade rules—and environment policy, which I feel is becoming one of the foremost issues for us to deal with in the future.

**The Draft Text which you issued last December as the standard for reform in the farming sector has met with criticism as well as counter-proposals, most notably among the latter being the plan which E.C. Commissioner Ray MacSharry has suggested. How far apart are the main participants now from a settlement which satisfies the main aims of the Draft Dunkel Text?**

I haven't said it before, but I can state it now: Mr. MacSharry and I are in the same boat. I have no grudge against him on this matter. You must make due allowance for his being a Commissioner with a budget and 12 member states to deal with, whereas I am in a situation with no purse-strings, seeking only to convene the participants and suggest solutions according to already-agreed rules.

He is in the position of trying to reform national agricultural policies at the same time as the E.C. is negotiating within GATT. There may be problems of timing, and we can make allowances for that. Nevertheless, the Swedes reformed their agricultural sector while taking into account the GATT, so I think other countries can do it too.

**The E.C. recently decided to seek a waiver from GATT to allow quotas to be applied to banana imports from Latin American producers, keeping the fruit outside the current Uruguay Round talks. How important is a market like bananas to a credible system of liberalized trading between developed and developing countries?**

The meaning of a successful Uruguay Round for the developing countries is the opportunity to diversify their export markets and to break out of trading patterns which rely on structures which are a heritage of colonial times.

There are examples where countries

formerly importing from Central America now buy their bananas from Africa. This is essentially a different product, not the result of any preferential trade agreement between exporter and importer. But it is a sensitive subject and a potentially divisive area.

Bananas are a typical example of a market currently subject to preferential arrangements, and it is recognized that it will take a long period of time for some countries to be able to cope with competition in world markets.

**You are due to step down soon from your current position as Director-General.**

### **What are the new challenges facing your successor and how would you like to see GATT focus its attention going into the 21st century?**

Around the time when this current round was originally due to have ended, some people were asking "Will this be the last round, is the work of the GATT now finished?" In response to that, I pointed to three areas where we aim to expand and improve, which are still valid for the future. The first is to expand our attention to trade in services as well as goods and work on this has already been undertaken. Sec-

ondly, in the future we will pay close attention in our deliberations to the whole area of restrictive business practices.

Finally, the future work of GATT will be closely involved with the issue of the environment. On this latter point I take credit for having prepared my colleagues in an area which I personally feel is at the heart of our interests and will be a major focus of our work going into the next century. **E**

*Colin Waugh is an international trade and business expert based in Washington, D.C.*

**W**ith the August 12 signing of the North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada the European Community has been joined on the global economic scene by a second major regional trading area. Like the E.C.'s single internal market scheduled to be unveiled on January 1, 1993, NAFTA promises greater prosperity for its members through freer movement of goods, labor, capital, and services.

In a replay of concerns that followed the launch of the Community's 1992 program, there have been questions raised about whether NAFTA will turn North America into a protectionist trade "fortress." The accord's provisions governing automobiles, textiles, and agriculture are the main flash points. Looking at cars, NAFTA's terms require that for a Honda or Volkswagen, for example, to be exempt from all tariffs 50 percent (62.5 percent by 2000) of its parts must be manufactured in either the U.S., Canada, or Mexico. As a result, some jobs and investment may be diverted from Japan or Europe to the NAFTA trio of countries.

But overall NAFTA, which builds on the earlier U.S.-Canada free trade agreement, should produce positive results for the world trading system. As barriers fall it will be cheaper for an American firm to export computers to Mexico, or for a Mexican firm to send cotton shirts to the United States. Such savings, which are passed on by business in the form of lower retail prices, will make North American consumers richer—and in the process more avid customers for goods produced by countries outside of NAFTA as well.

Additionally, the Institute for International Economics, a Washington research group, has estimated that although 150,000 low-skilled workers will lose their jobs in the U.S., 325,000 new jobs—most of them high-paying—will be created, while Mexico stands to gain 600,000 new jobs. The addition of almost 1,000,000 people to the workplace will give a significant boost to the purchasing power of the North American market.

One further issue raised by the NAFTA agreement has been whether American firms will be tempted to pack up their U.S.-based factories and move them to Mexico to take advantage of lower labor costs there.

Carla Hills, the U.S. Trade Representative and chief U.S. nego-

tiator of the NAFTA agreement, tried to dispel this fear in a recent Washington address. "NAFTA's reduction of Mexican barriers to U.S. exports will mean that U.S. businesses will not have to move to Mexico in order to sell to Mexico," Hills said. "Wage rates are just one determinant of plant location. American workers in manufacturing are at least five times more productive and our farmers are twenty-five times more productive than their counterparts in Mexico."

The main features of the agreement include:

—Tariffs and other barriers on farm products will gradually be eliminated over a 15 year period. Canada will be allowed to maintain certain forms of protection for its dairy farmers.

—Mexico's restrictions on car imports will be phased out, leading to free trade in automobiles by the turn of the century.

—By 2000, U.S. and Canadian banks, securities firms, and insurance companies will be able to acquire Mexican firms in those sectors.

—In textiles, Mexico will gain free access to the U.S. market in an area where it has strong export potential. The "yarn forward" clause requires that for duty-free treatment a garment's yarn must be woven and all its cutting and sewing be done in North America.

—Current restrictions on trucking will be abolished, so that Canadian, U.S., and Mex-

ican firms can haul goods anywhere from the Yukon to the Yucatan.

—On the environment, the agreement names sustainable development as one of its goals. It provides for dispute panels to deal with environmental problems arising from implementation of the agreement and requires environmental impact statements for new investments.

With the creation of NAFTA, where will the world's largest trade area be found? Will it be the European Community's single market—which some think was an inspiration for free trade in North America—or the new free trade area covering the U.S., Canada, and Mexico? That depends. The population of the three NAFTA countries comes to 364 million people, compared to the E.C. Twelve 343 million. But if the seven countries of the European Free Trade Association, with whom the Community will form a free trade "European Economic Area" on January 1, 1993, are added then the Old World's total climbs to 376 million, just edging out the New World.

—Peter Rashish

**NAFTA:  
Free Trade or  
Fortress America?**

# SPACE



**Did you dream of flying when you were little?**

**Do you still gaze wistfully at shots of the space shuttle blasting into orbit, wishing you were secretly aboard?**

**Does one teensy little part of you imagine tossing sanity to the wind and signing up for the space program?**

**Then you, too, can be an astronaut—at least for a few days. And you can even do it on your next trip to Belgium.**

***Belgium?***

**By Diana Scimone**

That's right, because smack in the middle of the Ardennes, in the shadow of a European Space Agency satellite tracking station, is the sparkling new Euro Space Center (ESC). Here earth-bound Europeans (or visiting Americans) can experience what it's like to be an astronaut. ESC offers adventures for kids and adults alike, exploring the intricacies of space flight as they go through astronaut training, experience weightlessness, don space gear, and even build their own micro-rockets.

According to Ivan Moriame, ESC director and a retired major general in the Belgian Air Force, the Center's site, halfway between Brussels and Luxembourg, was a natural because of its proximity to the satellite tracking station and because of the enthusiasm of local officials, including Jacques Planchard, governor of the province where ESC is located.

Euro Space Center, which opened June 22, 1991, is franchised by the U.S. Space Camp Foundation, a private non-profit organization dedicated to furthering science education among young people throughout the world.



**Space campers get a full-fledged introduction to astronaut training, which culminates with a mission in a full-scale Space Shuttle Simulator.**

The original idea for Space Camp belongs to German-born scientist Wernher von Braun, who arrived in Huntsville, Alabama, in the 1950s to develop the first U.S. ballistic missile. Almost 25 years later, he noticed a group of students at Huntsville's Space and Rocket Center furiously taking notes while their teachers told them about the in's and out's of rockets.

"We have band camps, cheerleading camps, football camps, scout camps," von Braun said. "Why can't we have science camp?"

And so the man who had launched a thousand rockets launched a new idea in fun-filled learning.

Since 1982, more than 128,000 children and adults have attended Space Camp—not only in Huntsville, but also in Titusville, Florida, just up the coast from Kennedy Space Center, and in Kityakyushu, Japan, at a camp that opened in 1990 under a licensing agreement with Nippon Steel. A fifth camp will open in Montreal, Canada, in 1994, and

another is being considered for Spain.

Belgium is the first cold-weather location for a Space Center, and except for one month during the winter, the site has operated year round since it opened. Moriame says he is studying the possibility of keeping the center open 12 months a year in the future.

In its first year in operation, Euro Space Center hosted 165,000 visitors, including almost 7,000 who attended Space Camp for one day or longer. Among the visitors have been ambassadors, cabinet ministers, scientists, and Belgium's first astronaut, Dirk Frimout, who flew on a U.S. Space Shuttle mission earlier this year.

Although it's possible to visit the center for a few hours, the best way to really get a feel for what it's like to be an astronaut is to sign up for Space Camp. There are numerous programs and curricula ranging from one to five days. Adults as well as children can participate (although most campers are between 10 and 18 years old).

Programs feature hands-on training using simulators just like the ones used to prepare astronauts for space missions. "Euronauts" get a full-fledged introduction to aerospace science and exploration, including realistic astronaut training, propulsion exercises, trying to maneuver in space suits, building and launching their own micro-rockets—all culminating in a mission aboard a full-scale space shuttle simulator.

The longer the camp, of course, the more intense and in-depth the training. Programs are designed for those who want to pursue a career in science, technology, or aerospace—or just for would-be astronauts.

