

EUROPE

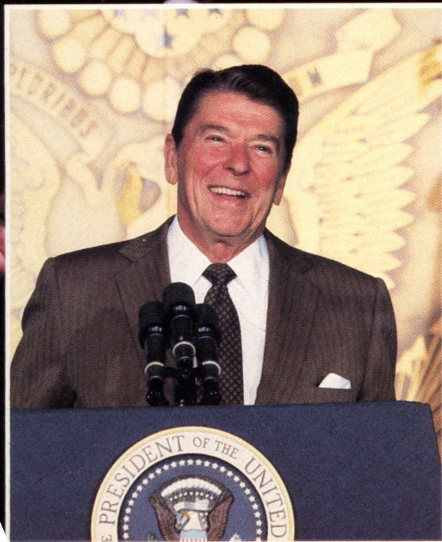


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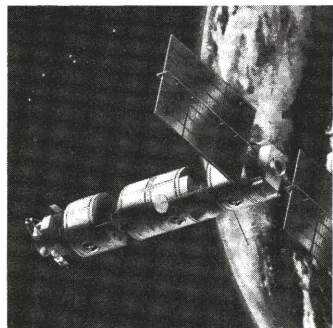
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EUROPE

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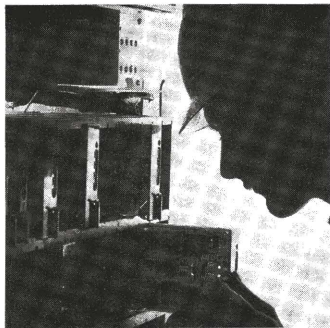
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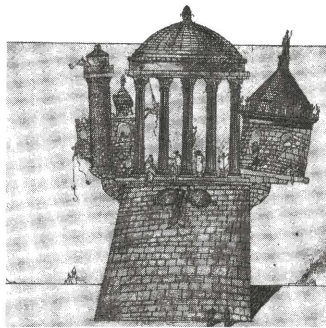
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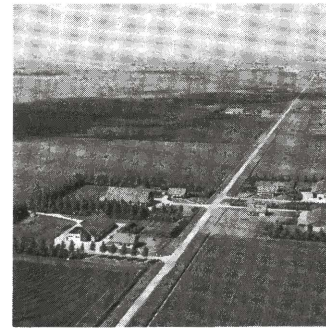
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Publisher Denis Corboy
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Design Publishing Directions

EUROPE, Magazine of the European Community, (ISSN 0191-4545), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 707, Washington, DC 20037. © The Commission of the European Communities, 1985. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. EUROPE, published bimonthly, is available by subscription for \$15.00 per year; \$30.00 per 2 years; \$45.00 per three years. Editorial, per-

missions, and circulation offices: 2100 M Street, NW, Suite 707, Washington, DC 20037; telephone (202) 862-9500; telex 64215 EURCOM UW.

Second class postage paid at Washington, DC.

Postmaster: Please send change of address forms to EUROPE, PO Box 995, Farmingdale, NY 11737-0001

The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the views of European Community institutions or of the member states.

PUBLISHER'S LETTER

Spring again. Not just in Washington, where we get an all-too-brief respite from this city's gray winters and sultry summers, but in Europe as well. For on March 29, a long and often wintry season of negotiations on enlargement of the E.C. to include Spain and Portugal was brought to a successful conclusion: On January 1 of next year, the Europe of Ten will become the Europe of Twelve.

It's an historic and exciting milestone in the development of the European Community, and it stands as proof that, far from being at a standstill, Europe is forging ahead. It's clear now that the political will exists to solve even the most complicated and difficult differences, and that despite its internal divisions Europe has not lost sight of its goals, nor of any of its determination to achieve them. The Europe of today is growing, and growing stronger every year—and there can be no more convincing sign of its vitality than that. In our cover story this issue, Alex Scott of the *Guardian* takes a look at what the enlargement means, its impact on the E.C. and the Iberian countries and its importance for the rest of the world.

We're also happy to announce that *Europe Magazine* is about to mothball its typewriters. It's not that we haven't enjoyed their incessant clatter, or their picturesque antiquity. It's just that, with the installation this month of a new computerized copy processing and typesetting system, we've decided to join the telecommunications revolution that's changing the way the world works. All across Europe, a similar transformation is taking place under a new E.C. program known as RACE, which is designing and building a new infrastructure of satellites, optical cables and computerized switches that will serve as Europe's telecommunications network for the future. Guy de Jonquieres of the *Financial Times* examines the trends shaping the growth of these new industries and technologies, and the *Guardian's* Derek Brown examines in detail the RACE program, the centerpiece of Europe's telecommunications strategy.

We note with satisfaction that the ranks of "Euro-optimists" appear to be growing. The latest addition is the Hudson Institute, which noted in a recent report on "Europe and the World" that "optimism about Europe's economic future is more justified than pessimism." In our guest column this month, Robert Samuelson debunks the "Half-Truths of Europessimism" in an analysis of Europe's economic prospects.

President Ronald Reagan addressed the European Parliament on May 8, the 40th anniversary of the end of war in Europe. The visit, the first of an American President to the E.P., underscored the ties that have bound Europe and the United States together through the postwar period, as well as the forward-looking attitudes that continue to shape the U.S.-E.C. relationship. Emanuele Gazzo, editor of *Agence Europe*, discusses in this issue the growing role of the Parliament as the symbol and instrument of European union, and the importance to America of an increasingly strong and united European Community.



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AROUND THE CAPITALS

COPENHAGEN

Anti-Tax Leader Free

Convicts usually have a hard time making it to the top in politics. But convict No. 8817, released from a small Danish prison in March, was no ordinary criminal. Mogens Glistrup, the tax lawyer, was, and is now again, a prominent leader of the Danish anti-tax Progress Party.

A well-known university lecturer and author of textbooks on tax law, his knowledge of the tax laws not only landed him a profitable business as a corporate tax advisor, but was also the basis of his political career. After a famous two-minute presentation of his tax return on television, he started the Progress Party, which won 27 seats in the Danish parliament in 1973, making it the third largest party.

That is now history. The tax laws have been changed, depriving Glistrup of his law firm and professional income. When convicted for tax fraud two years ago, he was expelled from parliament, and the parliamentary group has been reduced to four. A popular Conservative-Liberal Government is in power now which, at first glance, leaves little room for maneuvering. But it is too early to write off Glistrup and his small flock.

Populism has been a strong base for Glistrup's appeal. Ten years ago, he picked up and articulated the widespread dissatisfaction with the mounting cost of the welfare state and the disappointment with the last non-Socialist Government.



Mogens Glistrup, leader of Denmark's anti-tax Progress Party.

He will try to use the same formula again. Now he is set to take advantage of growing Danish popular resentment of the large number of refugees and non-refugee foreigners in the country. Liberal administration of refugee laws has attracted especially large numbers of Iranians from Turkey, and there is also a substantial number of boat refugees from Vietnam.

Glistrup also may return to his roots and resuscitate the tax issue. The Government has succeeded in stopping the explosive growth of the public sector and is making the private sector the locomotive of growth in the economy. But tax rates have not gone down in the past year, and the fundamental problems of the Danish economy remain unsolved. The way is paved for new tax hikes

in the autumn at the latest. These new taxes are unavoidable perhaps, but that is not how Glistrup will explain them to his audience. He may not have the power to threaten the parliamentary basis of the Government in the short run, but he will certainly not make life easier for the minority Cabinet of Prime Minister Poul Schlüter.—LEIF BECK FALLESEN

ATHENS

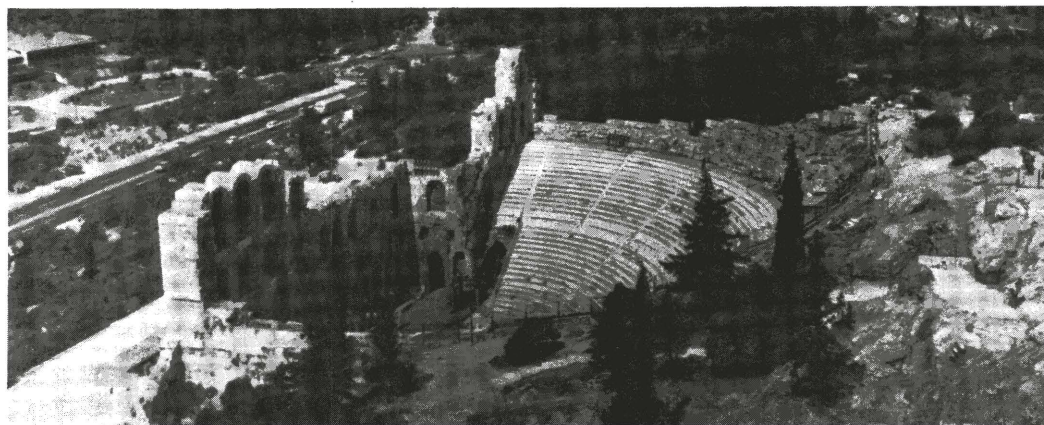
A Cultural Extravaganza

Athens becomes the European Community's cultural capital beginning this June in a move that Culture Ministers Melina Mercouri of Greece and Jack Lang of

France—the project's most enthusiastic backers—hope will give the Community a lively new dimension. But getting a \$5-million six-month-long cultural extravaganza off the ground raised problems for Mercouri and her advisers. Rumors of a snap June election and uncertainties over how to launch the show were among the headaches.

Mercouri, Athenian-born, but a parliamentary representative for a district in the city's port of Piraeus, is determined that the whole Attica peninsula, where more than one third of Greece's 10 million residents live, should be involved in the festivities. But her plans for a spectacular opening on June 21 fell through after the Greek Defense Ministry proved reluctant to cooperate.

Yiannis Xenakis, the Paris-based Greek composer, presented a blueprint for a multimedia "polytope" intended to evoke 3,000 years of Greek history and light up the night sky over Attica with brilliant displays of fireworks, colored laser beams and a host of white doves, all to the sound of



All of Athens' open-air theaters will be used for performances during the festival which begins in June. Above, the Herod Atticus theater beneath the Acropolis.

church bells and warships' guns booming.

But the Greek Navy was wary and the Air Force said it was unable to guarantee enough helicopters to bring the "polytope" off. Archeologists were worried that the noise and vibrations could threaten the Acropolis temples in the heart of the city.

The Culture Ministry is pushed as it is to accommodate the galaxy of theater companies, orchestras, intellectuals and artworks descending on Athens over the summer. Athenians, who often complain they are starved of top-class music and theater by comparison with other European capital residents, may even be confronted with a surfeit of culture.

All of the city's open-air theaters will be drawn into use. They range from the tall, elegant arches and steep marble tiers of seats at the Herod Atticus theater beneath the acropolis to an unsightly, but much more comfortable, scaffolding amphitheater set on top of Lycavettus Hill and another set in a disused suburban quarry—where Peter Stein's Berlin Schaubühne group will play Aeschylus' "Oresteia" trilogy of ancient tragedies. A project to restore the theater of Dionysus also set on the slope of the Acropolis, so that spectators could watch modern versions of ancient plays in the same theater where they premiered in the 5th century B.C., had to be dropped after initial tests revealed that the site needs fuller excavation.

There are so many theater companies performing that the ancient stone amphitheater at Epidauros in the Peloponnese—once a favorite destination for Athenian pilgrims—is also being used for the festivities.

European artworks of a kind rarely seen in Greece—they include a Rodin collection and an exhibit of Dutch Old Master paintings—are also being shipped in for a series of special exhibitions that include erecting a number of statues along the road leading to

Thebes from Athens.

There are even fears that Athens' stint as cultural capital of Europe will distract attention from celebrations marking the northern city of Salonica's 2,300th birthday this year. The Salonicans, whose heritage has little to do with Athens' classical glories, are worried that their connections with later figures in world history like Alexander the Great, St. Paul and Kemal Ataturk will be overshadowed by what's going on in Attica.—KERIN HOPE

BONN

Toward a 38.5-Hour Week

On April 1, the path-breaking metalworker's union IG Metall held a special celebration to "say goodbye forever to the 40-hour work week." That date will rank in history with November 1, 1956, when the union first won agreement from management to reduce the work week to 40 hours, with no cut in pay.

It took 12 years for the remainder of the Federal Republic of Germany's unions to win the 40-hour work week. However, that may have been because most of them first turned their attention to what were then considered more urgent matters, such as longer vacations and the "13th month"—the payment of an annual bonus equal to one month's wage or salary.

This time around, however, acceptance of the reduced work week, now reduced to an average of 38.5 hours in the metal working trades, may not have to wait so long. The unions generally have decided that this is the only way to create more jobs.

Unemployment remains the largest single problem facing the country. Despite the economic turnaround promised by Christian Democratic Chancellor Helmut Kohl when he took office late in 1982 and an export boom boosted by the strong U.S. dollar, the army of registered jobless remains



The German metalworkers' union, IG Metall, hopes that the reduction of the working week from 40 to 38.5 hours will help to create more jobs.

stubbornly at an annual average of 2.3 million or about 9.5 percent.

When IG Metall set out to win the work-week reduction, it argued that an immediate cut, without loss of pay, to 35 hours would force manufacturers to hire tens of thousands of men and women simply in order to maintain production levels. Despite a strike that, among other things, closed most German car factories for four weeks last summer, the metalworkers finally had to settle for an initial reduction to an average of 38.5 working hours per week and a promise to allow flexible scheduling. The emphasis is on the "average 38.5 hours per week." By April, most of the automotive factories had worked out their schedules, in agreement with the shop councils.