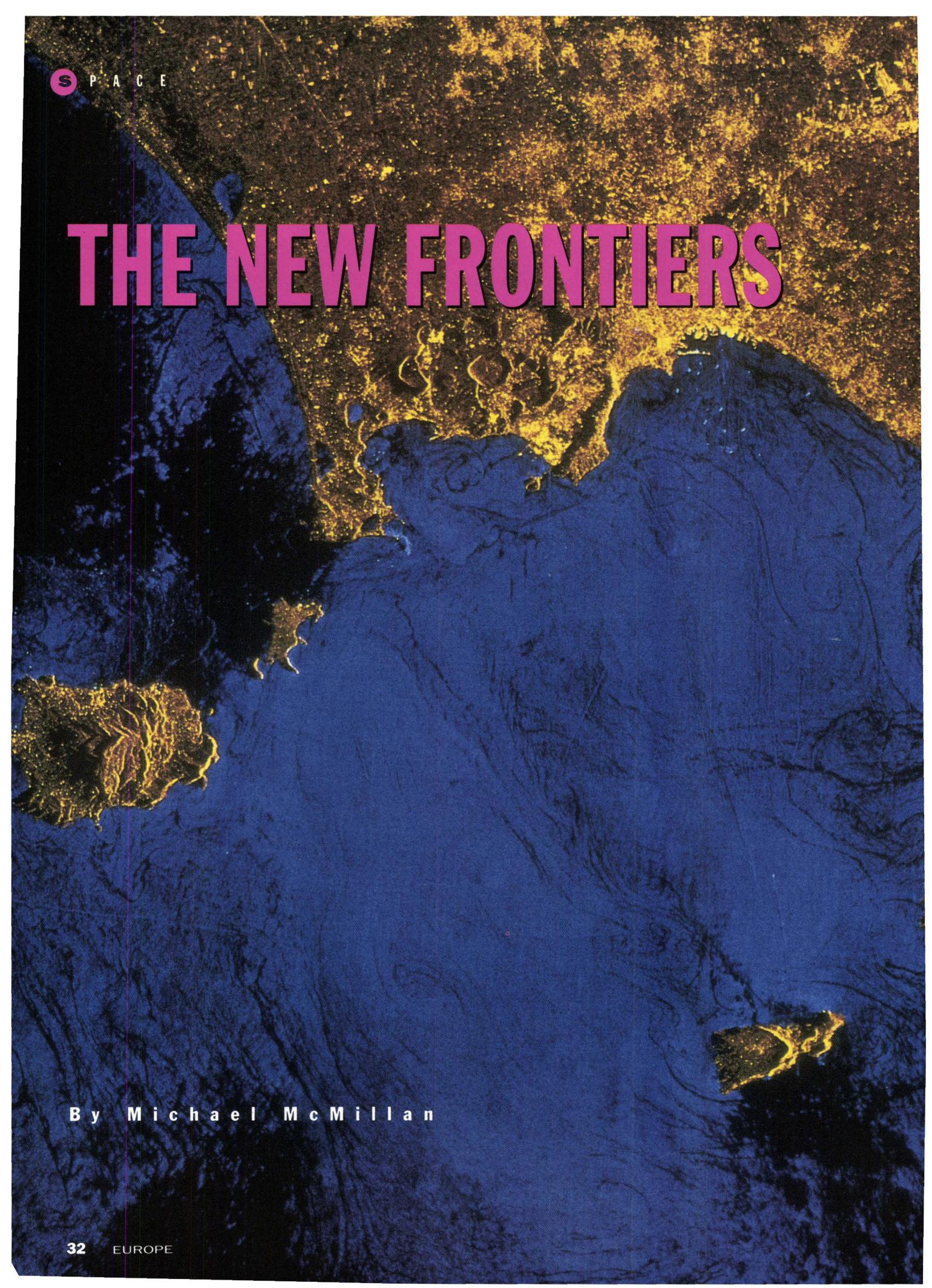
In the United States, children can attend five-day camps during the school year and often receive academic credit. Belgian law, however, prohibits children from being away from school for that long, so the five-day camps are usually held during summer holidays.

Even those who just want to visit the center for a few hours will find plenty to do—all designed to tout the accomplishments of Europe in space and the space facilities of the Benelux countries. A Holorama audiovisual show, for example, pairs visitors with a European astronaut and sends the team hurtling off on a space adventure. A Space Show complete with quadraphonic sound and moving seats gives the feel of flying aboard a futuristic space shuttle flight.

Visitors can test different gravities in the solar system, learn first-hand about infinity and microgravity, and pinpoint European Space Agency launching centers on a giant illuminated planisphere. And of course a non-stop series of state-of-the-art films tells would-be Euronauts all about astronaut training (and cosmonaut training, too), the conquest of space, and how space technologies affect life back on earth.

Euro Space Center is on Motorway E411, halfway between Brussels and Luxembourg (Rue devant les Hetres, 1, 6890 Transinne; 061/65 64 65 telephone, 061/65 64 61 fax). It is open daily from 9:00 a.m. to 7:00 p.m. Admission is about \$14 with child and group rates available. Camp tuition begins at about \$63 for one-day camp and goes up to about \$560 for five-day camps. ☎

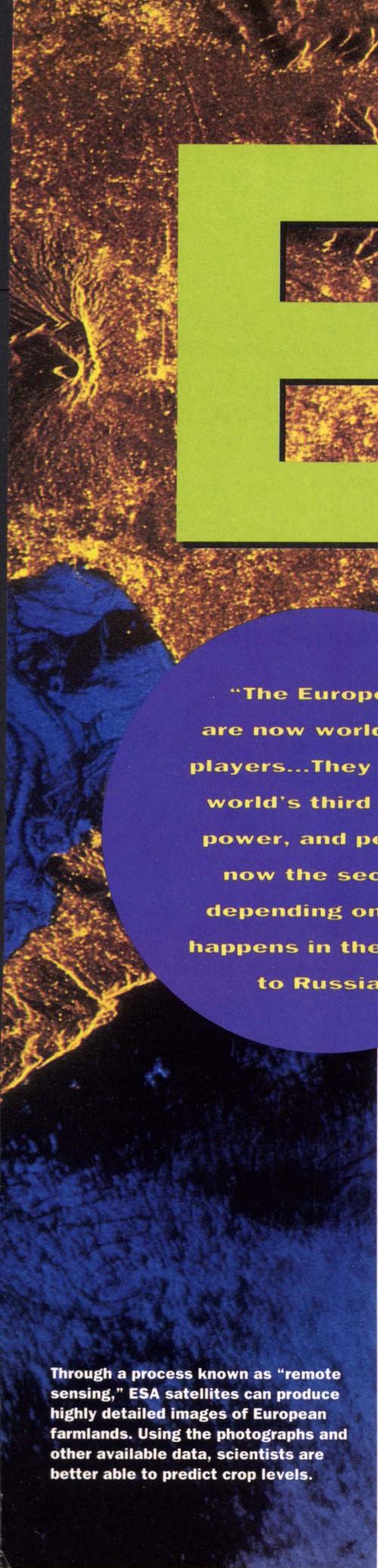
*Diana Scimone is a writer based in Orlando, Florida, where she watches every space shuttle launch by stepping out her front door and looking east.*



S P A C E

# THE NEW FRONTIERS

By Michael McMillan



# ESA

**"The Europeans are now world-class players...They are the world's third space power, and perhaps now the second, depending on what happens in the future to Russia."**

Through a process known as "remote sensing," ESA satellites can produce highly detailed images of European farmlands. Using the photographs and other available data, scientists are better able to predict crop levels.

**L**ater this month, the ministers of the European Space Agency, an independent government body combining the space programs of 13 European countries, will meet in Granada, Spain, to ponder a problem that is confounding space research around the world.

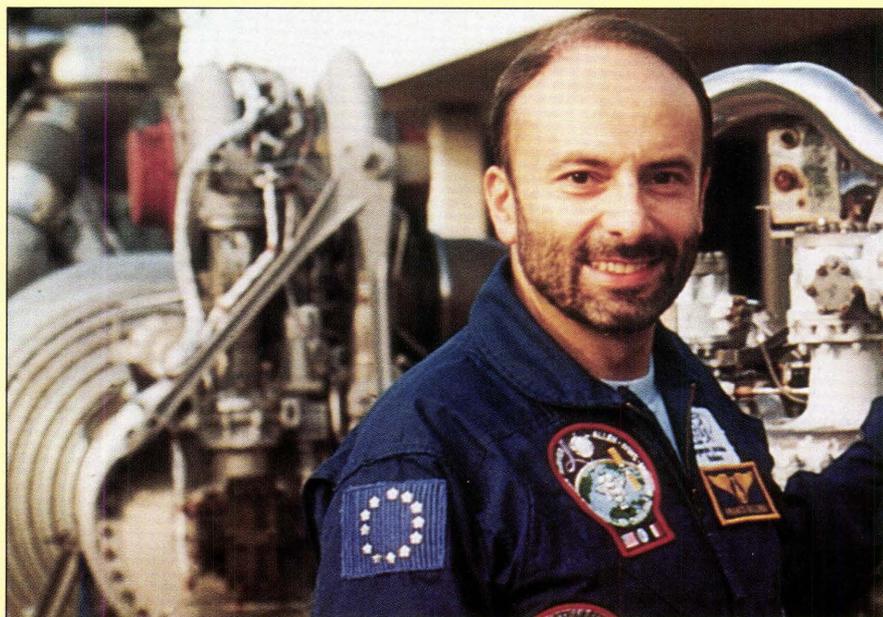
The quandary has nothing to do with such enigmas as the gravitational pull of black holes, the perplexing canals of Mars or the possibility of intelligent life on other planets. That's child's play.

What these ministers must confront is the fact that to go where no man has gone before has become incredibly expensive. And they will have to decide, given the current economic realities facing European governments, where their priorities lie.

But while budgetary concerns are requiring ESA to rethink such ambitious programs as the Hermes space plane and other manned-flight programs, this month's ministerial meeting also is an occasion to reflect on Europe's quantum leap in the world of space exploration that in the last 20 years has brought the cosmos closer than ever before.

# ITALIAN ASTRONAUT

## Franco Malerba



Recently returned from orbiting the earth in the Space Shuttle Atlantis, Franco Malerba spoke to *EUROPE* about his trip into space.

**You circled the world 127 times traveling over 3 million miles on the space shuttle Atlantis. What did you accomplish in this mission?**

It was a great mission. There were various crewmen on board, five NASA astronauts and two Europeans. Claude Nicollier, from the European Space Agency, was the first mission specialist on board the shuttle from Europe with a non-U.S. passport. I was payload specialist from Italy, from the Italian Space Agency, which has a very ambitious and articulated program, right now, with various projects in cooperation with the European Space Agency, and other bilateral cooperation with NASA.

**Did you take the E.C. flag with you into space?**

That's right. Actually, this was something I did not even ask authorization for. I had the Italian flag on my left shoulder, which is the shoulder where American astronauts wear the American flag, and on my right shoulder I had the European twelve stars.

I also took a flag with me. In fact, I

had Mr. Delors supporting this initiative. He wrote a nice letter saying that it was a very good idea. And I hope that I will be able to return this flag to him myself.

**When you went up into space, you must have had some idea of what you would see and how you would feel. Is there anything you saw or felt that you thought was unique?**

There are at least two or three feelings that all astronauts have reported, and I very much shared those feelings as I viewed the planet earth. As you see it as a celestial body from space, it really looks like it is a sphere and not like a flat thing. You also see its colors against a pitch black background, and that is very, very extraordinary. There is such high contrast in light and between things which are illuminated and things which are dark. On earth everything is kind of dampened by the atmosphere, the presence of the atmosphere. But in space the high contrast between images are like razor sharp shapes.

The other thing is that looking at the earth, strangely enough, it doesn't look as if it is inhabited. Perhaps it is because we were flying over the equatorial part of the earth. So if you stare, looking for the human presence, you don't see it.

Considering that there was not much of a Europe-wide space program to speak of a mere 25 years ago, it is interesting to observe how common it is today to hear of such things as European astronauts onboard NASA's Space Shuttle; to see satellites blasting off on European rockets; to see a European component to NASA's plans for Space Station Freedom; and to hear discussions within ESA about future missions to the moon, perhaps even Mars.

At this summer's gathering of the World Space Congress in Washington, no one found it unusual that the ESA space pavilion was the centerpiece of the exhibition hall.

Meanwhile, within the European Commission there is more evidence of a Europe that has moved from the periphery to the cutting edge of the space age. Through both research into developing space-based technologies and seeking out new ways to use these technologies for the public good, the Commission is demonstrating that space can be relevant to a number of earth-bound concerns.

"The Europeans are now world-class players," said John Logsdon, director of the Space Technology Institute, located at George Washington University in Washington, D.C. "They are the world's third space power, and perhaps now the second, depending on what happens in the future to Russia."

Looking at the evolution of European space programs, one sees a history that has unfolded quite differently from more widely-publicized American and Russian endeavors.

Logsdon notes that the development of Russian and American space programs was fueled by something unique to their cold war relationship. Their space programs, he said, were key elements of a competition between two super powers obsessed with demonstrating their superiority, and not just in military terms. Historians often note that the Soviet's launching of Sputnik in 1957 was considered an event of epochal proportions as much for the blow it dealt to the American ego as for its implications for national security.

Sputnik made Americans feel inferior to the Soviets, something they'd never imagined was possible, Logsdon said. And they embarked on a furious

effort to equal Russian achievements in space.

"No such impetus stimulated European states," Logsdon notes. "So, when the Europeans did decide to go into space, it was based on much more pragmatic science and technological grounds."

Europe's impetus for developing a space program was relatively straightforward. In the late 1960s, there was a consensus among a number of European leaders that they could no longer depend on America and Russia to send their satellites into space. A launching program autonomous of the super powers needed to be developed.

Thus, in the 1960s, Belgium, France, Germany, the U.K., and the Netherlands joined forces to form the European Launcher Development Organization, the forerunner to the European Space Agency.

Their early efforts to gain independent access to space were disappointing. And throughout most of the 1970s, Europe was dependent on the U.S. to carry its payloads. But, finally, on Christmas Eve, 1979, Europe achieved its much sought after breakthrough when an ESA rocket known as the Ariane was successfully launched into space.

Last April, ESA celebrated the fiftieth launch of an Ariane rocket, rockets which have become one of the world's most reliable satellite launch systems, having ferried a total of 85 satellites into space. ESA is currently developing the latest version of the Ariane, the Ariane 5, which, according to Dr. Fredrik Engstrom, director of space station and microgravity programs for ESA, will help "ensure Europe's manned access to space."

"Europe is headed for an essential milestone in the set-up and exploitation of a European space infrastructure," said Engstrom, in a paper delivered recently to the World Space Congress.

The emergence of Europe as a space power has been an important event not just for the Continent, but for the international scientific community as well. For example, in 1986, when Haley's comet was making its closest sweep by earth in this century, it was ESA that took the lead in launching a space probe—Giotto—that chased down the comet and provided the most detailed images ever of this once-in-a-generation phenomenon.

ESA also has become a vital partner with NASA. Together, they have pioneered such space exploration programs as:

—the Ulysses space probe, which was launched in 1990 and is on a five-year mission to take measurements of the sun's poles;

—the Hubble space telescope, which is powered by solar panels provided by ESA and carries among its data recording devices an ESA "Faint Object Camera;"

—Spacelab, an ESA-developed research project that has been flown in the hold of the Space Shuttle since 1983. Carrying experiments monitored by European astronauts, it has provided ESA with numerous opportunities to send people into space, something that has been critical to ESA's efforts to train a core group of astronauts for future manned-missions aboard European craft.

ESA's Engstrom believes that in the future, there will be even greater emphasis on cooperating with the United States and the former republics of the

Soviet Union as well. Already, ESA is developing a laboratory that will be attached to NASA's planned Space Station Freedom, which could be in orbit by the end of the century. Engstrom said that "European astronauts will regularly perform missions as space station crew members."

There also has been talk within ESA about developing a space plane—known as Hermes—that would, among other things, ferry astronauts to and from the space station. But development of Hermes has been stymied by a lack of money. Ian Pryke, head of the ESA's Washington office, said initially, Hermes was to be flying by 2005, but budgetary problems have put that target date into question.

When considering the economic impediments to space research—a problem affecting space programs around the world—Pryke concludes that in order to realize its potential, ESA will have to do a better job at putting its agenda on the public's agenda.

"I think there needs to be more work on the public awareness of

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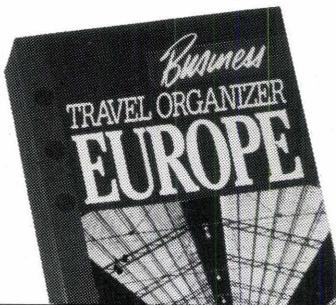
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space," he said. "I'm not sure the impact of space technology on our daily lives has filtered down to the man in the streets. Everyone is now familiar with making a direct dial telephone call to anywhere in the world, but I'm not sure they think about the satellite up there that makes it possible."

One place where the benefits and potential of space technology has "filtered down" to is the E.C. Commission. ESA has found an advocate and steady customer in the Commission.

At its Joint Research Center's Institute for Remote Sensing Applications (IRSA), the Commission is studying how detailed images of earth produced by satellites peering down from space can be of benefit for everything from agricultural statistics to rain forest preservation.

For example, in one project, IRSA has shown how images from space can help officials in Brussels with the arduous job of implementing the Common Agricultural Policy.

One of the major problems confronting E.C. agriculture officials is the fact that methods for producing agriculture statistics vary widely from one country to another. However, through the process known as "remote sensing," satellites can be used to produce highly-detailed renditions of European farmlands. These images, along with conventional methods, can help officials determine, for example, how much wheat is being grown in northern France and whether olive orchard acreage in Greece conforms to the quota established by the Common Agricultural Policy.

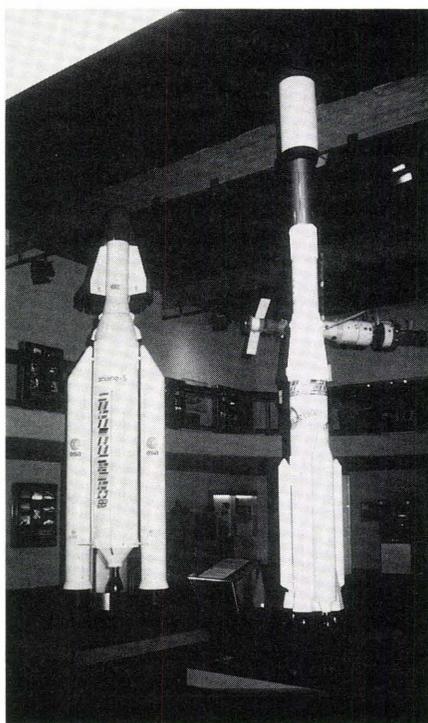
Dr. Jean-Pierre Contzen, the Director General of the E.C.'s Joint Research Center, says that through projects such as this, the E.C. is not only using remote sensing to assist its policy work, it is also leading by example, showing both the public and private sector that space technology—often viewed as extravagant and prohibitively expensive—can be a prudent investment. To that end, the JRC is serving as a clearing house for information on space applications and advises agencies and industries about how they can make use of space technology.

"We (the E.C.) are ready to devote more attention to the field of space in general," Contzen said. "This could help people see the value of investing in space technology and a space infras-

structure. There are so many markets that can be developed for the practical uses of space technology. Satellite systems may one day be justified for agricultural policies alone."