Ford of Cologne, for instance, decided simply to reduce each shift by 18 minutes. Others preferred to cut only the Friday shift by 90 minutes, while some decided to keep workers at their machines for 40 hours every week, but fulfill the "average 38.5 hours" agreement by granting them nine more days off per year.

Surveys of the industry indi-

cate that probably 80 percent of the automotive workers now will be on the job for an average 38.5 hours per week, while perhaps 10 percent, mainly apprentices and night-shift workers, will spend only 37 hours on the job. The other 10 percent, mainly management and foremen, will continue to work 40 hours per week.

In other metalworker branches, it is not unusual for local agreements to call for reducing the work week to 37 hours for anyone over 57 years old. However it is done, the average hours worked per factory per year will be 38.5 hours per week.

So far, the job-creating effect has been disappointing. Daimler-Benz, which already employs 140,000 persons, says it may in time add another 1,500. Other companies report similar or even smaller ratios of new jobs. But the union, and its Social Democratic allies, won't give up. Both believe the cut simply wasn't deep enough. One solution being considered is to permit employers to pay for only two hours of overtime per week, having to compensate for all of the remaining overtime with paid days off.—

WELLINGTON LONG

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PARIS

Cable Comes To France

France seems on the verge of a breakthrough in European television. Until recently, French audiences have been fed a diet of three staid, government-run channels that tend to educational and cultural programs, often muff their technical cues and promptly switch off the air at midnight to allow the French a proper night's sleep.

Last autumn, that mold was broken by introduction of France's first "private" channel, Canal-Plus. The subscription television station is heavy on movies and entertainment, with 65 percent of the time slot going to films, serials or light programs and another 25 percent to sports and variety. Canal-Plus is the first channel to break out of the government television monopoly that former President Charles de Gaulle considered one of his most important tools. But despite the fact it receives corporate sponsorship for individual programs, Canal-Plus is still controlled by state-owned enterprises.

Although Canal-Plus has been a hit with its clients, the quarter-million subscribers who have signed up are still short of the anticipated sales. Industry analysts say part of the problem in selling Canal-Plus may be that France is forging ahead with other advances in television that could be damaging to the pay-television initiative.

A year ago, French President François Mitterrand announced an ambitious plan to hook up the country with fiber-optic cable to provide a new generation of television that could set France in the forefront of the technology. The government is hoping to make the same leaps with fiber optics as it did in digital telephone-switching equipment that remains some of the most advanced. The cabling project

has been scaled down from original plans to reflect the government's current austerity, but an initial investment of about \$100 million is earmarked to wire the nation with 1.4 million first-stage hookups.

Even that ambitious venture has been overshadowed by yet another major departure from the traditional French television formula. Mitterrand announced early this year that he would lift the state's grip on television and open it to private enterprise.

The Socialists had already opened up radio to private broadcasters in response to the plethora of pirate stations. Television will follow, perhaps as early as this fall, and already bids are in for approximately 80 regional channels the government will license to private interests.

And the French government is also a major investor in the \$350-million TDF-1 satellite that is designed to elbow out the so-called "Coca-Cola invasion" that would occur if U.S. interests get a head start on capturing European audiences through satellites.

All the prospects for television advancement have enticed French viewers and have even spurred the traditional three channels to spruce up their programming. This winter, Antenne-2 launched the popular "Chateaufallon" series, a soap opera the media dubbed France's answer to "Dallas" and the first-ever such effort.—BRIGID JANSSEN

BRUSSELS

Exploring The City

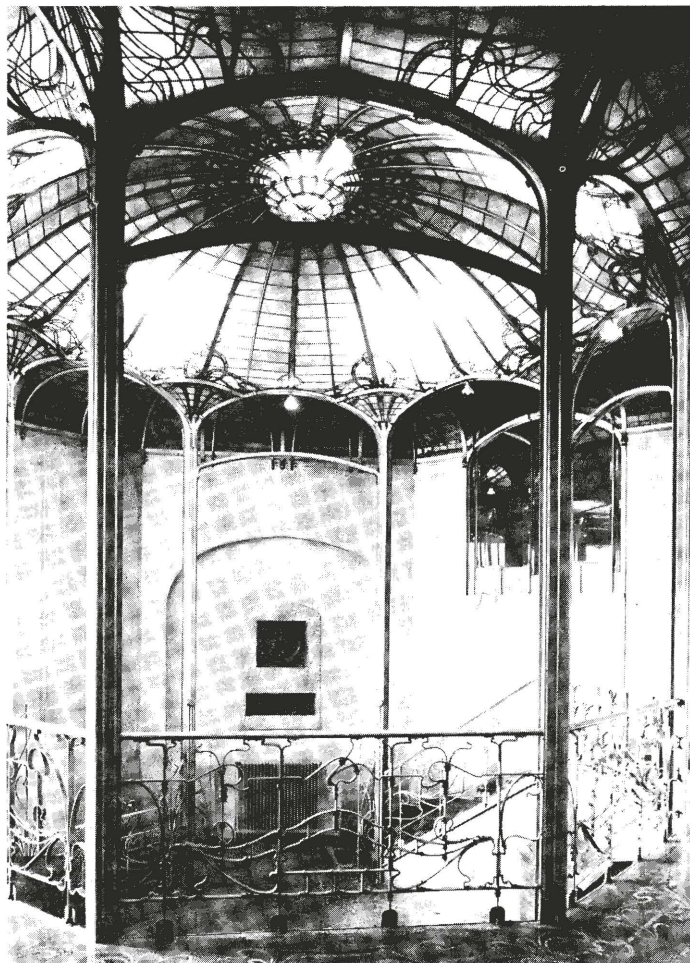
"The American tourists are certainly increasing. If only they would stay here a little longer..." an official of the Belgian National Tourist Office remarked with a touch of wistfulness recently. A glance at the latest figures for tourism backs up his point. Last year an American dollar bought you roughly a third

more goods and services in Belgium than it did in 1983 and the number of U.S. visitors rose by the same proportion. Of course, the dollar also went much further in all other European countries and the actual pattern of tourism did not change. Most American tourists stay in Brussels for one or two nights at the most. They are invariably on their way to other places, either as part of a private travel plan or in a conducted group tour of Europe.

The charms of Brussels to a short-stay visitor are indisputable. By day, they inspect the great artistic treasures—the works of the Flemish masters in the fine-arts museum and the unparalleled collections of ancient African and Oriental art, for instance—or they simply stroll around the magnificent Grand' Place and do some shopping in the nearby, elegant glass-covered arcades. By night, they eat outstandingly well at almost any of the city's incredible 3,000 restaurants.

But after two days, say, of this, the Americans seem ready to move on. Time tends to hang a bit heavy once the major museums, exhibitions and buildings have been explored. This is unjust to Brussels. While it is true that many of the traces of the city's illustrious inhabitants of the past have been swept away in a tide of relentless development, it is also true that much awaits the discovery of the enterprising visitor.

A good example is the case of the great 16-century Flemish painter Pieter Bruegel the Elder who lived the last six years of his life in Brussels. A modest plaque records this fact on a wall of his house, but the building itself is closed to the public. Yet a 15-minute drive from the center of Brussels will take you to a landscape of flat fields, river banks lined with willows, churches and houses, recognizable even today as the actual setting for some of the best-known pictures ever



Brussels boasts some beautiful "art nouveau" architecture. Above, the hall of a mansion built by architect Victor Horta in 1897.

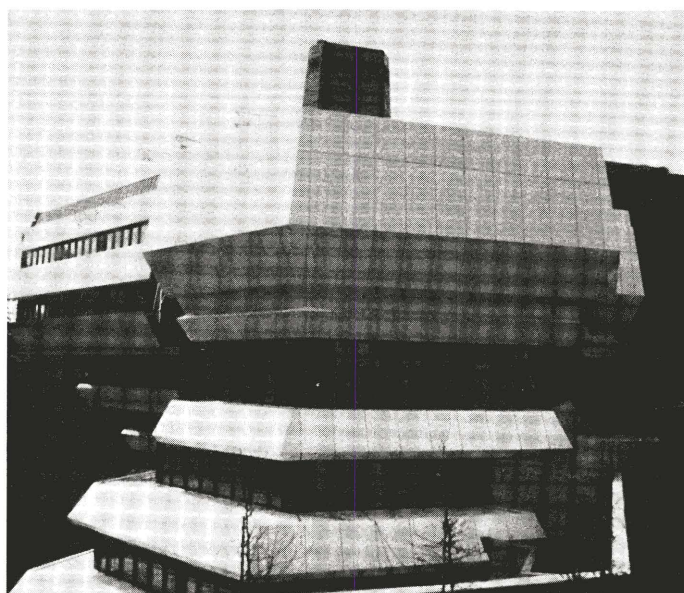
painted in Belgium.

It was a Belgian architect, Victor Horta, who in the early part of the century led the Art Nouveau movement which influenced not only the look of buildings, but the shape of everyday objects. Brussels abounds in surviving examples of this distinctive, if short-lived, style, but the casual tourist will not find it easy to discover them. And any observation about Horta inevitably leads to expressions of outrage in Brussels at the ruthless tearing down of his masterpiece, the Maison du Peuple, in 1965.

Nor are other famous Belgians much better served. I have yet to discover any commemoration of the country's best-known composer, Cesar Franck, still less of Adolphe Sax, inventor of the saxophone. The American travel writer, Arthur Frommer, puts this down to an innate modesty in the Belgian character. "No Belgian ever boasts about anything, except food," he said recently. I would add "beer," but I take his point.

The same reticence applies to most of Brussels' famous expatriate residents. The French writer and political activist Victor Hugo is officially commemorated for his controversial stay in Brussels only by a pair of bronze plaques, although there is talk of opening his room (now a lace shop) to the public as part of the centenary of Hugo's death this year.

The list of foreign writers and poets (mainly from England and France) who have lived in Brussels is impressive, but largely unremarked. Lord Byron's stay is recorded by a plaque, but the city has not returned the honor paid to it by the English novelist Charlotte Brontë or the poet W.H. Auden who wrote a novel and poem, respectively, about Brussels. The memory of the French sculptor Auguste Rodin, who lived in Brussels for seven years, is celebrated in his own works in the city, although he is not mentioned in the official Brussels tourist guide.—ALAN OSBORN



The European Parliament's Luxembourg chamber, above, will be increasingly vacant if the staff moves to Brussels.

LUXEMBOURG

Losing the Parliament

The trickle of European Parliament officials away from Luxembourg continues relentlessly in spite of the country's tenacious fight to protect its legal claims as a parliamentary workplace. The latest blow to the Grand Duchy is the decision of the European People's Party (Christian Democrats) to move its secretariat from Luxembourg to Brussels. The number of officials involved is not great, but this is only because so many of the party's staff are already based in Brussels.

The erosion of Luxembourg's hold on the Parliament is at least partly a consequence of its own misjudgments in the late 1970s, though there are many to say that the small country would never have prevailed in any case in a struggle with France and Belgium. Up until 1979, Luxembourg was both legally and in practice the joint seat of the Parliament with Strasbourg. But the first direct elections to the Parliament in 1979 doubled the size of the assembly and Strasbourg easily won the race to provide adequate accommodation.

Since then, all but one of the Parliament's plenary sessions

have been held in Strasbourg. In 1981, the Parliament formally voted to hold all its sessions in the French city. Luxembourg brought an action in the European Court of Justice claiming that a decision on a formal seat was a matter for the E.C. member governments, but its claim was dismissed. The court found that in the absence of such a decision, the Parliament was entitled to choose its own place of work.

Luxembourg was luckier in a second Court action last year, when it challenged a move backed by a majority of members of the European Parliament to transfer parliamentary staff away from the Grand Duchy to Strasbourg and Brussels. This time, the Court said the Parliament did not have power to alter the 1965 agreement under which the secretariat should be based in Luxembourg.

But the victory was less resounding than it seemed at the time, since the ruling did not cover parliamentary officials who worked directly for the political groups. On grounds of expense, communications and, perhaps most important of all, access to the media, the political parties found it made much better sense to concentrate their activities in Brussels where most committee meetings take place.

The situation is now crystal-

lizing into an arrangement where the monthly plenary sittings are all held in Strasbourg and most of the activity between sessions takes place in Brussels. Luxembourg is left with a capacious and handsome—but sadly underutilized—parliamentary chamber, an abundance of empty office space (still optimistically being expanded) and the 2,000 or so members of the secretariat.

It is not a stable situation. Calls for all parliamentary activity to take place in a single center are being heard increasingly from members of the Parliament on the grounds of cost and convenience. Strasbourg's efforts to woo officials from Luxembourg remain undiminished.

For Luxembourg, any significant cut in the 2,000 Eurocrats who live and work in the city would be bitterly resented, for both economic and political reasons. But it may be inevitable. If the Community moves to a system of majority voting in the next few years, as seems more than likely, Luxembourg's tenuous hold on the Parliament's secretariat is certain to be swept aside. While no politician here admits this openly, the more shrewd among them agree that an alternative role will have to be developed for the Grand Duchy. Indeed, in some important respects—as for instance the drive to establish the city as an international conference center—this is already happening.—ALAN OSBORN

ROME

Voting on Indexation

Scala mobile has an attractive lilt to it. The term literally means sliding scale or moving staircase. It is, in fact, the name of a thoroughly mundane system of wage indexation in Italy. Every three months, a committee of experts meets in Rome to decide what inflation was in the previous quarter. They then declare how much the *scala mobile* in-

dex has moved up. For every point that it rises, every Italian worker covered by the system received a flat rate increase of nearly 7,000 lire (\$3.50).

The system has a long history. The idea of compensating Italians for the frequently high inflation rate was instituted after the war. In 1965, at a time of great labor unrest, unions and employers agreed that the amount of protection given by indexation should be stepped up so that for the lower-paid worker it gave compensation for about 75 percent of inflation.