Contzen also is keenly interested in the potential of remote sensing to help developing nations deal with the ecological dilemmas that threaten both their efforts toward economic self-sufficiency and the health of the planet.

For example, IRSA is working with scientists in Morocco to investigate how satellite images of waters off the northwest coast of Africa can reveal



**Ariane rockets have ferried a total of 85 satellites into space. Last April, ESA celebrated the fiftieth launch of an Ariane rocket.**

plankton levels, which would be of tremendous economic and ecological importance to managing fisheries. IRSA also is involved in a project in the Upper Niger basin in Guinea in which remote sensing is used to monitor seasonal fluctuations in surface water levels. Still another IRSA project uses remote sensing to observe the effect of fire on tropical forest ecosystems.

Contzen likes to point out that while IRSA is participating in research that will improve the quality of remote sensing, much of its work is accomplished

with available technology. The challenge facing the space industry, he said, is to be more aware of the great number of potential users of space technology.

"It is quite interesting that there are all of these different kinds of space technologies readily applicable to a number of different countries," Contzen said. "If we wish these people to use these sophisticated applications, then they need our help to develop human and technical resources."

What Contzen hints at is part of a broader movement that Logsdon, with the Space Policy Institute, sees as the future of space exploration and exploitation—the globalization of space programs. The end of the cold war has led to a political climate more conducive to international cooperation, he said, and shrinking budgets are making joint projects even more appealing.

"I think there is much more talk these days about working together in space," he said. "Europe is talking to America; America and Europe are both talking to the Russians; and then there is Japan looking for a way to get more involved. There is a very different environment out there now than there was during the days of the space race."

When Dr. Alvaro Azcarraga considers this scenario, he becomes filled with optimism, particularly for Europe. A Spaniard who is head of the International Astronautical Federation—host of the World Space Congress—Azcarraga believes that the budget concerns to be pondered at the ESA conference in Granada represent only a slight delay in Europe's inevitable ascendancy into all areas of space exploration.

Azcarraga likes to think expansively. And he believes the allure of space ultimately will become for the future European what the allure of America was for Europeans of the past.

"It used to be that a European father could tell his child that if there was nothing for him in Europe, he could go to America," Azcarraga said. "In the future, I would hope that European fathers can tell their children that there are opportunities for them in space."

"I just cannot believe that we will remain enclosed on earth. We need new frontiers." ☐

*Michael McMillan is a freelance writer based in Washington, D.C.*

# CAPITALS



## LETTER FROM LONDON

According to a British diplomat, each new arrival at the British Embassy in Washington used to be given a kind of instruction manual on how to deal with the natives.

It started with a stern warning: "Never forget that you are in a foreign country."

That would be equally good advice for Americans arriving in the United Kingdom.

British and Americans have so much in common—in language, history, and culture—that it's often easy to forget the differences.

It's not just the language. Both peoples are attached to a virtually identical set of traditional values, which include fair play, team spirit, civic responsibility, the assumption of innocence until guilt is proved, and a readiness to fight for beliefs.

Both nations set great store by common sense, pragmatism, and individualism, which translates into politics as a strong attachment to democracy and into economics as a commitment to free trade and open markets.

Conversely, at least in the eyes of Continental Europeans, who often lump them both together as Anglo-Saxons, the British and Americans tend to be weak in conceptual thinking and spirituality.

But the obvious similarities mask sharp differences—some trivial, some less so—which may only become apparent on closer acquaintance.

The apparent identity of

language holds notorious pitfalls:

Try driving a car into an American gas station and asking the attendant—in a British accent—to look under your bonnet. A friend of mine did just that once and was asked, "Are you some kind of a pervert?"

And the accents often give the wrong impression. Brits can easily sound affected and patronizing to Americans, while Americans may sound vulgar and uneducated to British ears.

Differences in attitudes and behavior can lead to irritation. Many Americans find British sarcasm grating.

The British tend to speak slower than Americans and use more words to make a point.

It constantly amazes Americans that the English national game, cricket, should last for five days if played properly. Even then, it

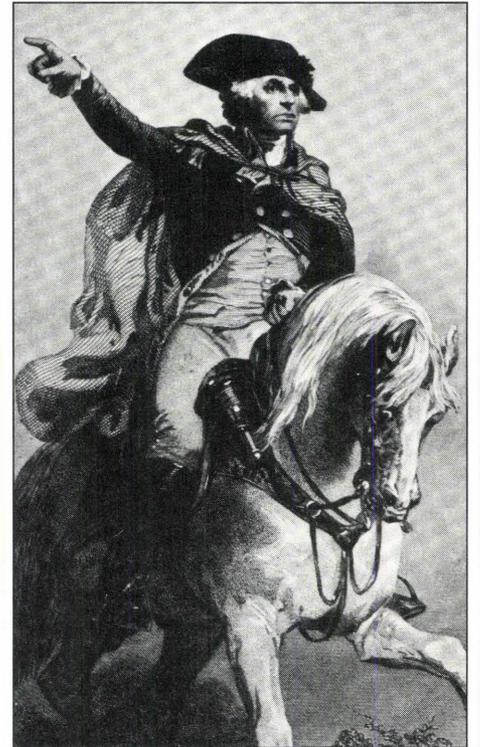
can end in a tie.

Americans are more impatient, and, to the British, often brusque to the point of rudeness. To Americans, the British are too formal and indirect. To the British, Americans are too direct and informal.

British humor tends to be narrative and rely on innuendo. American humor is made up of brisk one-liners and jokes are clearly spelled out.

It's dangerous for a Brit to launch into a lengthy funny story in the United States—his audience will be gone long before he reaches the punch line.

American society is much more violent than the British, and Americans often find it



America's George Washington

hard to understand that most British police are unarmed.

Americans then often go on to make the error of mistaking British politeness and reserve—and the accent—for weakness. For better or worse, as countless wars bear witness, the British are among the world's toughest people.

While it's virtually impossible to explain the rules of cricket to an American, countless Brits have mastered the rules of baseball (which are arguably much more complicated).

Americans, who won their independence by rebelling against George III, sometimes fail to understand how the United Kingdom can be both a monarchy and a democracy. That's resented

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England's King George III

discovers, the British have as much history as anyone—to the point perhaps that devotion to the past is one of the country's main problems.

One of the driving forces of America's national ambition has traditionally been the conviction that the future will be better than the past.

To many British people, the nation's past looks better, and more glorious, than the future.

That's one reason why British people

by many Britons, who (a) see no contradiction, and (b) believe their democracy has centuries older roots than its American offshoot.

Some Britons, like other Europeans, can be condescending toward Americans for having such a short history.

There's a saying that the difference between the two nations is that the British think 100 miles is a long way, while the Americans think 100 years is a long time.

But an even more sophisticated interpretation was suggested once by Sir Roy Denman, former E.C. Ambassador to the United States.

"The problem," he said, "may not be that Americans have too little history, but that Europeans have too much."

He meant that national differences and rivalries have been allowed to build up for so long in Europe that it's exceedingly difficult to build European unity. (The horrifying events in today's Yugoslavia would seem to prove his point.)

And, as any visitor quickly

have sometimes—without admitting it to themselves—been rather jealous of Americans.

Seeing that they could not match America's wealth and power, Britons, like other Europeans, sought to protect their battered self-esteem by asserting cultural and historical superiority. That tended to irritate Americans by focus-

ing on an area in which, rightly or wrongly, many Americans felt they were on weak ground.

Although most Americans believe their country faces serious problems, they still see a bright future for the United States as the world's remaining super power.

Many British people are not yet ready to accept the reality that they are no longer a super power and prefer to take refuge in the past. That is definitely not an American characteristic.

—Reginald Dale is a contributing editor to *EUROPE and the economics and financial editor of the International Herald Tribune. David Lennon will return to Capitals next month.*

## MADRID

### THE IMMIGRATION WAVE

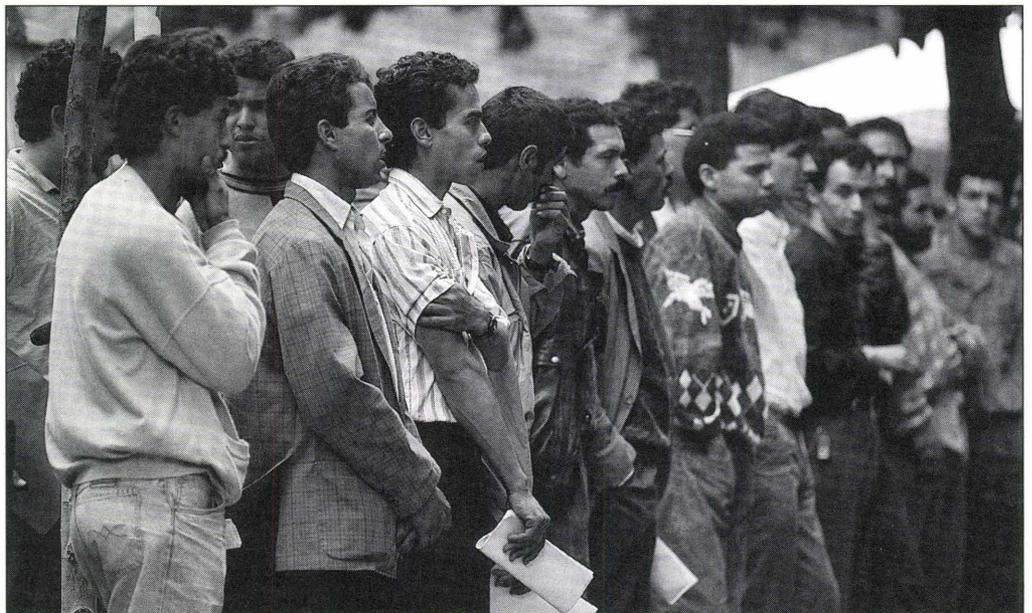
While much attention has been focused on the attacks on refugee hostels in Germany, another sad tale of immigrants seeking the good life in Europe is unfolding along the sunny southern coast of Spain.