Everyone knew that indexation had its defects. Even if it did not actually create inflation, the *scala mobile* made it extremely difficult to get inflation down. There were always more wage, and therefore price, increases in the pipeline. Governments that wanted to restrain demand and therefore inflation by the traditional method of raising indirect taxes were foiled because the tax rises would be reflected in the index and inflation actually would be boosted.

Yet there was something almost sacrosanct about the *scala mobile*. It was almost as if it was the quid pro quo that Italy's ruling establishment, almost unchanged since the war, paid for keeping the Communists, the second biggest party in the country, out of power.

So when in 1981, one of the three major trade unions, the Catholic-oriented CISL, proposed modifying the system, it was a breakthrough. The man who drafted the proposal was Ezio Tarantelli, head of the

union's research department. It was a skillful plan that suggested reducing the inflationary effects of the indexation system without substantially cutting the protection against inflation which indexation entailed. It set off an interminable process of political debate and negotiation which finally culminated in two reductions in wage indexation—one in 1983 and the other in 1984.

The first cut was a small, but thorough, reform, reluctantly accepted by the Communists. The second was a temporary freeze of indexation, aimed at getting inflation down, while still giving workers a real increase in pay. It was opposed by the Communists. Indeed, having lost the parliamentary battle over the issue, the Government then proposed a popular referendum on it. That referendum is now likely to go ahead in June. The only way the referendum can be avoided is if the unions, government and employers reach a compromise in the meantime.

Tarantelli and the CISL opposed the idea of the referendum and urged voters to reject it. The action of the Craxi Government in 1984 had been effective, they argued: Inflation came down into single figures in 1984 for the first time since 1973, yet workers still had a pay rise in real terms. The referendum would only revive inflation.

Meanwhile, somewhere in Rome in a terrorist cell these arguments were taken to mean that Tarantelli was playing the capitalist game by denying the workers their rightful pay.

Gunmen claiming to belong to the Red Brigades—the left-wing organization which had its heyday in the 1970s, but which still has a few lethally fanatic followers—assassinated Tarantelli as he got into his automobile. In case anyone failed to understand why, the gunmen taped a turgid document refuting his theses to the dying professor's car before they ran away.—JAMES BUXTON

LONDON

Curbing Soccer Riots

The British don't like to sit around. They want to be out there fighting." This throwaway remark by an elderly Belgian neighbor in the run up to the Falkland Islands war was the first time I realized that many Continental Europeans have long regarded the British as rather aggressive, pugnacious people. They speak from experience, having witnessed periodic forays over the last 700 years by British armies seeking to protect British possessions in France or to maintain some or other notion of the balance of power in Europe.

For the last 15 years, the Continental experience of the streak of violence in the British has been mostly limited to occasional havoc wrought by so-called soccer fans. Most major capital cities in Europe have been shocked at some time or other by the mindless, casual and usually expensive damage inflicted by the British hooligan element on football grounds and shopping centers.

These days any foreign town preparing to play host to a British club boards up its shop windows and brings in police reinforcements. As apologetic spokesmen for British soccer constantly point out, a relatively small barbaric element among supporters in bringing the national game into disrepute.

Public statements deploring such behavior do very little to

prevent it, however. For the last 10 years, each season has brought such a toll of damaged stadiums, wrecked neighborhoods and fighting between rival gangs as to suggest that such a behavior is as established a part of British culture as strawberries and cream at Wimbledon.

The problem reached such a pitch in March that Prime Minister Margaret Thatcher, felt bound to set up a special committee of the British Cabinet to discuss how to put an end to soccer violence. One game at Chelsea at the beginning of the month featured some terrifying scenes of violence, while a week or so later saw a full-blown riot on the soccer pitch at Luton, with fans pelting policemen with seats torn from their frames. Once out of the playing field, a good many did an effective demolition job on the local neighborhood, smashing windows and looting shops.

In the ensuing days, a now familiar national debate was reheated. On the liberal wing, a favored explanation is the very high current level of unemployment in the 16-25 age group. The young jobless, it is said, are venting their frustrations and anger on society. This may or may not be the case, but the fact remains that the phenomenon predates this era of high unemployment. The more conservative, possibly authoritarian, side of the debate laments the decline in national discipline, puts a lot of the blame on the collapse of parental authority and calls for stronger penalties against the offenders.

On totally unscientific observation, much of the violent behavior appears to be primitive tribalism. Many of the young bruisers derive a perverse sense of identity from being a Chelsea supporter or a Millwall supporter and wish to test their toughness and courage through conflict with rival tribes.

A readiness to disregard the law, the sanctity of property and, very occasionally, the sanctity of life, is all part of the display of group bravado. Not surprisingly, some of the hooli-





Rising soccer violence has forced British authorities to enact stiff countermeasures ranging from heavy fines to fences separating rival groups of fans. Above, a player with the Watford club.

gans have also been adopted by right-wing and fascist organizations and seek to give a spurious political legitimacy to their behavior.

While it seems reasonable to believe that at the very least the problem derives partly from the failure of both the family and the school to foster a commitment to basic civilized values, it is not surprising that the British are looking for increasingly authoritarian responses. The "hang 'em and flog 'em" school of right-wing opinion wants long prison sentences and heavy fines for football hooligans, while disregarding the fact that British prisons are already bursting at the seams.

A more widely favored punishment would be a law which automatically forced convicted hooligans to spend time in police stations during the Saturday afternoons that their teams are playing. Finally, many football clubs still need to spend a great deal more money building fences which keep fans off the playing area and barriers which separate rival, warring tribes. These measures, allied to good policing, are said to have transformed Old Trafford, the ground of Manchester United, into a haven of peace where it once had been a regular venue for bloody conflicts.—JOHN WYLES

DUBLIN Conflict Resolution

For months now the media in Dublin and London have been carrying speculative stories about an impending breakthrough in Anglo-Irish relations leading to a solution to the strife in Northern Ireland. But after each report, official sources in both capitals hasten to dampen expectations. After 17 years of political turmoil and violence in the North, which occasionally spills over into the South, optimism that peace is about to break out is not widely held.

Side by side with this high-level, secretive, intergovernmental dialogue which can go badly off the rails as happened last November at the Chequers "summit," a remarkably effectively "track-two diplomacy" has been forging ahead over the past six years, building up valuable bonds between ordinary people north and south of the Irish border.

Cooperation North, a non-political organization of leading business executive and trade unionists from both parts of Ireland, is now in its sixth year of promoting practical cooperation between North and South at all levels across the eco-

nomic, social and cultural spectrum. Since it was set up, Cooperation North has been involved in more than 40 projects in the areas of business, social services, sport and youth exchanges. Over 2,000 companies and voluntary bodies have participated in the projects and at least 30,000 people have been actively involved in working together, North and South.

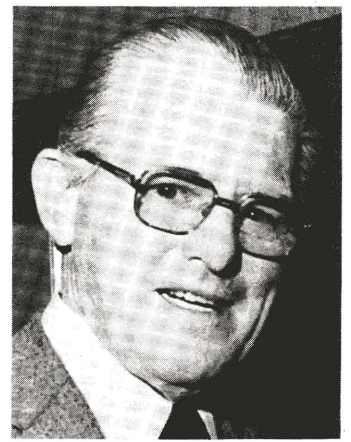
The E.C. Commission takes a special interest in the work of Cooperation North through financial aid and seconding a staff member as its chief executive. Supporting organizations have been set up in the United Kingdom and the United States and President Ronald Reagan has singled out Cooperation North for its work in promoting reconciliation and economic cooperation.

It was the peace movements which sprang up in Northern Ireland in 1976 and later spread to the South which inspired the founding of Cooperation North, so it is not surprising that this year it is taking an important new initiative in developing a North-South university program in the field of "conflict resolution."

The president of Cooperation North, Brendan O'Regan, is also chairman of the new Irish Peace Institute which has been adopted by Cooperation North, the University of Ulster and the National Institute for Higher Education (NIHE) in Limerick. The Peace Institute, which is based in Limerick, is the vehicle through which both universities will carry out their joint program in peace and conflict studies.

The degree courses starting next autumn will concentrate on studying the experience of Cooperation North since 1979 and Europe's experience since World War II.

The aim of the courses—initially undergraduate in the University of Ulster and postgraduate in NIHE—is, in the words of O'Regan: "to produce committed and qualified young people who will work to get rid of the legacy of hate, misunderstanding and bitterness which



Dr. Brendan O'Regan

have so affected community relations in Ireland, between North and South, and between the Irish and British traditions."

The experience of Cooperation North has shown that the apparently endless violence in Northern Ireland does not exclude progress being made in community relations through imaginative programs to bring people on opposite sides of the divide together. As O'Regan says: "We're in a live conflict situation in Ireland, learning from our experience, without political strings attached."—JOE CARROLL €

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PRESIDENT REAGAN ADDRESSES EUROPEAN PARLIAMENT MAY 8

STRASBOURG CEREMONY
COMMEMORATES END OF WORLD WAR
II IN EUROPE.

EMANUELE GAZZO

Strasbourg, in Alsace, is not a capital like Washington, D.C., although the creation of a "European District" there which would bring together all the institutions of the European Community is an idea which has been around for a long time and which remains valid today.

Strasbourg is a border town, on the Rhine; across from it stretches the Federal Republic of Germany. Despite all the progress made within the E.C., physical evidence of the border remains even here, at the heart of a uniting Europe. Shortly after World War II, Strasbourg became more than just a symbol of Franco-German reconciliation: It housed the assembly of the Council of Europe, an association of European countries dedicated to promoting an intra-European dialogue and defining common ideals and goals. National parliaments send representatives to the organization.

But already 35 years ago, six of the countries that had joined the Council of Europe—six countries that became nine,

then 10, and soon will be 12—decided that dialogue and debate were not enough. They believed it was time to "act" and to act "together" toward a federation of the "United States of Europe" which could change the course of history, overcome the wars and divisions of past millennia and reintroduce into a new world the European factor, itself renewed and, for the first time, united. It is significant that on May 9, 1950, almost simultaneously in Paris and Bonn, the phrase "federation of Europe" was pronounced by French Foreign Minister Robert Schuman (reading a text prepared by Jean Monnet) and by German Chancellor Konrad Adenauer.

The European Parliament which President Ronald Reagan addresses May 8 is an assembly of directly elected representatives from the 10 countries that make up the European Community, an entity that goes far beyond its widespread image of a Common Market. Although the "executive" institutions of this Community are headquartered in Brussels, the Parliament holds its sessions in Strasbourg. The complications and incongru-

ities that render somewhat incomprehensible the practical details of "temporary" procedural machinery—though not the deeper motivation—are part of a heritage that is too rich and convoluted not to be complex. Europe building its unity is a crowded construction site where, beneath the unfinished, one must search for the revolutionary vision that inspired the enterprise.

The United States' first President, George Washington, warned Americans to avoid getting tangled in complex, shifting European alliances. Nearly two centuries have past and a lot of water has run under the bridges of the Potomac since then. Europe has renounced tangled alliances and the old way of doing things has been destroyed. The fact that Europe made a definite choice toward unification was one of the factors allowing the United States to pursue a bipartisan policy of an American presence in Europe and at the side of Europe elsewhere in the world. When President Franklin D. Roosevelt died in April 1945, the great French author François Mauriac wrote: "How many men are left among those who led the way toward 'thinking European?'" To Mauriac, the American President had given the word "Europe" nobility and significance after years of being dragged through the mud during the dark years of Nazi occupation.

It is this other Europe, resurrected from the flames of 1945, that President Reagan will address when he stands up before the European Parliament. This is a Europe which wants to forget nothing because its present is built on its past, the most glorious along with the most horrifying. Europeans have learned from their history that the best road to true reconciliation is not through forgetting, more or less hypocritically, the past, but through a joint commitment to building the future. The construction will be all the more solid and credible if nothing is missing from its heritage. That is how the foundations are laid if a great democracy is to be respected by those who are its members, as well as by the rest of the world.

It is in this context that President Reagan's visit to the European Parliament is a homage to courage and truth and takes on the significance of an important political choice. Seen by the Europeans, Reagan's decision to address the Parliament follows in the best traditions of the Europeanists who used to exert great influence in Washington. This visit is not just a formal gesture, but a recognition of the historical fact that for the Americans as

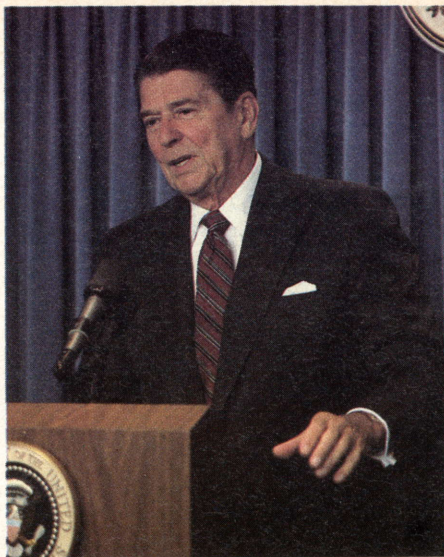


for the Europeans, direct elections have given the European Parliament a political legitimacy that makes it the symbol and prime instrument for the achievement of European union.

People in Washington know that the European Parliament does not yet have all the powers that normally belong to elected assemblies. But Washington also knows that the Parliament's powers in budgetary oversight are not negligible and that they will be increased to ensure greater balance with the executive. They also know that Parliament is seeking other powers, notably to intervene efficiently in the European legislative process.

The Parliament will get these powers, but for that to happen, Europe must develop a "constitution." A draft has been written and is currently being studied by the heads of government in the 10 E.C. member states. Perhaps President Reagan will express the hope that this constitution will soon become a reality, allowing the United States and the rest of the world to know they can hold a dialogue with a true "European political entity."

And Washington knows that this Parliament, while lacking in powers of decision, nevertheless has great influence, superior to that of many parliaments in other modern democracies. All the major world



Ronald Reagan is the first U.S. President to visit the European Parliament.

problems are analyzed by it, in a forum which permits the expression of all the major currents of political opinion and ideas. The Parliament's conclusions exert direct influence on decisions made at the European and national levels. The Parliament has intervened every time that political pressure could lend weight and credence to the European presence—through progressive elimination of divisive factors, promotion of economic and

social solidarity, the creation of a European monetary unit and defining the responsibilities of the largest commercial entity on earth.

Many hope that President Reagan, in addressing the European Parliament, shows he is aware of the difficulties Europe must surmount to realize its goals and of the extraordinary contribution that such a Europe would make to the stability and peaceful future of the world. The United States can hope only for a democratic and liberal Europe, one attached to our common civilizations and immunized against any totalitarian temptations. At the same time, the United States can hope only for a united Europe because only united will it be strong enough to play its role in the world. A democratic, but fragmented, Europe would perhaps be of some advantage to political deal-makers all over the world, but could succumb too easily to neutralism.

In addressing, through the Parliament, the peoples of Europe, President Reagan knows that he speaks to the Europe of tomorrow. A Europe that asks only attention to and confidence in the extraordinary metamorphosis it has undertaken in the interests of contributing to a better future for mankind. ☾

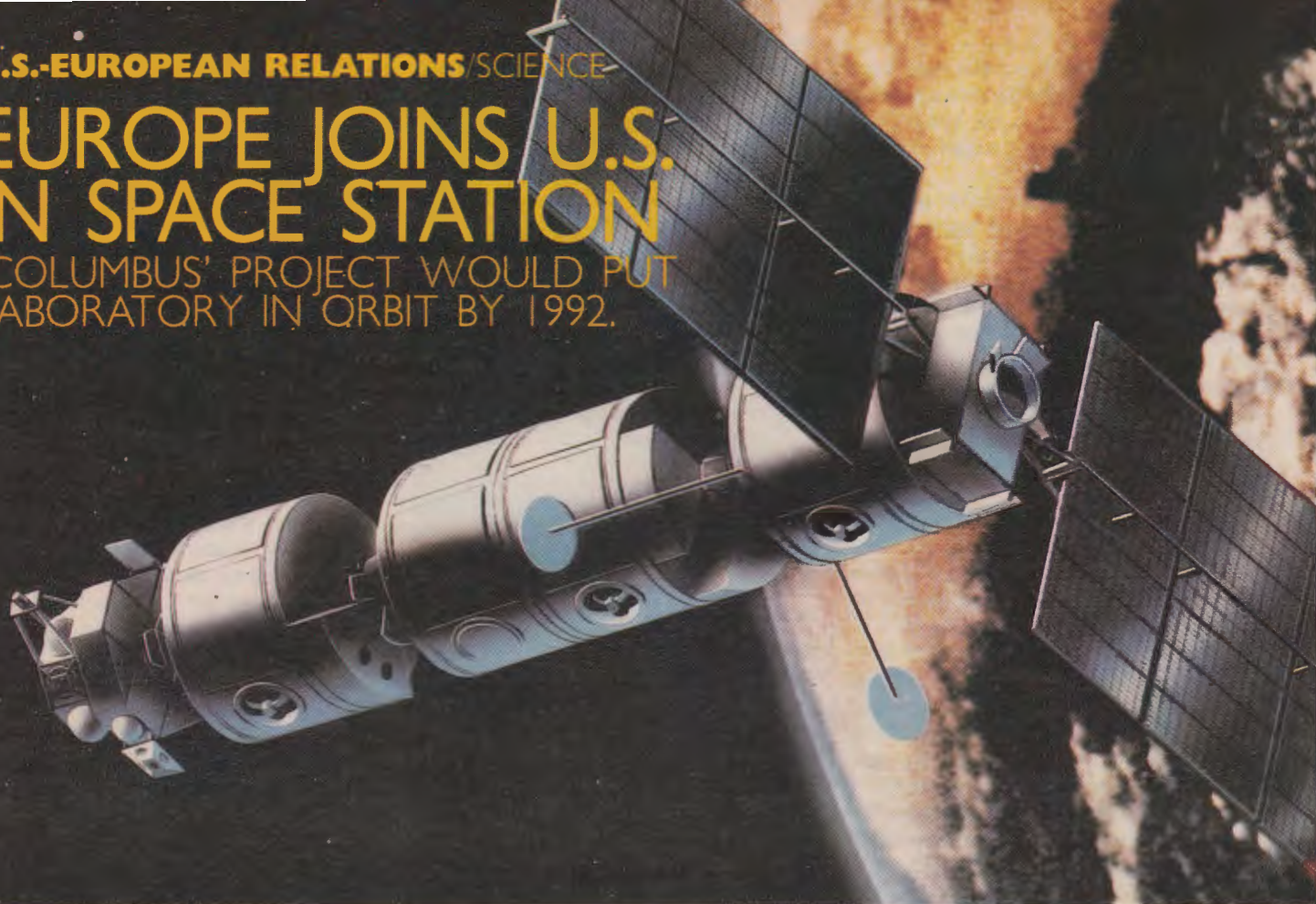
Emanuele Gazzo is editor in chief of *Agence Europe* in Brussels.



The European Parliament holds its sessions in this building in Strasbourg, France.

EUROPE JOINS U.S. IN SPACE STATION

'COLUMBUS' PROJECT WOULD PUT
LABORATORY IN ORBIT BY 1992.



PAUL LEWIS

Europe is getting serious about space. In Rome last January, 11 European nations agreed to increase joint spending on space research by 50 percent to around \$1.4 billion annually over the next five years at the same time as governments everywhere are trying to pare public spending to the bone. The 11 countries are aiming for a rendezvous between European and American astronauts in 1992 on the world's first permanent orbiting space station high above the earth's atmosphere.

Research and Science Ministers from the 11 nations which coordinate their space research activities through the European Space Agency (ESA), were responding with a big "Yes, thanks" to President Ronald Reagan's invitation to join the United States in building this large, manned space station. Japan and Canada have yet to give their answer, but they are also likely to contribute to the most ambitious joint space experiment the West has ever undertaken.

At a cost of around \$8 billion, Reagan wants the United States to build the station's central core, containing power and communications equipment, storehouses and accommodation for six to eight people. Europe's contribution, approved at

Rome, will be a small space laboratory called Columbus where European astronauts will perform experiments. It will be carried up in the U.S. space shuttle and plugged into the main space station. Over the next 10 years, the Columbus project is expected to cost about \$2 billion.

At their Rome meeting, ESA Ministers also gave further proof of their growing interest in space research by agreeing to push ahead with development of Ariane 5, a new and more powerful version of Europe's current satellite launcher which is already a strong competitor with NASA's space shuttle in the business of parking commercial satellites in space for a fee. Ministers also agreed to press on with a number of other specialized satellite projects.

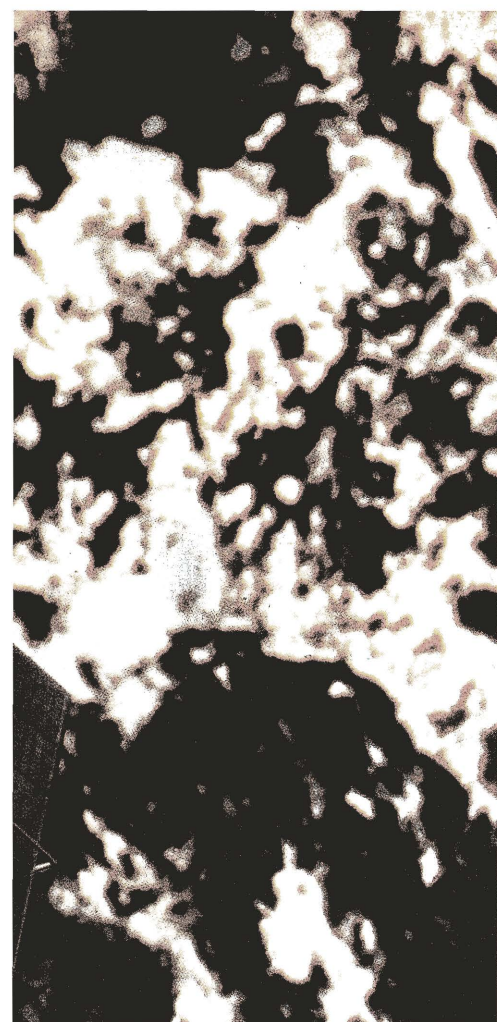
Where the 11 ESA countries could not agree, however, was over whether Europe should develop its own, independent taxi service for ferrying astronauts and large loads to and from space, or whether it should rely on getting lifts in the U.S. space shuttle instead. Belgium and Italy agreed to team up with France in studying a French plan to build a miniature space shuttle, called Hermes, which would be launched on top of the Ariane 5 rocket and then fly back to earth. But the Federal Republic of Germany, the United Kingdom and other ESA members plan to

stick with the U.S. space shuttle for the present, while investigating alternative approaches, including the idea of a new jet engine that would turn into a space rocket as an airplane climbs out of the earth's atmosphere.

Summing up the Rome meeting in Congressional testimony last March, ESA director-general Reimar Luest of Germany said the decisions taken there show that "European states share a common vision of Europe's future in space and that there is a political resolve to enable Europe to improve its already strong position among the world's space powers."

Explaining how the Rome decisions came about during an interview at ESA's futuristic, white-tiled headquarters in Paris, Luest spoke of a "cocktail of differing interests" which came together at the same time. After a decade of slow growth and rising unemployment, European governments are desperate to keep in the forefront of technological advance, and they are scared of "missing out on the industries of the future," Luest explained.

In addition, Britain and Germany were particularly anxious for political reasons that Europe should respond positively to Reagan's invitation to join the U.S. space station program as a sign of Atlantic solidarity. France, which traditionally ar-



COURTESY ITALIAN AEROSPACE

gues that Europe should keep its space effort as independent of America's as possible, nevertheless wanted other ESA members to help fund the Ariane 5 project, which will be built mainly by French industry. And the smaller ESA members, which cannot afford any access to space technology on their own, pressed their bigger partners to support the most ambitious cooperative program possible.

For Europe, as for the United States, exploring the new frontiers of space technology is an expensive gamble. Satellites already have a clear commercial future in communications, weather forecasting and locating oil and minerals under the earth's surface. Launching them is becoming big business for Europe as well as for the United States.

In 1980, France set up Arianespace, a government-controlled private company, to win commercial satellite-launch orders for the Ariane family of rockets it developed to keep the United States and the Soviet Union from acquiring a monopoly in this field. Today Arianespace—in which France has a 64-percent interest, with the rest shared out among other ESA member countries—has won 29 satellite-launch orders away from its rival, the U.S. space shuttle. These orders will keep the company busy until 1987, earning it some \$750 million in fees.

Nobody, however, knows yet what the pay-off will be for Europe and the United States from building a manned space station, if there is one. "The challenge is the challenge of basic investigation," Luest said, adding that military factors played "virtually no role" in Europe's decision to build Columbus.

Supporters of the project say it will give Europe experience in building large space structures which would become widely used in the next century as repair stations for damaged satellites, as big antenna "farms" for new communication systems and as factories for manufacturing in space.

Of all the possible uses of space, manufacturing is the one that excites European scientists and their governments most. The hope is that a wide range of products difficult or impossible to make on earth, including biomedical substances, special alloys, crystals and ultrapowerful microchips, can be manufactured more efficiently in the weightless, bacteria-free environment of a "space factory."

Last year, a report by the Office of Technology Assessment, a research arm of the U.S. Congress, warned that American and European plans for a permanent manned space station "cannot now be justified on scientific, economic or military grounds or combinations thereof." But proponents reply that virtually all the great technological advances in history either were dismissed as impossible before they happened, or useless when they did.

Professor Luigi Napolitano, a distinguished Italian space scientist, loves to list the impressive number of scientists who went on record earlier this century with the view that trans-Atlantic air travel, television and space flight were all impossible dreams. "There have been only 30 to 40 hours of microgravity experiment so far in the history of the world," he has said, referring to experiments conducted in the weightless conditions of space. "No one knows what we may learn to do."

Although Europe is now ready in principle to build the Columbus space laboratory and participate in Reagan's manned space station project, negotiations are still underway over the precise terms of the agreement which will govern the joint project. Both sides want a cast-iron pact that will stop any partner from pulling out in the future and scuttling the whole project.

Also at issue in these negotiations is the sensitive question of European access to new technologies developed in the course of the program. The question is sensitive because the Reagan Adminis-

tration appears increasingly protective of American technological discoveries, trying to restrict foreign access to many new areas of research for fear that strategically valuable information will leak into Soviet hands.

ESA members say, however that to make Columbus a success, they need to know about American space docking techniques and other know-how developed by NASA. Europe also wants access to the whole space station and not just the Columbus module. Calling Reagan's original proposal "an offer of marriage," Luest told Congress in March that he wanted "access to and use of all the space station elements on a non-discriminatory basis and a satisfactory agreement on sharing costs and on the extent and conditions for appropriate technology transfers."

Not everyone is happy about Europe's demands. At the same hearings, Rep. Robert Torricelli (D-NJ) said Europe is proposing "less of a marriage and more an affair." He accused ESA of being "out to grab technology" in order to further its own "goal of autonomy" in space ventures. Although Europe's combined economic strength is about equal to that of the United States, it still only spends about a fifth of what NASA spends on space research and this burden is unevenly spread among ESA members.