Bodies of Moroccans and others from further afield are

washing up on Mediterranean holiday beaches. They are the unlucky ones from among the hundreds of illegal immigrants now streaming across the narrow waterway from North Africa each month, desperate to find work in the countries of the European Community. And Spain is the backdoor to their dreams.

According to Spanish authorities, some 1,500 immigrants have been arrested in the first eight months of this year just in the province of Cadiz, where the southernmost point of Spain is a scant nine miles across the Strait of Gibraltar from Morocco. Dozens more have been detained further north along the coast, and no one knows how many others have made it undetected or drowned as the small boats crammed with hopefuls founder in the sometimes treacherous waters.

The influx began in May, 1991 after Spain imposed strict visa requirements on citizens from the Maghreb countries of Morocco, Tunisia, and Algeria. Before, many entered Spain as "tourists" and then took up jobs in the underground economy or went on to north-



Spanish Prime Minister Felipe Gonzalez has asked his European Community partners to help curb the wave of immigration by boosting aid funds to Morocco, Tunisia, and Algeria.

ern Europe. Now, hardly a week goes by without dozens of illegals being caught on the high seas by Spanish patrol boats or nabbed as they scamper ashore.

And it's not just North Africans trying their luck. Liberians, Senegalese, Ghanaians, Ethiopians, Somalis, Sudanese, and South Africans have also been apprehended. Recently, the Guardia Civil discovered a boatload of 20 Filipinos.

Spanish police say that sophisticated gangs of smugglers operating in the fishing villages of northern Morocco or in Tangier are responsible for running the immigrants across the Mediterranean on moonless nights. A place on an open boat, and false papers, cost between \$300 and \$1000, and with some of the vessels able to accommodate up to 200 people, big money is being made.

Often the operators, afraid of being caught if they venture too near the Spanish coast, order their passengers into the dark and frigid sea hundreds of yards offshore with only the clothes on their backs and a plastic bag to hold their belongings. Sometimes they make it.

If arrested, they are returned to Morocco. But they keep coming and Spain, which already hosts an estimated 300,000 illegal immigrants, is just as determined to keep them out with sea patrols being stepped up and helicopters now being used to spot incoming boats.

Prime Minister Felipe Gonzalez has asked his European Community partners to help curb the wave of immigration by boosting aid funds to the North African nations. "We need a coordinated policy to ease the kinds of problems that force people to emigrate from these countries," he said.

The vast majority of those making their way to Spain are from Morocco, a country with

three million of its 26 million people unemployed. With civil unrest, runaway population growth, and stagnating economies plaguing the entire Maghreb, some experts predict nearly 25 million people from the region will attempt to enter the E.C. through Spain in the next decade.

—Benjamin Jones

## BERLIN

### SAVING THE GERMAN WAY

While the German government is desperately looking for ways and means to finance the ballooning costs of German unification, German household savings climbed up \$156 billion to more than \$2.1 trillion—twice as large as in 1980. Germans

are almost religious about saving money—and that attitude, if anything, is growing stronger. But their faith has its limits. Germans are not risk-takers. Only 5.7 percent of the households in Germany buy stocks; in the U.K. 22 percent; in France 17 percent; and in Belgium ten percent. Germans tuck their money away in pass-book savings accounts that earn a piddling 2.5 to three percent, which is below the current inflation rate of 3.5 percent. The average German is not comfortable with the volatility of the stock exchange.

The newspaper, *Bild* has a new campaign against the "exploitation" of savers. "Withdraw your money!" the newspaper tells the readers, urging them to invest in more profitable instruments, such as savings bonds.

In Berlin, the cartel office is also looking out for the little saver by investigating savings market policies. The cartel office suspects the banks have colluded to keep rates low on pass-book savings throughout the country. The banks defend the low rates on pass-book accounts. They say these are cash accounts with money available to savers on demand. For an overdraft the banks and saving institutions charge a whopping 14.5 percent and more. For now, the cartel office is confining its inquiries to the city of Berlin to limit the investigation's cost and complexity.

The Germans' saving pattern is not so complex. Historically Germans have felt very threatened and so they generally protect themselves with every conceivable kind

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of insurance: life insurance, theft insurance, fire, accident, third-party liability, legal insurance. In 1991 Germans bought a staggering \$33 billion worth of insurance. And the paranoia is catching. After the fall of the Berlin Wall the first thing East Germans did was to insure themselves like their western counterparts.

All Germans long for security, and they don't believe in buying it on credit. When credit cards were introduced in Germany, there was considerable reserve and distrust. Underlying this skepticism was the fear that Germans thought they would lose control of spending. Even today many well-known German restaurants and stores do not accept credit cards.

It is still taboo in Germany to have debts, although younger Germans tend to be less strict about it. Given the German psyche, it is not surprising that even business leaders harbor the same obsession about holding their assets close to their chest. Small and medium-sized businesses are extremely reluctant to go public. Out of 100 top companies, only a dozen are publicly-owned—something that baffles foreigners.

—Wanda Menke-Glückert

## ATHENS

### PRIVATIZATION IN GREECE

**S**tephanos Manos, the Greek Minister of National Economy and Finance, recently spoke with *EUROPE* about his country's current measures to privatize large sectors of Greece's economy.

Manos, a member of parliament for the ruling New Democracy Party who has held his current position since August, says "We have recently sold a major cement manufacturer that belonged

to the state, and we are now selling some shipyards."

Manos talked about a major infrastructure project involving something called the BOT method of financing. BOT stands for Build, Operate, Transfer. "An operator builds it, operates it, and transfers it to the state after 40 or 50 years of a license. In

now taking measures to revamp Olympic Airways. We are going to restructure the company and will look into the possibility of privatizing."

On other topics, Manos said that Greece wants a unified Europe "with one currency. This is what we want, and this is what we will push for."



Once the site of the famous Battle of the Bulge, the Ardennes recently hosted a multinational military exercise.

this last group we have the international airport of Athens that will be built in this fashion. The airport is already a well-advanced project."

The Greek Minister of National Economy and Finance was interested in discussing new infrastructure changes taking place in Greece that will eventually lead to privatization of major components of the society like the telecommunications industry.

Manos says that in the area of telecommunications, "We are planning to sell a stake in the telephone company that belongs to the state by 1993. And we have already sold two mobile phone and cellular licenses earlier this year."

Greece is no exception in attempting to privatize their state-owned airline. As Manos pointed out, "We are

Maastricht is very important for Greece. Manos went on to say that "a common foreign and defense policy for a country such as ours—which is on the fringe of Europe, away from the center and away from the core of Europe and bordering on areas of great instability—is extremely important for us."

—Robert J. Guttman

## BRUSSELS

### COFFEE AND COOKIES AT THE BULGE

**T**hey came on a Saturday, at dawn—just like 48 years ago. Packed with weapons and food, their trains arrived during the night. The Germans had made their move.

Those who have lived the Battle of the Bulge—and there are a lot in the United States—might be interested to know that German soldiers have made their first entry into the Ardennes, south of Belgium, since the German *Werhmacht* took the Allies by surprise during World War II, on December 16, 1944.

This happened in September when about 500 German soldiers took part in a multinational military exercise named "Autumn Leave." More than 1,000 troops—including French and British—joined Belgian troops for this large-scale drill which covered one third of the Belgian territory. At the center of this region stands the Ardennes, where the memory of the Battle of the Bulge is still strong.

December 16, 1944, was a day of fog. Allied planes were grounded. Mustering 24 divisions, Field Marshal von Rundstedt had called his troops to "give your all in one last effort." With tanks, the Germans hammered the U.S. First Army and penetrated more than 30 miles into Belgium in December 1944. Planned by Hitler, the attack

succeeded at first. But Allies rolled back the Ardennes offensive in January, despite heavy snowstorms.

U.S. veterans have kept vivid memories of their stay in the Ardennes. Some of them remember the Christmas night in Bastogne when they were surrounded by German troops. Each year thousands visit the fields and forests where they fought. But locals have suffered too. Houses were destroyed. Villages were razed—not to mention St. Vith, the last German stronghold in the Bulge before it was liberated by the Allies on January 23, 1948.

Now the German soldiers are back again. Equipped with a French-German dictionary, sharing a few words of English with other soldiers, they have been briefed on the possible resentment in the Ardennes. "We know that, for some, the German uniform will incur contradictory feelings," said one German army official. "We plan to organize a meeting with Belgian veterans of the Battle of the Bulge. We will serve coffee and cookies."

—*Christophe Lamfalussy*

## COPENHAGEN

### DEFINING A NO

**T**hough the French Yes to the Maastricht Treaty was slight, it has forced the Danes to define the No that was imposed on their government by a wafer-thin majority at the referendum in June. It is back to basics for Danish E.C. policy. The last five years' gradual shift toward the E.C. consensus has not only been slowed but is now being rolled back.

It was expected the Danish government could not accept any military or security clauses in the Maastricht Treaty, be they explicit or implicit. Such issues had been very visible and highly con-

tentious in the referendum campaign. But it is surprising that all commitments toward Economic and Monetary Union (EMU) have been withdrawn, for economics was not a major issue in the campaign. Trade unions and employers agreed—and still agree—that a common currency helps create jobs in Denmark.

The withdrawal of the EMU commitments is even more surprising in view of the fact that the European Monetary System (EMS), of which Denmark was a founding member in 1978, was badly wounded in September, and that Danish businesses faced higher interest rates to pay for the defense of the Danish currency, the krone. No one in the referendum campaign wanted that, everyone agreed that the EMS should be preserved, with its ability, at least hitherto, of making Europe an island of stability in a world of turbulent exchange rates.