France is Europe's most space-minded nation, in part as a result of developing its own rocket systems for its nuclear deterrent. Together with Germany, it accounts for about half of ESA's total budget, set at about \$780 million this year. Britain and Italy currently contribute about 12 percent each, with the rest divided up among Belgium, Denmark, Holland, Sweden, Ireland, Switzerland and Spain. Since work on jointly financed projects is divided up between members according to the amount they pay, the biggest contributors also develop the strongest space industries.

Luest says ESA has no real lead over NASA, though the work it does is as good as anything attempted in the United States. In 1983, the space shuttle Challenger placed in orbit the first-ever manned space laboratory which was entirely European built, eventually bringing it back to earth again.

In 1987, Germany, Italy, France and other ESA nations plan to launch the European Retrievable Carrier, known as Eureka, a fully automatic laboratory in which robots will perform more experiments in space before being brought to earth. ☾

Paul Lewis reports from Paris for *The New York Times*.

DELORS: 'EUROPE SHOULD NOT BE WRITTEN OFF'

E.C. COMMISSION PRESIDENT MEETS WITH REAGAN AND OTHER U.S. OFFICIALS

Jacques Delors, in his first official visit to Washington as President of the E.C. Commission, met on April 23 and 24 with President Ronald Reagan and other top Administration officials for talks on trade, Europe's economic future, the Bonn summit, and other central issues in U.S.-E.C. relations. President Jacques Delors met with Secretary of State George Shultz, Secretary of the Treasury James Baker, Commerce Secretary Malcolm Baldrige, Agriculture Secretary John Block and leading Congressional figures before flying to California for a first-hand look at Silicon Valley's high-tech industries.

Asserting that "Europe will not be written off," Delors addressed American concerns about Europe's economic and political vitality in a speech before the National Press Club in Washington. Noting that some Americans have been asking "Does Europe matter?," Delors pointed to Europe's central role in liberalizing world trade, promoting and supporting democratic values and serving as an important trading partner with the United States. "Over 1 million American jobs on the farm and factory depend on U.S. sales [in Europe] . . . the Community

has been your best partner," he noted.

And fears of Europe's economic decline have been overrated, Delors asserted, pointing to differences in economic strategy in Europe that have resulted in "remarkable" growth in labor productivity and the return on capital at the expense of employment. Armed with a "new and tougher" approach, Europe is attempting now to reduce structural rigidities and rationalize some of its economic policies, especially in agriculture, and the future looks bright. Important technological achievements in space, transport and telecommunications belie claims of a "staggering gap" in technology between the United States and Europe. But as Europe grows, Delors told the American audience, "the mix of social compassion and economic free-for-all" in its economic policy will be different from that in America—and this should not be cause for criticism.

Looking to the future, Delors predicted that by the end of the century the E.C. would have a common currency and a huge, unified internal market that will encourage investment and technological progress. And these developments, he added, will make the "terrible unemploy-



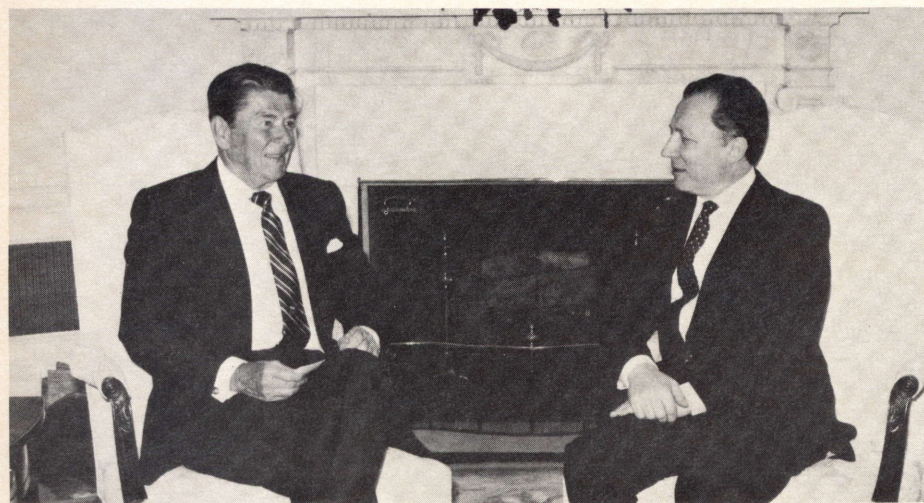
In Washington, President Delors addressed the National Press Club.

ment of the 1980s a matter of history." For while Europe still "speaks with an uncertain trumpet . . . and is still wrestling with the problems of confederation," Delors noted, "European union is on its way as it should be." Drawing historical parallels with the unification of the American states, the President asked: "Who would have thought in Carpenter's Hall in 1774 where you would be today. Our adventure is only 35 years old—on your track we are at 1811. So there is much for us to do."

Delors repeated the Community's position that a new round of multilateral trade talks should be accompanied by discussions on world monetary stability, and that its timing and agenda should be supported by developing countries. Without a consensus on these issues, Delors warned, "the talks would quickly bog down and the round would fail before it started."

While admitting that U.S. "economic expansion of the last two years has been magnificent," Delors added that it is imperative that America tackle its budget deficit. "With the United States economy as world leader and absorbing world savings at the rate of \$100 billion a year, a major problem for you becomes one for us all, and as friends and trading partners, we think we can fairly signal it."

Delors also welcomed the visit of President Ronald Reagan to the European Parliament on May 8, and he noted that the U.S.-E.C. relationship remains on firm ground despite occasional quarrels. "The irony of our relationship is that it is an unequal relationship, which can only survive if it is equal," he said. "Sometimes we shall perceive our interests differently. But our friendship sprung from democracy, forged in war, tempered in the hard years of peace, will not fail. We fight united for the liberty and the prosperity of the free world." €



President Reagan and President Delors discussed preparations for the Bonn economic summit.

All these Bonds have been sold. This announcement appears as a matter of record only.

NEW ISSUE

April 1985



EUROPEAN INVESTMENT BANK

Luxembourg

Swiss Francs 150,000,000
6% Bonds 1985-1995

Kredietbank (Suisse) S.A.

Soditic S.A.

Banque Gutzwiller, Kurz, Bungener S.A.

Nordfinanz-Bank Zürich
Clariden Bank
Lloyds Bank International Ltd.
Amro Bank und Finanz
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- Crédit Industriel d'Alsace et de Lorraine AG -

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Banque de Dépôts et de Gestion
Banque Louis-Dreyfus en Suisse S.A.
Crédit Lyonnais Finanz AG Zürich
Grindlays Bank p.l.c.
E. Gutzwiller & Cie
Overland Trust Banca
Rüegg Bank AG
St. Gallische Creditanstalt
Società Bancaria Ticinese
Solothurner Handelsbank
Spar- & Leihkasse Schaffhausen
Volksbank Willisau AG

ACHIEVING PROGRESS ON INTERNATIONAL MONETARY ORDER

SOME SUGGESTIONS FOR DEVELOPING
AND INDUSTRIALIZED COUNTRIES.

W.F. DUISENBERG

In 1976, the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF)—concluded in Jamaica—formally switched the world from a system of stable exchange rates to what was called a stable system of exchange rates. The small change in the order of words was ingenious. But what it achieved was precious little: It merely recognized the status quo of a floating exchange regime. Not achieved were rules that would see to it that the exchange system would indeed be stable.

The checks and balances of the floating exchange regime were to be found in the market place, and, as later events bore out and as we all can see almost daily, markets are not inherently stable. Markets may react to developments in a way that appears to be rational from a short-term view-point, but that may be detrimental to the system in the longer run. I find it appropriate to pick up nearly 10 years later and to try to define how further progress toward international monetary order can be achieved.

The international debt situation

The major balance-of-payments disequilibria that followed the first oil crisis led us 10 years ago to worry whether recycling would prove to be possible on a sufficient scale. Looking back, the recycling that had been sought after by the authorities has been a great success. The international financial markets provided capital on a massive scale to the deficit countries who asked for it. However, what we tended to overlook in the process was, first, that recycling is tantamount to a *pro tanto* increase of the debts of the receiving countries and, second, that prolonged recycling implies postponement of the inevitable adjustment to structural changes in world economic conditions. Of course, there are limits to

the increase in the debt burden, and when these limits were struck upon, it was in an abrupt and disruptive manner. The increased debt burden had led to serious problems, and when the markets were not prepared to further increase their exposure to the countries in debt unless policies were adjusted, the adjustment asked for was the more painful the more it had been postponed.

There is general agreement that order should be restored in the international debt situation. However, opinions differ on how this order should be brought about. Some favor recycling, with the authorities taking over part of the functions of the markets. This recycling, it is argued, could take the form of Special Drawing Rights (SDR) allocations or of new or enlarged credit facilities at the international institutions. It is, however, to be expected that the same limits that appeared to apply to market financing will also apply to official financing. The signals that the market has given on both the size and the duration of debt accumulation should be taken seriously. A continuation of recycling in the form of debt-creating capital flows would not entail a fundamental restoration of order.

The difficult years that are behind us have shown that if the limits that are set to the financing of balance-of-payments deficits are overstepped, the market does provide a mechanism that works toward the restoration of equilibrium: It enforces adjustment by suddenly suspending the financing. But this mechanism is more painful than gradual adjustment, that should have been started long ago, and it poses real threats.

First, it threatens domestic stability by rendering the adjustment effort more difficult because of the attendant debt service. Second, it threatens the stability of the international monetary system because countries are no longer able to service their existing debts without adequate continued financing. Such collapse

of international confidence has been averted, but only with great strain, by the resolute reactions of governments and international institutions, in particular the International Monetary Fund, and also by the reactions of the private banks which came to realize that, if in the past they had given credit to countries which did not adjust, they presently could not deny credit to countries which did adjust.

The conclusion, therefore, is that we must take care that the limits to financing are not again overstepped. This means that we cannot afford to let the markets tell us where these limits are. Then it is too late. The authorities must be ahead of the markets.

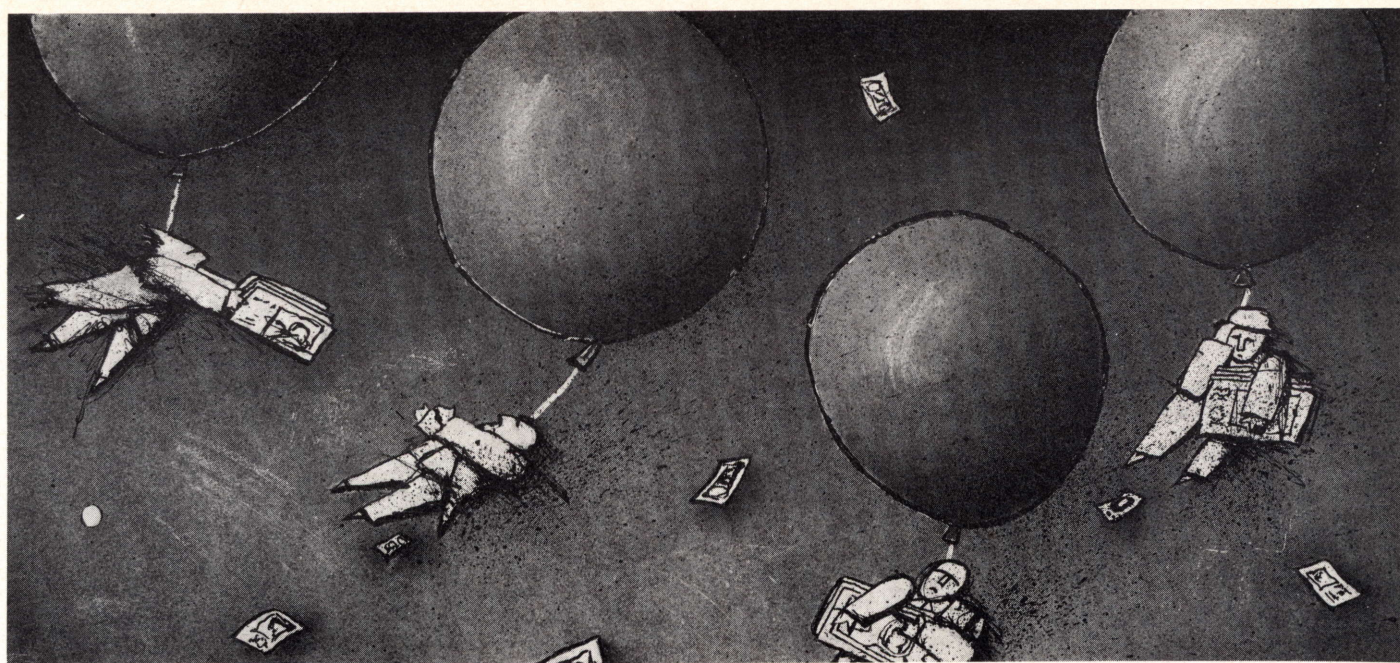
I believe that with respect to the international debt situation, a combination of appropriate adjustment policies is called for. In the developing countries, domestic policies that continue to be geared to internal and external equilibrium would be the most promising. The countries that have adjusted, sometimes quite sharply and relatively early, once it had become evident that adjustment could not be postponed, see that their efforts are paying off. Exports of developing countries have risen sharply and growth has picked up again, thus increasing their capacity to service existing debt.

In the industrial countries, adjustment is called for as well. Obstacles that have impeded growth must be pulled down and fiscal discipline should be restored. Such adjustment would go a long way toward an easing of the tensions in the financial markets. These tensions have manifested themselves in high interest rates that in their turn weigh heavily on the debt burden of the developing countries. Also here, we see that the countries that were the first to adjust are now reaping the fruits of their efforts as well.

The exchange rate system

The acuteness of the international debt problems has receded somewhat now that adjustment policies have been put into place in many countries. This gives us the opportunity to focus once again on ways of improving the international monetary system with a view to restoring monetary order. At present, discussions on the international monetary system are being held between the industrial countries, in the so-called Group of Ten. They intend to report to the full membership of the IMF soon.

In these discussions, there is widespread agreement that it would not be realistic to change the present exchange



JAMES YOUNG

system itself, which is characterized by the coexistence of some major floating currencies and a large majority of currencies that are fixed in one way or another. Therefore, improvements in the given system must come from a better coordination of economic policies and, to this end, a strengthening of international surveillance over exchange-rate policies. European countries all attach importance to exchange-rate policies. In doing so, some go further than others, arguing for formalization of exchange-rate and intervention arrangements. I think Europe would do well to emphasize the views it has in common rather than its differences.

While in the United States there is a tendency to leave the exchange rate entirely to the market, European countries agree that it should play a role in international discussions. It should be regarded as one of the indicators of economic and financial policies, important both in judging domestic policies and their external repercussions. How should one interpret the indicator in specific situations? It would be natural to take as a starting point the principles on which we all agreed in Jamaica when conferring on the IMF the surveillance task of members' exchange-rate policies and the criteria elaborated by the IMF in that respect.

Under these criteria, the IMF should open discussions with a country when its exchange-rate development would seem to call for it, for instance by behaving in a way that appears to be unrelated to underlying economic and financial conditions. Many would agree with Federal Reserve Governor Wallich's recent assessment that "it is difficult to explain the level of the dollar in terms of economic fundamentals" at present.

The criteria agreed upon in the IMF imply a policy judgment on the exchange rate. Another question is what practical conclusions to draw from such a judgment. One conclusion obviously should not be drawn: that Europe should by itself try to regulate the dollar rate. In this respect, one cannot go further than avoiding further increases in official dollar reserves when the rate is considered to be too high.

However, the exchange rate and the balance of payments should obviously play a major role when discussing U.S. policies and their external repercussions with our American friends. If the resulting deterioration of the U.S. competitive position stimulates demands for protection, that is a matter vital to all of us. And so is, therefore, the question of whether a different policy mix—notably smaller budget deficits that can be financed by the United States' own savings—would not lead to a more sustainable pattern of the balance of payments and to a more sustainable dollar rate, namely a rate that can better be explained in terms of economic fundamentals.

Exchange rates and the balance of payments are not only the result of domestic policies; at the same time they are the link by which domestic policies influence other countries. Therefore, they have to play a role in assessing the international consistency of countries' domestic policies. The sustainability of the U.S. current account deficit is a major issue in such an assessment. If, as Wallich pointed out, the great bulk of the capital flows to the United States that financed the deficit has been of a financial rather than an investment nature, including particularly banking flows, that is an element in judg-

ing how sustainable the balance-of-payments structure and the exchange rate are.

European monetary cooperation

In working toward international monetary order on a global scale, European cooperation must play an important role. We can do that, first, by stressing what we have in common, rather than what divides us, when taking part in international decision making. This is not something that can be achieved by providing the European Monetary System (EMS) with a bureaucracy of its own, or by requesting central-bank governors to meet weekly or twice a month instead of monthly as they do now, as has been suggested. We shall have to agree on policies, rather than escape into techniques.

Second, we can contribute to monetary stability by actually practicing in Europe what we advocate on a global scale. Monetary stability has been an important objective in Europe since the Bretton Woods system collapsed in 1973. Since that time, we have cooperated in a group of varying composition and under various names to maintain stable exchange rates between us. The EMS is functioning well. Further strengthening of the system is presently being discussed. Several proposals have been made in this respect.

In part, these proposals are aimed at the termination of the exemptions or exceptions made for the participants in the system, such as Italy's broader exchange margins, the Belgian dual-exchange market and the British non-participation in the exchange-rate arrangement while being an EMS participant. In part these pro-

posals concern the way in which the system itself is functioning as well. Given the importance I attach to the system, I would like to go further into the matter and try to distinguish between the essentials of monetary cooperation and the technical implementation, between the goals and the means.

Fundamental for European monetary cooperation is that it should be based on effective coordination and convergence of general economic and financial policies. Here progress has been made, though there still is a long way to go until inflation and inflation differentials have been sufficiently reduced to provide a firm foundation for exchange-rate stability and sustainable economic growth.

It is also essential that obligations already undertaken be respected. In so far as capital liberalization is concerned, the situation is still unsatisfactory. Some members have gone beyond their obligations to liberalize capital movements. In the Federal Republic of Germany, there are no capital restrictions. There is, however, a prohibition to incur European Currency Unit (ECU) debts and the maintenance of that prohibition seems to me to be motivated more by emotion than by reason. In the Netherlands, there is no prohibition of that kind, but none of the fears that Germans apparently have, have materialized in the Dutch case. While some countries have almost completely liberalized capital movements, others fall far short of their obligations.

The E.C. Commission's zeal in proposing new commitments in the past has not always been matched by the same attention to have old obligations respected. It can grant dispensation by empowering member countries in difficulty to take temporary, so-called safeguard measures. In one case this dispensation has been in force without interruption since 1968, when France got into trouble because of the students' revolt. One should assume that the specific circumstances justifying it at the time have changed since then. I am glad that the Commission recently attached a time limit to such dispensations.

Coordination of policies and respect for commitments are essential to European monetary cooperation. I emphasize this because, when referring to the strengthening of the EMS, there sometimes is a tendency to focus only on technical improvements of a system that is technically functioning well. I do not for a moment deny the importance of decorating the facade; I am simply pointing out that the foundations are yet to be secured.

At the same time, the proposals that have been made in the monetary field

should be taken seriously. Most of these proposals tend to emphasize the strengthening of the role of the ECU in official transactions. Taking them seriously means making sure what our objective is and judging proposals against that acid test.

Some want the ECU to develop into an international reserve currency, functioning alongside with, and as an alternative to, the dollar. Others see it as a future common currency, functioning parallel to, and subsequently as a substitute for, member countries' currencies. Still others seem not to mind where we go, as long as we are moving.

A new international reserve currency is not what we had in mind when we agreed in the 1970s that the SDR should become the main international reserve asset and the role of gold and reserve currencies should diminish. There is nothing against changing one's mind, as

Europe would do well to emphasize the views it has in common rather than its differences.

long as we know why. The argument has been put forward that Europe through the ECU should share with the United States the burden that is placed on the dollar as a reserve currency. However, a reserve currency need not always be a burden, for it enables the issuer to borrow. Should we wish to borrow, or should we rather wish to be net lenders, in view of our obligation to LDCs?

Another argument put forward is that in an unbalanced exchange market, the ECU, by attracting speculative flows, could diminish the tensions between member countries' currencies. It is, however, an open question whether it would be probable that speculative flows caused by diverging competitive positions could be diverted by techniques.

A future common currency implies economic and monetary union, with a common central bank, and a common budgetary policy. As to the first, some allot that function to the future European Monetary Fund. But recent proposals, while attributing to the European fund the powers of money creation, prefer to keep open all options as to whether it should develop into a common central bank, a regional IMF or something else. Keeping open all options implies keeping

open the degree of its autonomy. I have some difficulty in understanding how one can set monetary stability as an objective while leaving open the safeguards on which to base money creation.

As to a common budgetary policy, this is needed because budget deficits are a source of money creation as well. A monetary union could not function if consistency between budgetary and monetary policies is not assured. But this is conveniently forgotten in most proposals on monetary union. Even the recent draft Treaty on European Union adopted by the European Parliament (the so-called Spinelli report) is rather vague on that subject, while at the same time explicitly transferring to the European Monetary Fund the competence for setting monetary targets in members countries. And, of course, you cannot have monetary integration without economic integration.

European monetary cooperation is important. Proposals toward that end should be taken seriously. Taking them seriously means that we should not only discuss how to increase the role of the ECU, but also, why. In doing so, we should not mix up goals and means. The EMS has been set up with the objective of creating a zone of monetary stability. That objective should not be forgotten when its institutions and its powers to create money are designed.

I am advocating a strong EMS where each is able to fulfill his obligations, where none feels compelled to seek exemptions and where all can abide by the rules of the game. Such an orderly monetary Europe will best contribute to monetary order on a wider scale. International monetary order implies obligations for both industrial and developing countries. Developing countries, notably the most indebted, have in many cases reached a point where they no longer have an alternative to adjustment. No political considerations can exempt them from the necessity of curbing their cost increases and of gaining control over their public finances.

They have to restore internal equilibrium, but whether this will result in a sustainable balance of payments situation depends not only on them. It also depends on industrial countries' adjustment. They have to create conditions for sustainable, non-inflationary growth and lower interest rates at home, as well as for more stability and openness in exchange rates and trade. This requires consistency. Consistency can be pursued by policies at an early stage, or it can be forced upon us by the markets later. To achieve it in time is what international order is about. €

Dr. W.F. Duisenberg, president of the Netherlands Bank, was Dutch Minister of Finance from 1973 to 1977.

This announcement appears as a matter of record only.



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April, 1985

TELECOMMUNICATIONS: THE FUTURE IN EUROPE

STRUGGLING TO BREAK UP
GOVERNMENT MONOPOLIES AND TO
CONSOLIDATE THE MARKET.

GUY DE JONQUIERES

The United States has opted squarely for the "big bang" theory of evolution in the telecommunications industry as it confronts the challenges of the dawning "information era." The reverberations from the break-up of the Bell system and far-reaching deregulation continue to register high on the industry's Richter scale. In Europe, by contrast, most of the telecommunications industry gives the impression of following the "steady state" evolution theory. With one important exception, the United Kingdom, most changes in policy and industry structure so far have been cautious and evolutionary in nature.

However, that appearance of stability is misleading. For just below the surface, there are powerful and complex forces at work, some of which are already starting to break into the open. Rapid technological advances, dramatic shifts in costs, changing market needs and sharper international competition are all conspiring to bring mounting pressures to bear on the traditional structure of Europe's telecommunications industry.

The central question facing Europe's policy makers today is whether, by purposefully seizing the initiative, they can meet the challenge head on and harness those pressures productively. Or, instead, will institutional inertia and the pursuit of narrow vested interests frustrate the process of change and ultimately lay traditional policies and practices open to the risk of simply being overtaken by events?

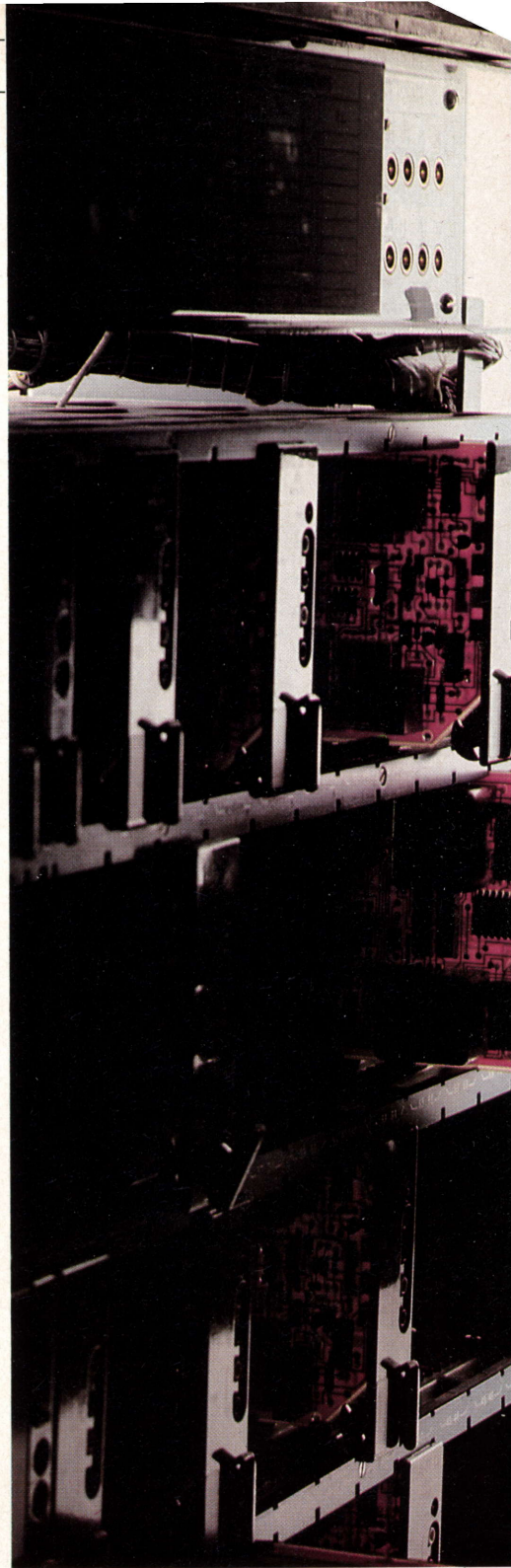
It is customary to talk of Europe as if it were one country, like the United States or Japan. But, of course, it is not. This is especially true in telecommunications, where Europe consists of a patchwork of more than two dozen national markets, each still largely insulated from the others by differing and frequently protectionist policies, regulations and standards.

In almost every European country, telecommunications has been dominated for most of this century by statutory monopoly organizations, the PTTs, which in most cases are state-owned. In some countries, they are government departments; in others, they are separate from, but still accountable to, central government. The extent of their control over the supply of customer apparatus differs, but in every country except Britain, where the rules have recently changed, the PTTs enjoy a monopoly over their national telephone networks.