The government and the main opposition party have agreed on a strategy that they hope will allow the Danish voters to endorse a new Maastricht arrangement at a referendum next year. Its key element is (apart from exempting Denmark from security, defense, and economic obligations) stressing the principle of subsidiarity, which emphasizes decision-making at the national level whenever possible, rather than at the E.C. level.

—*Leif Beck Fallesen*

## DUBLIN

### TELEPHONE SCANDAL

**I**rish political life has been dogged by telephone tapping scandals over the past 20 years, and the latest episode has revived memories of previous ones and all the promises made to get to the bottom of them.

Basically there are three

kinds of telephone taps: those done legally by the police to collect evidence against criminals and to gather intelligence about subversive activity by the IRA and other outlawed groups; those done by the police but without obeying all the rules to prevent abuses; and those done by other than the police and therefore illegally.

Recently a Sunday newspaper published transcripts of telephone calls made by John Bruton, the leader of the main opposition party, Fine Gael, to several of his colleagues from his car phone. Bruton was discussing a press conference earlier that day by Sean Doherty, a former minister for justice in a Fianna Fail government back in 1982 who had been responsible for ordering the tapping of the phones of two well-known political journalists. They had been writing stories based on inside knowledge of confidential government meetings.

Doherty's action was challenged in the courts and found to be illegal, but the Taoiseach or prime minister at the time, Charles Haughey, insisted he had not been informed about the bugging and so escaped the political disgrace which Doherty then suffered.

But in his press conference held last January, Doherty dropped the political bombshell that he had informed Haughey and had even given him transcripts of the taps. What made this so sensational was that Haughey was that Taoiseach. In spite of his strong denial of Doherty's claim, he was forced to resign under pressure from the junior partners in the coalition government.

One of the transcripts of Bruton's phone calls on that night was of a conversation with his colleague, Michael Noonan who as minister for justice in 1983 was the man

who revealed that Sean Doherty had ordered taps on the journalists' phones. But now he was warning Bruton that Doherty had information that could embarrass Fine Gael if revealed.

This was that Fine Gael when in government had also ordered taps on journalists' phones, this time the editors of a national newspaper and a news magazine. Now if Doherty had been disgraced for his action, should the Fine Gael ministers responsible not suffer the same fate? One of them is now a member of the European Parliament and the other a senior party member in the Dail or Lower House. Noonan, in the overheard conversation with Bruton, was reassuring him that all the Fine Gael taps could be justified but he did not make it clear how this could be done.

The mystery now is who bugged these calls by Bruton and why were the transcripts given to a newspaper? The present Taoiseach, Albert Reynolds, who was on a visit to the United States when the story broke, denied that there was any police involvement this time. Indeed the police immediately began an investigation.

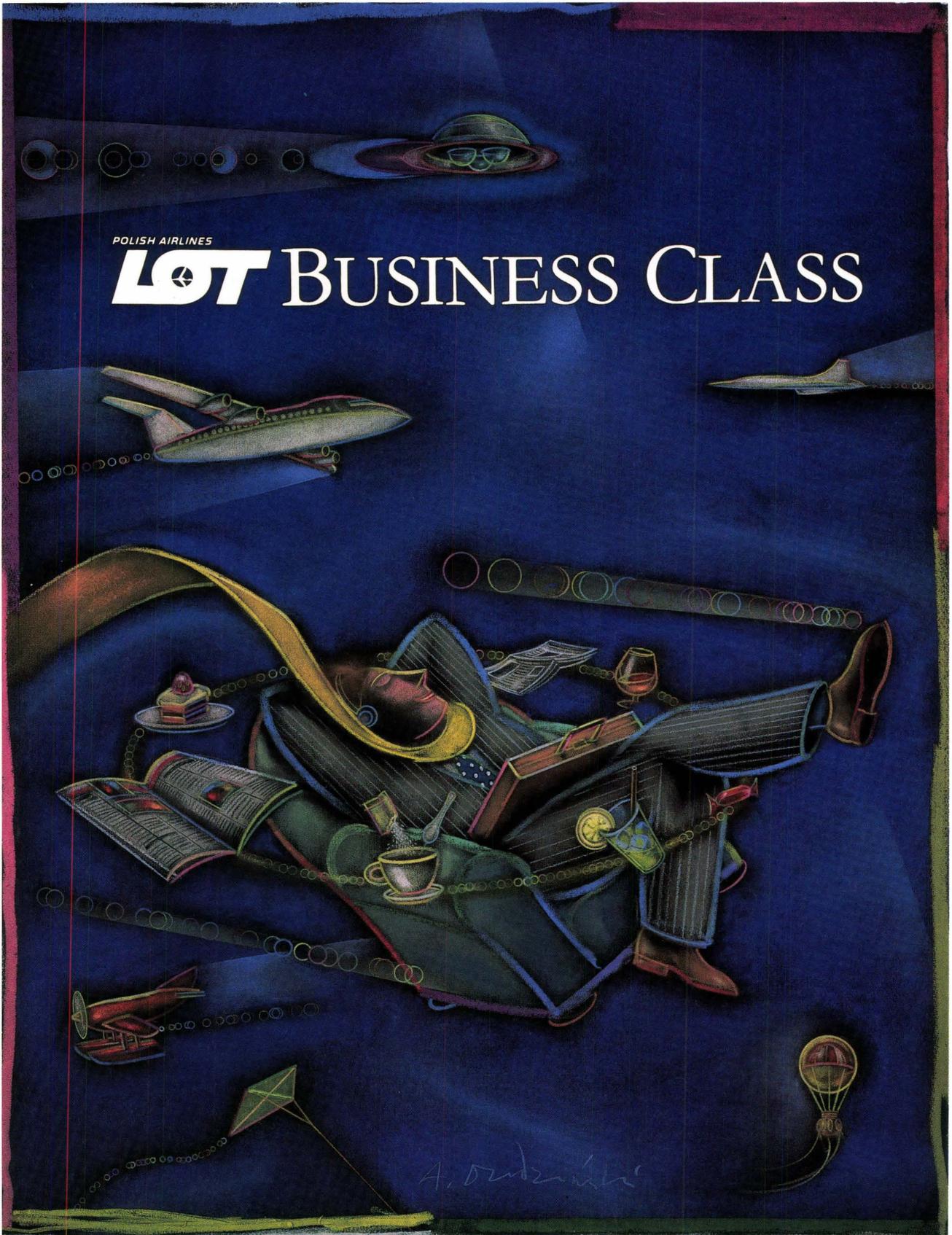
Commentators recalled that when Reynolds himself was challenging Haughey for the leadership last year, he complained about covert surveillance actions around his apartment and some of his supporters said their telephones in the parliament building were tapped.

The general public appears bemused by the whole business, and people are now being warned that it is child's play to monitor calls made on mobile phones, which have become status symbols in recent years. So much so that some "yuppie" types were suspected of having dummy ones just to impress. At least they could not be tapped.

—*Joe Carroll*

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## LISBON

## PORTUGAL FIRMLY FAVORS EMU

Portugal remains firmly committed to European Monetary Union (EMU), and is pushing forward with its economic reforms accordingly. This was the message conveyed by Portuguese Finance Minister Jorge Braga de Macedo, as he addressed the World Bank/International Monetary Fund governors at the annual meetings held recently in Washington.

But the unease about the current European economic

■

**Earlier this year the Portuguese government lifted restrictions on capital movements.**

■

and financial situation, shared by many of his colleagues at the meetings, was evident in his speech.

"As a small open economy, Portugal has naturally been adversely affected by the cyclical downturn," he said, but underlined that the Portuguese "catching-up process" within the European Community continues to be a top priority.

Yet some of the measures taken this year must seem bittersweet, in retrospect. Last April, the Portuguese escudo entered the Exchange Rate Mechanism (ERM) of the European Monetary Sys-

tem (EMS). But the European currency crisis, which erupted the week before the Washington meeting, almost sent the escudo through the floor of the mechanism.

The Portuguese government also decided this year to lift all restrictions on capital movements, something which will be required in the new European single market. But the E.C. has actually given Portugal until 1995 to remove currency controls, and the temptation to use this timetable to the limit may now be stronger than ever, as the vulnerability of capital markets to the power of financial speculators became evident in September. (Spain and Ireland recently imposed currency controls on investors, in effect violating E.C. regulations.)

"The events of recent days underline the importance of credibility and therefore the benefits of swift and steady progress toward full EMU," De Macedo said, arguing that the implementation of the Maastricht Treaty would be the best way to overcome Europe's problems. The Portuguese parliament is expected to ratify the Treaty before the end of the year.