The central principle on which these systems are based is similar to the "natural monopoly" thesis which prevailed for many years in the United States: that a public service such as telecommunications involves economies of scale which can be realized most efficiently by entrusting its provision to a single operator.

In addition, many European PTT monopolies over the years have acquired two other important attributes which make telecommunications a much more highly politicized industry in Europe than in the United States:

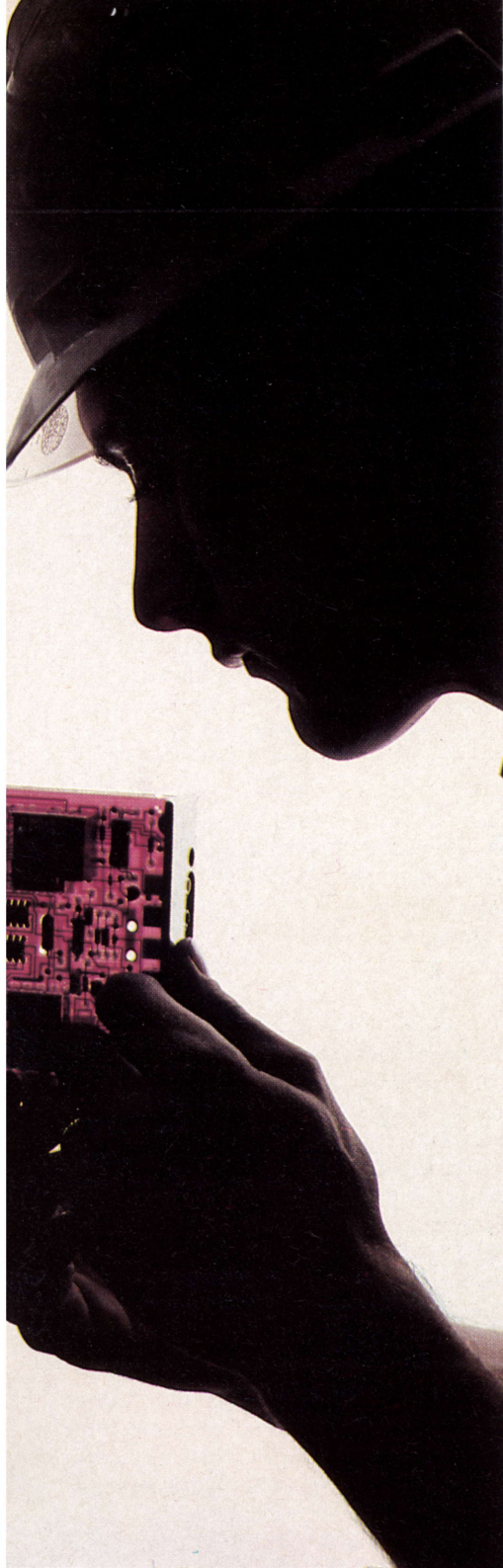
- The first attribute is financial. Most PTT monopolies long have made large profits from telecommunications services. In those European countries where they are also responsible for postal services, they have increasingly subsidized losses by the latter. Furthermore, many PTTs are also substantial net contributors to government budget revenues.
- The second role is as authors or instruments of industrial policy. Most PTTs in Europe do not possess manufacturing capacity and depend extensively on local supplier industries. Because of their substantial procurement power, that dependence is mutual and, in most larger countries, close interlocking alliances of interest have grown up between PTT customers and their main industry suppliers. As microelectronic technology has displaced mechanical components, this as-



If Europe is to compete successfully with the United States in telecommunications, closer cooperation and harmonization of standards are vital.

pect of the PTTs' operations has gained in importance.

This background helps to explain a fundamental divergence in the direction of policies on either side of the Atlantic over the past 10 to 15 years. In the United States, policy has increasingly favored competition as the most efficient



in the United States. In France, which undertook a massive public investment program during the 1970s, about one third of all lines are now digital. Europe also can claim to have pioneered services such as teletex and videotex and to have championed the concept of ISDN, the integrated services digital network of the future.

The challenge now facing the industry on both sides of the Atlantic is increasingly one of stimulating and responding to demand. But in much of Europe, attitudes have been slow so far to reflect this shift. The structures, values and operating methods of many PTTs are still those of public sector bureaucracies geared to administering utility services, not of commercial enterprises managing dynamic growth businesses.

In many European countries, customer choice is still tightly restricted by regulations enforced by the PTTs. It is true that the PTTs' monopoly over the supply of customer apparatus has been eroding steadily. But they still control the crucial areas of standards and approvals.

PTT regulations have also been blamed for inhibiting the growth of a free and open market for enhanced services. American computer-services companies which have followed their U.S. corporate customers to Europe will attest to the numerous constraints with which they have had to deal there. Such restrictions are often intended to maximize PTT revenues by preventing "cream-skimming." But in some countries, they are used quite overtly for protectionist purposes.

Indisputably, the most abrupt change in European telecommunications policy so far has occurred in the United Kingdom, where Prime Minister Margaret Thatcher's Government came to office in 1979 armed with a passionate commitment to rolling back the frontiers of state involvement in the economy and giving freer rein to market forces. The initial thrust of the Government's new policy was to liberalize the market by removing, in late 1981, British Telecom's far-reaching statutory monopoly over the supply of customer apparatus and services and by creating independent arrangements for standard-setting and approvals. Britain has also become the first country in Europe to sanction common carrier competition.

Broadly speaking, after some initial teething troubles, these measures are starting to have a noticeable market impact, and a wider choice of more competitively-priced equipment and services is becoming available. By far and away the most important consequence of liberalization, however, has been the sea-change in British Telecom, which has responded to

the challenge of competition with a vigor and aggressiveness few would have believed possible five years ago. It has smartened up customer response times, sharply cut its long-distance and international rates and launched a battery of new services which it is marketing with determination and aggressiveness.

A new regulatory regime based on licenses issued by the government was established last year. A modestly-staffed regulatory body, the Office of Telecommunications, has been set up to police the system. Its director-general has the power to prosecute offenses, but unlike the U.S. Federal Communications Commission, lacks the authority to license new market entrants. This remains with the government, which has said it does not plan to license more than the two existing common carriers, or permit unrestricted resale of circuit capacity, before 1989. Compared with the U.S. approach, British policy so far looks decidedly cautious. Radical early reformist zeal has progressively become tinged with compromise.

The psychological impact of Britain's policy on the rest of Europe has been considerable. Initially, many other European countries condemned Britain's actions as an aberration, branding them a naive attempt to ape U.S. deregulation, or worse. Such criticisms can still be heard today, but they are being made with less certainty and conviction. In a growing number of European countries, the status quo in telecommunications is being questioned openly, both from outside the PTTs and, in some cases, from inside as well. For example:

- In Germany, the government recently set up an official committee to examine the policies and long-term strategy of the Bundespost.
- In the Netherlands, official proposals to allow increased competition in the terminal market are being debated publicly.
- In Belgium, the PTT minister has indicated that he favors more liberalization.
- In France, the PTT is conducting intensive internal discussions on how to react to changes in international telecommunications markets and to make itself more commercial.

Adding impetus to the European debate are the steps taken by the United States to permit freer competition in international telecommunications traffic, notably on the trans-Atlantic route. Although only a few European countries so far have agreed to establish links with more than one U.S. carrier, many others have already cut sharply their own trans-Atlantic charges in response to price competition from the American end.

method of allocating resources, meeting customer needs and stimulating telecommunications growth. Most of Europe, on the other hand, has sought to achieve the same general objectives via a different route: through large-scale, centrally-planned public investments in technology and capital infrastructure projects.

This approach unquestionably has yielded some positive results. One example is in the installation of digital networks which, in some European countries, is significantly more advanced than

They evidently are concerned that if they fail to respond, they risk encouraging traffic diversion. British Telecom, for its part, has made no secret of its ambition to grab a larger share of trans-Atlantic traffic by encouraging multinational companies to "hub" their European communications networks in the United Kingdom.

Europe as a whole accounts for about a quarter of the world telecommunications equipment market. For many years, indigenous suppliers have met more than 90 percent of its needs, and the 10 E.C. countries collectively enjoy a surplus on their telecommunications trade. That, incidentally, is in sharp contrast to their large deficits on computer equipment and semiconductors.

But a high price has been paid for this apparent stability. In telecommunications, the Common Market has simply not happened. Protectionist policies have kept trade between European countries to a trickle, and supplier industries remain fragmented along national lines and heavily reliant on their home markets. As a consequence, European manufacturers are finding it increasingly hard to achieve the economies of scale needed to remain internationally competitive.

It is generally estimated that the cost of developing a new digital exchange family is in the order of \$1 billion. Yet such an investment could only be recouped profitably by a supplier who captured 100 percent of the market in each of Europe's four largest countries. For a supplier with 5 percent of the world market—equivalent, say, to a country the size of France—development costs would amount to about 25 percent of the price at which the equipment was sold. Furthermore, PTTs are increasingly selecting two or more digital systems for their network re-equipment programs and placing orders on a competitive tender basis.

Such rumblings point to a growing divergence between the interests of the PTTs and the interests of their traditional suppliers, which for many years were largely synonymous.

Not surprisingly, many European manufacturers now view the future apprehensively and anxiously are examining their options. In the near-term, there seem to be three principal courses of action open to them. One is to drop out of the race or merge their operations with those of a competitor. Another option is to try to establish a beachhead in the United States. Siemens of Germany, Sweden's Ericsson, France's CIT Alcatel and Britain's Plessey are all pinning their hopes for future growth—indeed survival—on

efforts to expand in the American market in the wake of the AT&T break-up.

Another course of action is to seek closer industrial collaboration. This has become something of a rallying cry in the past couple of years. In the field of basic research, most of Europe's larger telecommunications companies are already participating in ESPRIT, the E.C.-sponsored joint electronics program, and the E.C. Commission recently proposed a further joint project for development of optical transmission technologies.

Even if these benefits are realized, however, the problem of intra-European trade barriers remains. These are at least as onerous in customer equipment as in public telecommunications. Differing national standards and approval procedures impose a heavy cost burden on manufacturers seeking to expand outside their home markets. It has been calculated, for instance, that while the fee for approving

By clinging too much to the conventions of the past, Europe may miss the opportunities of the future.

a modem for attachment in the United States would be about \$2,000, it would cost about \$1 million to have the same device approved for sale in every European market.

Parenthetically, it should be pointed out that several North American manufacturers have succeeded, nonetheless, in overcoming this obstacle course. ITT, GTE and IBM of the United States and Mitel and Northern Telecom of Canada are all competing in Europe. It is worth pointing out that all of them make equipment in Europe, either independently or in joint ventures with local partners. Indeed, if there is one golden rule for overseas suppliers seeking to do business in Europe, it is the absolute necessity of setting up production and development facilities there.

The plain fact is that most European governments use access to their telecommunications markets as a political bargaining counter to secure inward investments which will create jobs, enhance their trade performance and stimulate technology transfer.

Nonetheless, in the past few months the search for ways of opening up European telecommunications markets has in-

tensified. Proposals for tackling the problem have emerged from several quarters, though none yet seems to offer a complete solution and several have obvious weaknesses. One major area now under the spotlight is standards. The E.C. Commission has succeeded in the past 18 months in persuading the PTTs of the 10 E.C. countries to open regular discussions on a timetable for standards harmonization, at least for new products and systems. The commission is also urging the PTTs to recognize each other's testing results. Although standards harmonization is now regarded by much of the European industry as a prerequisite of survival, experience suggests caution in expecting too much too quickly.

Another approach to freer trade which is also being explored is the concept of reciprocal opening of national markets. A step was made in this direction last year when E.C. PTT ministers agreed to consider opening up 10 percent of their procurement to bidders from other European countries. On the face of it, these are all pretty modest developments. But it is important to bear in mind that until a few years ago, the idea of European co-operation in telecommunications was almost unheard of.

As for the future, I do not believe we will see in Europe the outbreak of free-for-all competition on the American model. Too many characteristics set the United States apart from European countries, in particular differences in the historical development of policy and the sheer size of the U.S. market. It is more likely, I think, that future changes in European policy will be directed toward institutional reform of the PTTs, to subject them more directly to commercial disciplines and to make them more responsive to the market.

I expect to see a series of major shake-outs in the European telecommunications manufacturing industry over the next few years. There are simply too many companies now operating in Europe at less than optimal levels of production for all of them to be able to survive in their present form indefinitely.

Telecommunications is by its very nature a global industry, and in the long run the survivors will be those companies and organizations which think and operate in global terms. The greatest danger facing Europe, I believe, is not the challenge of constantly accelerating change. It is that by clinging too timidly to the conventions of the past, it may risk missing the opportunities of the future. ☐

Guy de Jonquieres covers high technology for the London *Financial Times*.

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March 1985



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E.C. PLAN SEEKS STANDARDIZATION

COUNCIL APPROVES \$30-MILLION SEED PROGRAM FOR \$100-BILLION PROJECT.

DEREK BROWN

The European Community is poised on the starting line of a RACE against time. RACE is in capital letters, because it's the name of a breathtakingly ambitious, hugely expensive, plan to catapult Europe into the front rank of telecommunications technology. If it wins national government backing, it will mean a \$100-billion-plus project to transform a splintered, inefficient and old-fashioned telecommunications network into the finest on earth.

Already, the E.C. Commission has unveiled plans for a 10-year program to introduce integrated broadband communications throughout the Community. That's jargon for a high-speed electronic system capable of carrying mind-boggling quantities of information in the form of reproduced documents, video pictures and computer conversations, as well as the dear old human voice.