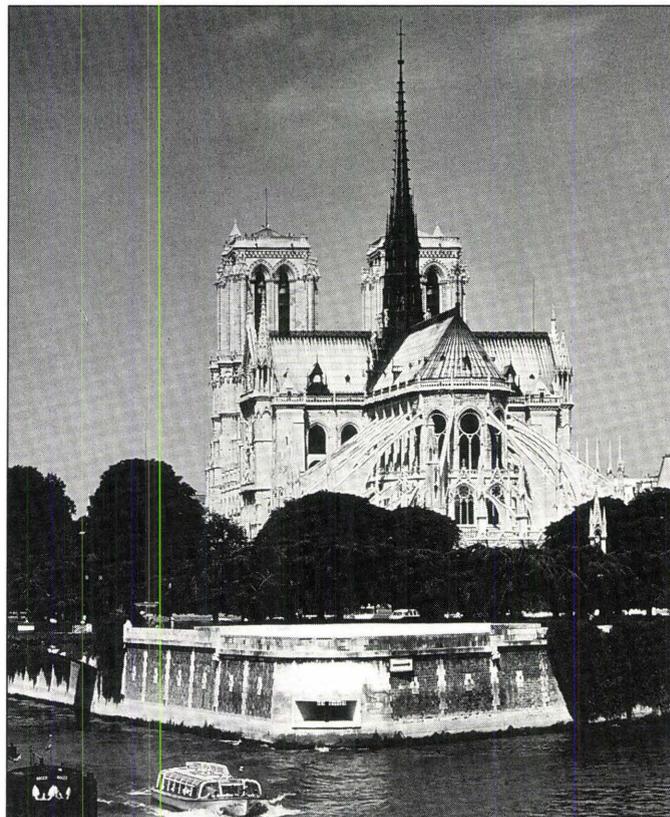
—Jonas Weiss

## PARIS

## PULLING OUT ALL THE STOPS

For the past 15 years the annual run-up to Christmas has been celebrated in the churches of Paris by a Festival of Sacred Music. Blessedly different from the commercial tinsel and glitter that festoon the department stores earlier each year, the festival begins in October and culminates with a concert on Christmas Eve.

This year's program gives top billing to the king of instruments—the church organ—to underscore a



**It took over 20 years to decide on a restoration policy for the greatest organ of France, the 8,000-pipe monstrosity inside Notre Dame Cathedral.**

major project launched this year for the "organ-ization" of Paris. By the year 2000 the municipal government plans to provide every religious building in the city with an organ in good working order. A budget of eight million francs a year has been allocated for their restoration and reconstruction.

Not that there is a shortage of organs in Paris—there are some 300 of them, half owned by the Municipality, the rest belonging either to the French State or to private owners. Twenty-four of the organs are unique enough to have been classified as historic monuments. Some of the greatest composers of their time have sat at their keyboards: François Couperin at the organ of St. Gervais, César Franck at St. Clotilde, Camille Saint-Saëns at la Madeleine, and for 61 years, until his death this spring, Olivier Messiaen at la Trinité.

Unfortunately, not all

these historic organs have been given the constant care they require. Contrary to their muscle-bound appearance, with massive windchests and pipes bulging everywhere, organs are extremely fragile instruments. Soot from candle smoke can clog their pipes, hot dry air can make them short of wind and crack the bellows, and the tiny woodworm can make the mightiest organ shudder. Even worse, organists have been known to tinker mercilessly with their instrument's innards to produce virtuoso sound effects.

Sometimes the damages and modifications can be reversed, and the organ restored to its original state; sometimes it is best to modernize it completely; and occasionally an organ is simply too far gone to save. Such was the case of the great organ of St. Eustache, the church where Mozart's mother lies buried. It had been modified so often that it

no longer had a voice of its own. So the City of Paris had a completely new organ built, one that breaks entirely with the past. Daniel Birouste, the French organ-builder who has been entrusted with its maintenance, describes it as "a revelation, the first great example of a truly contemporary organ...an enormous music machine, capable of great musical mobility."

Elsewhere the City of Paris has not had to apply such drastic and expensive measures. The church organ of St. Clotilde, for example, is

one that time has scarcely touched. Built in 1858 by Cavallé-Coll, the greatest French organ-builder, it still sounds as it did then, because it had only three organists in over 120 years and each of them, starting with César Franck, looked after it tenderly. (Last year its current organist Jacques Taddei, made a recording of César Franck pieces using exactly the same stops César Franck used a century ago.)

It took over 20 years to decide on a restoration policy for the greatest organ of France,

the one inside Notre Dame Cathedral. With its 8,000 pipes and five keyboards, it is a symphonic giant, capable of sounding like an entire orchestra. It has undergone several transformations during its 800-year life. The last modifications, dating back to 1963, allowed its organist to dazzle the congregation by playing keyboard stops with his right foot, as if he had three hands. The major overhaul that finally got underway two years ago and is being completed this month will still make such fancy footwork possible, and will further boost the organ's unique sound with the best of modern technology.

Whether a high-tech marvel like at St. Eustache, a period masterpiece like at St. Clotilde, or a mighty hybrid like at Notre Dame, each of Paris' great church organs is unique. And thanks to the municipal government's project, their voices will continue to be some of the most glorious sounds of the Christmas season in Paris for many years to come.

—Ester Laushway

in an illegal effort to put their savings in a safer place. Esteemed personalities have gone so far as to say that "this is the worst recession since 1929."

A few days passed before—without denying the gravity of the situation—clearer heads and a more realistic overview began to pre-

■  
**Italians have  
 not given up  
 their  
 preferred  
 means of  
 savings—the  
 BOT.**  
 ■

vail. If a recession is defined as a decrease of the real income produced by the country, then there is no recession in Italy. The real product not only didn't drop, it actually rose, albeit at a lower rate than predicted prior to the crisis. Other indicators of Italy's economic situation are reassuring as well. There was no massive increase in unemployment. Inflation, even though it is higher than that of most of the other European partners, is limited and is lower than the alarming levels of the eighties.

But there is one other indicator that shows that despite the jolts, the system is still holding. Italians have not given up on their preferred means of savings—the so-called BOT (Buoni Ordinari del Tesoro), or treasury bills. Ever since they were invented and introduced on the market, BOTs, along with tax

**ROME**

**THE SYSTEM HOLDS**

In the midst of the worst economic crisis since the end of World War II, Italians—after initial dismay—have been holding up well. They did not give way to panic in the face of the flood which threatened to sink the lira, forcing it to drop out of the European Monetary System.

And yet, during these last few weeks they have had every reason to be seriously worried. The press, politicians, and economic experts have overwhelmed them with an orgy of pessimism and prophecies of doom. Many in the media have indulged themselves in broadcasting images of Italians lining up at banks in nearby Switzerland

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collection, have represented one of the principal founts of revenue for the public coffers. Above all, they are tangible proof that the average citizen still has faith in the State. A faith that is helped along by the fact that the usually voracious State does not tax BOTs.

For months the true bugaboo of the small Italian savers was the fear, fed by rumors and alarming articles, that the government, cornered by the crisis, would freeze the treasury bills, in effect confiscating the money it had been lent by trusting citizens. Or, in any case, it would decide to apply some type of taxation. None of this happened. And now, at the most recent auction at which the State puts new series of treasury bills on the market, there was a stampede on the part of investors. The government, although it wouldn't admit it, had feared that Italians would desert the auction. The exact opposite happened. As has occurred many times before, the auction was literally overwhelmed by investors.

Well then? What message is the country sending the government? Truly worrisome is the disastrous level of public debt. More than just a hole, it is a chasm equal to roughly three times the total foreign debt of all the Latin American countries combined.

But the cause of the problem can be found in the political system, which is incapable of controlling spending and restraining its own appetites. The fault is not of the Italian private economy. The economist Antonio Martino, a professor at the Luiss University of Rome, says, "If the politicians put their internal affairs in order, the Italians will continue to make this country prosperous and dynamic, admired world-wide." This is a prescription that finds a general consensus among the majority of other

experts, and with which, according to surveys, the public agrees.

—Niccolò d'Aquino

## AMSTERDAM

### DUTCH ENERGY TAXES

It's one of the traditional stereotypes about the Netherlands—an obsession with cleanliness. The housewives are said to be so excessively tidy that they never seem to stop cleaning their doorsteps and scrubbing the sidewalks in front of their homes. Unfortunately, the Netherlands is not that clean anymore. Heavily industrialized, with an intensive agricultural sector and a high concentration of traffic, this densely populated country has become one of Europe's worst in terms of per capita pollution.

In recent years, Dutch environmental concerns have become widespread and have gained momentum within all political parties. This new awareness has laid the groundwork for the Netherlands' recent increase in energy taxes. The European Commission, however, also is considering proposals to introduce a Community-wide "energy tax" with the aim of reducing the emission of greenhouse gases. Like the Commission's proposed tax, a main goal of the Dutch tax is to help improve the environment, but the government is also looking to generate revenue from the tax. The plan, however, is not without confusion, especially concerning how the Dutch tax would eventually fit in with a proposed European tax on energy sources.

Since July, "households" and "small and middle-sized companies" have felt the effect of higher levies on natural gas, gasoline, diesel, and LPG. At the pump, prices rose even though low oil prices and favorable ex-

change rates would seem to have justified a lowering of consumer prices.

What's at stake for the *Wet Algemene Bepalingen Milieuhygiëne* (WABM, Law general provisions on the environment)? When this law was passed in 1980, it was meant to be a so-called destination tax. The money raised was earmarked for use on environmental expenditure, and the amounts involved were relatively small. Last year, however, in the wake of budgetary problems, the government turned to the WABM to raise its revenue. An increase from \$545 million in 1991 to \$882 million in 1992 and eventually \$1.3 billion was proposed for 1994. Hastily, the government changed the destination of these levies so that no longer were they meant to finance environmen-

dustry leaders (who feared the tax would seriously jeopardize their competitive edge) had a confidential meeting with Lubbers, Finance Minister Kok, Economics Minister Andriessen, and Environment Minister Alders, resulting in exemption from the WABM-tax increase for energy-intensive industries.

Meanwhile, the European Commission in May proposed that the Community should introduce a tax on energy sources rising to \$10 per barrel of oil-equivalent by the year 2000. But the proposal said that the E.C. would only proceed with its tax when the United States and Japan agreed on similar measures.

Fears have eased within the Dutch business community about further unilateral pioneering by the govern-



**In the Netherlands, prices rose at the pump even though low oil prices and favorable exchange rates would seem to have justified a lowering of consumer prices.**

tal programs, but they were to be added to general revenue.

Opposition to the increase of the WABM was fierce, both from political parties in Parliament and from industrial lobbying groups.

Early this year Dutch in-

ment into energy taxes in the Netherlands, and although Dutch housewives will continue to be obsessed with cleaning their stoops, it appears that they won't have to worry about more energy taxes.

—Roel Janssen

# ARTS & LEISURE

## ART

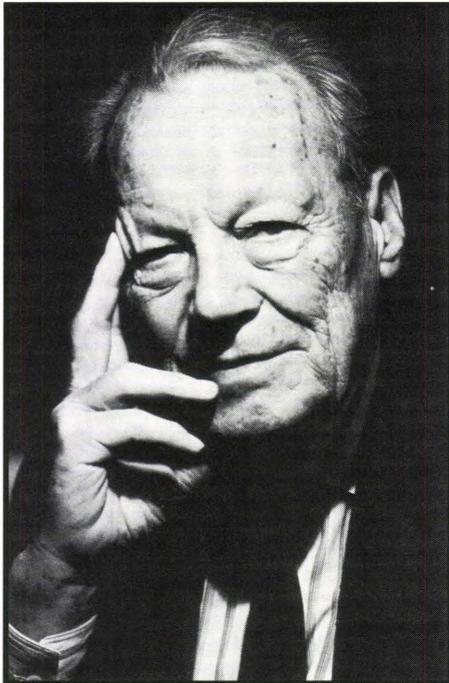
### Talents and Consciences of Europe

Talents and consciences are not exactly the easiest subjects to capture with a camera, but that hasn't stopped one photographer from trying.

Jaydie Putterman, an American photographer now at home in Paris (or anywhere he has his camera), has defied the odds and put together an exhibition of his work entitled *Talents and Consciences of Europe*.

Now showing through December at Georgetown University's Leavey Center (North Gallery) in Washington, D.C., the exhibition is a collection of 111 black-and-white portrait photographs commemorating "Europe's new humanists," the men and women who through the media of art, science, politics, or the church have improved the lot of their fellow man.

Some of the faces need no introduction—for instance, Irish President Mary Robinson, who just recently visited Somalia to show solidarity with the victims of the political strife there; Lord Peter Carrington, who until recently mediated in the Yugoslav crisis; Peter Benenson, the founder of Amnesty



Willy Brandt (1913–1992)

International; Jose Carreras, acclaimed operatic tenor who now heads a foundation for leukemia research following his own bout with the disease; and Judge Giovanni Falcone, recently assassinated by the Mafia. The portrait of Falcone is, in fact, one of Putterman's personal favorites.

Even if you don't immediately recognize the individual, each portrait is accompanied by a short explanation of his or her life and work.

One well-known European featured in the collection is Jacques Delors, President of the E.C. Commission. His words, written in the preface of the *Talents and Consciences of Europe Catalogue* seem almost prophetic in light of the recent problems the drive for European integration under the Maastricht Treaty has encountered.



Red Cross Member Helen Potamianos

"If the European venture had to rely solely on politicians and civil servants, its future would be very uncertain indeed. But Europe's true richness lies in its many different faces and its vast range of talents."

With this collection, Putterman performs a kind of "double exposure" involving his own talent and conscience. Using only natural light, his portraits exude humanity, sensitivity, and a directness that imparts both familiarity and greatness.

But his exhibition "works" in another way, too. With the support of the E.C. Commission, Hertz, Cartier International, and Dupont de Nemours, it will open in 19 different country capitals and donate its earnings (from rental fees and catalogue sales) to a designated charity in each

city. Proceeds from the Washington exhibition will go to Amnesty International.

The exhibition has also opened in Luxembourg and Brussels where it received excellent reviews. It will open in Paris in late October.

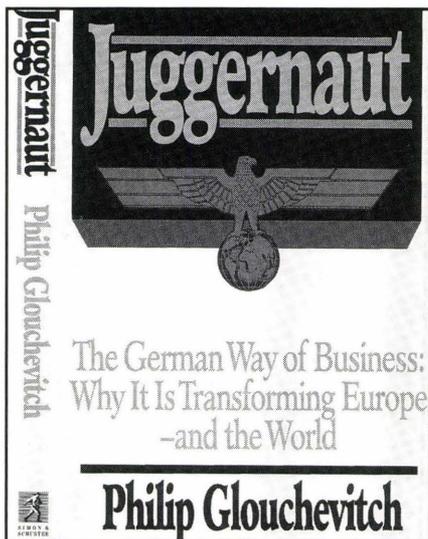
The *Talents and Consciences of Europe Catalogue* will be available in limited supply at Georgetown University Book Shop for \$12.00.

—Maeve O'Beirne

## BOOKS

**Juggernaut—The German Way of Business: Why It is Transforming Europe—And the World.** By Philip Glouchevitch. Simon & Schuster. 239 pages. \$21.00.

For anyone doing business in Germany, or considering doing business there, *Juggernaut* should be on your must read list. Philip Glouchevitch has written a comprehensive, timely, and lively analysis of many of the factors that have made Germany the economic powerhouse of Europe. After all, as Glouchevitch points out "in absolute terms, Germany runs neck and neck with the United States and ahead of Japan as the world's leading exporter, even though the German economy is only a quarter the



with the American business philosophy is noticeable," says Glouchevitch.

Moreover, *Juggernaut* asserts that firms within the Mittelstand and larger companies play a key role in meeting the social needs of the country. "German companies frequently step forward and take responsibility before the government feels it is necessary to interfere."

*Juggernaut* also offers an extensive discussion of the German banking system and compares it to that of the United States. Glouchevitch points out that the banks in Germany are allowed to engage in almost "every conceivable financial activity—and they do." However, he maintains that one of the strong points of the German banking systems is "not just in its structure, but also in the heads of bankers. German bankers act the part, and are never comfortable with any upstart who goes too far, too fast, too loud." Which is a good rule for any executive or entrepreneur to keep in mind.

In a related area, Glouchevitch also describes the current anti-takeover mentality which flourishes in Germany. He contends that although Germany's commercial laws clearly spell out all the various duties of daily business law, its "corporate law on takeovers is far too incomplete." Furthermore, he believes that in Germany there is "the perception that there is something distinctly unhealthy about getting rich by wheeling and dealing. To the German psyche, wealth comes from production, not speculation," says Glouchevitch.

In describing the profit potential of investing in what was the former East Germany, Glouchevitch quotes

Reiner Pilz, an entrepreneur who is planning to build a factory to produce compact discs in the East, as saying, "Entrepreneurs investing in eastern Germany for the cheap labor had better stay home. With the right training, the Germans in the East will rapidly close the productivity gap with the West and earn comparable wages. The Americans, English, (and) French are making a big mistake by not setting up productions in [eastern Germany]."

—Roy Katz

### Who Will Tell the People? The Betrayal of American Democracy.

By William Greider. Simon & Schuster. 464 pages. \$25.00.

Having won the cold war, what's next for the American democratic state? New heights, or steady decline? Is the American beacon, which has, after 216 years, seemingly been adopted as the model for the rest of the world from Prague to Budapest capable of continuing to shine, or is it rapidly losing the energy that powers it? Beginning with the premise that the light is seriously dimming, William Greider, formerly an editor at *The Washington Post* and now National Affairs editor for *Rolling Stone*, attempts to make a detailed examination of the root causes of the current seeming inability of the late 20th century American political system to live up to the democratic imperative.

Greider is of course not without compelling evidence to support his proposition that "American democracy is in much deeper trouble than most people wish to acknowledge." The tax "reforms" of the 1980s, and the "failures" of the Clean Air Act, the S&L scandal, and the long delay in mandating air bags for automobiles are his principal exemplars of this thesis. Other than a few brief discussions of

the effectiveness of the civil rights movement under Martin Luther King, however, 1992's prime example of governmental failure, the plight of Afro-Americans in America's cities, is notably absent from the book's discussion.

While Greider rounds up the usual suspects, (Congress, the President, media, and lobbyists) as the perpetrators of this decline, he states that it is "the warped power relationships between people and monied interests and government that tangibly define(s) the democratic problems."

With sometimes jarring clarity Greider takes the reader through Washington as he has seen it in his many years as a reporter and editor. The book is replete with real-life examples of the "invisible fences," which he says "both exclude people from access and subvert such elementary principles as equal protection of the law."

It therefore strikes the reader as somewhat strange that Greider concludes the book on an optimistic note of ringing populism. After 400 pages of numbing revelations of failure of democratic government, Greider poses the question of America's future as one of whether "the American system was truly unique—capable of defying history—or simply another chapter in the rise and fall of muscular nation states." His "optimism" insists however "that (a) new crucible can yield a different outcome." While he does find hope in such nascent grassroots organizations as Saul Alinsky's Industrial Areas Foundation, unfortunately Greider offers little more of a substantive nature to back this view up. He has anointed himself merely as the bearer of a warning. He eschews the mantle of leadership, placing it almost naively (and Greider is not at all naive) on the American public as a whole.

—Robert Bassman

size of the United States'."

According to the author, it is the Mittelstand or the small and medium-size companies which form "the true backbone of the German economy." He cites German government statistics which predate the reunification that define the Mittelstand as companies with fewer than 500 employees and sales under \$66 million. However, these companies "generate half of the country's national production, employ two thirds of all working citizens and account for over two thirds of all exports."

He contends that one of the key factors, which is at the heart of the Mittelstand tradition, "is more than a 'work ethic' in the usual sense of the term; rather it represents a whole spectrum of beliefs and practices that affect every level of German business."

For example, *Juggernaut* points out that German business owners and executives understand their obligations to a "social contract," which implies the right to maximize profits." However, Glouchevitch maintains this contract also carries with it a responsibility to their employees and the community. "Rights and responsibilities go together, and a German company has a responsibility to more than just its owner. The contrast

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