The new system would employ sophisticated digital switching, glass-fiber optical cables and satellite transmission. It will put the present jumble of copper-cable, low-speed, nationally run telephone networks squarely in the technological steam age. The Commission's blueprint involves an initial research program of about \$30 million. The E.C. will shoulder slightly more than half the cost, the rest being met by companies contributing to the research—and expecting a share in the ultimate rewards.

After 18 months, the Commission reckons, the main RACE program could start. The first phase would run from 1986 to 1991, involving field trials through to development of the technology base. The second phase, from 1991 to 1996, would see the progressive construction of the space-age system.

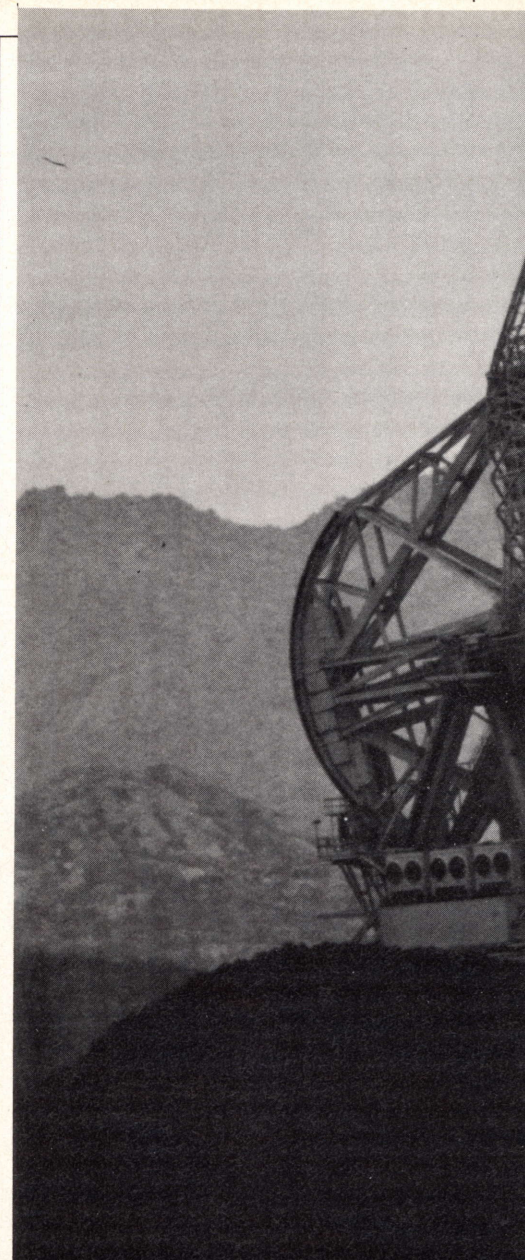
The RACE plan—the snappy acronym stands, loosely, for Research and Development in Advanced Communications Technologies for Europe—awaits the for-

mal approval of the 10 E.C. member-state governments. They are notoriously nationalistic in such areas, which is why for the most part Europe's present telecommunications system is an unwieldy tangle of conflicting standards and frustrating inefficiency.

As one small example of the malaise, this article was written on a Tandy micro-computer—designed and sold by a U.S. company and produced in Japan, it works with a portable modem produced in Australia—which fits a standard round-pattern telephone handset. In Belgium, the heart of Europe, it is impossible to persuade the national telecommunications people to supply anything but a modern, attractive, but infuriatingly square-pattern, telephone, which doesn't fit the modem. Even in the press section of the E.C. Council of Ministers headquarters, frequented by growing numbers of micro-computer users, the older-pattern telephones have been replaced by the approved new issue. A generation of new-technology, high-speed communicators is therefore obliged to revert to dark-ages dictation or hard-copy telexing.

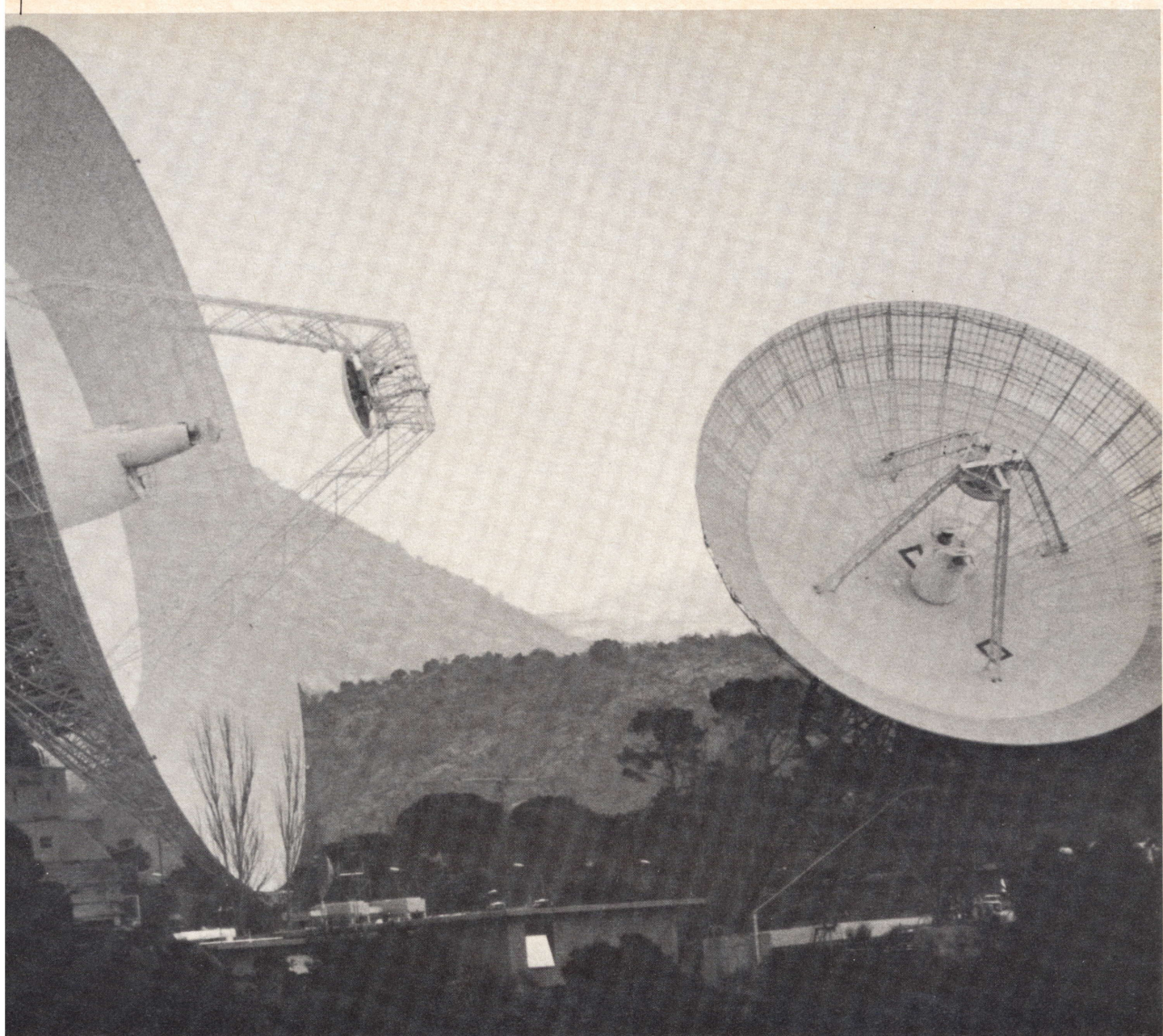
The main problem, though, is political. A great deal of European rhetorical energy has been expended on the need to meet the challenge of the third industrial revolution and to exploit the acknowledged intellectual and innovative skills of the biggest single market in the world. Yet even at this early stage of the RACE initiative, eyebrows and voices are being raised about the colossal bills it will surely bring. One senior E.C. diplomat has crisply pronounced that cost-effectiveness must be the only criterion of any research spending, and others have disparaged the scheme as a pipe dream during a time of budgetary constraints.

The pro-RACE argument was put succinctly by Maurice English, of the Community's information-technologies task force, in a recent paper analyzing the need for innovation. He pointed out that



If the RACE project wins national government approval, it will transform Europe's splintered, inefficient and old-fashioned telecommunications network into the finest on earth.

the cost may be high, but so are the rewards. The global telecommunications network, with 600 million telephones, he wrote, is already the biggest and most expensive machine in the world, with public spending on the system last year alone totaling some \$100 billion. The battle for the market in new-technology equipment is already under way. "The thrust of the RACE initiative is to establish on the world broadband market a strong, if not leading position, for Community telecommunications manufacturing and service industries, not least importantly by accelerating the emergence of a strong and competitive E.C. market for high-performance equipment and ad-



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vanced services," he wrote.

As in so much of E.C. thinking, English's analysis dwells on the fear of Europe being left behind by more thrusting competitors in Japan and the United States. He draws attention to the staggering commitment by the Japanese to spend up to \$170 billion on telecommunications investment by the end of the century. By then, Japan will have a system able to provide two-way access to telephone, telex, facsimile, data and video terminals, at a standard charge irrespective of distance.

In the United States too, research and development (boosted by military and NASA funds and expertise) pose a major challenge to European independence. "Both Japan and the United States, each in their own way, have been able to exploit the advantages of large unified home

markets which are then complemented by enhanced exports in overseas markets," English said. "In Europe, all too often, we have fallen foul of small, fragmented markets. This condition has also been exacerbated by national champions insufficiently subject to competitive price and technological pressures, and a consequent loss of export competitiveness."

The Community, in his view, has the responsibility to establish competitive conditions in a Europe-wide market, by setting common standards and stimulating cooperation. "Together we are engaged in breaking down unnecessary national barriers, liberating European talents and technological abilities from the limitations and constraints of small domestic markets, and thereby protecting European employment and standards of living.

At its most basic, the argument for RACE is about Europe's very survival as a modern, competitive world force. As English said, only the best system will provide economic viability and allow industry to earn enough money to pay for essential imports or raw materials and energy. "Good telecommunications facilities are vital for the competitiveness of European industrial and service sectors," he wrote. "By acting together, the Community's member states are reinforcing their aggregate competitive efficiency. Europeans must shape and construct their own future by working together to advance their common interest. With a market of 270 million consumers in the present Community alone, we still have the muscle to determine our future." €

Derek Brown is Brussels correspondent of *The Guardian*.

TALE OF TWO

ATLANTA: 10 YEARS OF NON-STOP GROWTH

THE CAPITAL OF THE SOUTHEAST SUNBELT ATTRACTS MANY EUROPEAN FIRMS.

MARIA SAPORTA

When Atlanta-based Delta Air Lines unveiled its plans to begin non-stop service to Paris last September, 3,000 of its employees packed in the company's hangar, where they received the news with deafening applause. While many other cities would consider such developments routine, in Atlanta the excitement mounted throughout the city. Atlantans realized another major Trans-Atlantic connection was about to be made that would bring new investments and bigger opportunities to the city. And such a flight would contribute to that nebulous title of "Atlanta: an international city."

Only 10 years ago, Atlanta's right to claim itself as an international city would have been false advertising. It was just the capital of Georgia, seeking national companies to open regional headquarters in the city. Atlanta had not yet broadened its horizons to Europe, Canada, Asia, Africa and Latin America. Few cities have matured internationally as quickly as Atlanta. Once just a sleepy city in the Deep South, Atlanta has become the capital of the Southeast in the heart of the growing Sun Belt. The numbers tell the story of one short decade of Atlanta's history.

In 1975, the city had no international banks. Today it has 24, and others are on the way. Ten years ago, it had a handful of consulates and trade offices. And today there are 16 consulates, 20 honorary consulates and 15 foreign trade, tourism and cultural offices. Georgia had only 150 international facilities operating in the state in 1975, and now there are 824. Jim

Steed, director of the Georgia Department of Industry and Trade's international division, said more than 75 percent of those foreign firms are located in metropolitan Atlanta.

Trans-Atlantic flights have been an important factor in Atlanta's international lift-off. Atlanta was designated a Trans-Atlantic gateway in 1978 by the federal government. It did not hurt that then-President Jimmy Carter was once Governor of Georgia and understood what European flights could mean to Atlanta. Delta started flying to London in April, 1978, and then to Frankfurt a year later.

The Atlanta carrier was not alone: Sabena Belgian World Airlines started flying to Brussels in May, 1978; Lufthansa German Airlines began its Frankfurt flight in 1980; British Caledonian Airways came in 1980; and KLM Royal Dutch Airlines began a flight to Amsterdam in 1981.

The foreign investment that followed was astounding, according to tabulations by the Atlanta Chamber of Commerce. From 1977 to mid-1984, the number of British firms with facilities in Georgia grew from 40 to 163, or a 245-percent increase. The British, the largest foreign investors in Georgia, are represented in Atlanta by Consul General Trevor Gatty, the dean of the consular corps. The relationship started early with Barclays Bank International Ltd. being the first foreign-based bank to open an office in Atlanta in November 1976. Now there are four British banks represented in the city.

The British investments in the state range from real estate construction by Laing Properties Inc., which has its U.S. headquarters in Atlanta, to tobacco manufacturing by Brown & Williamson Tobacco Corp., a subsidiary of British Amer-

Continued on page 28



In 1975, Atlanta had no foreign banks; today there are 24.

COURTESY TOURIST DIVISION, GEORGIA DEPARTMENT OF INDUSTRY AND TRADE

CITIES

BRUSSELS: DROP-OFF FOLLOWS EARLY BOOM

ATLANTA'S SISTER CITY IS STILL THE 'CAPITAL OF EUROPE' FOR U.S. INVESTORS.

HAZEL DUFFY

In the past few years, Brussels has not been the European city most favored by American investors. To be sure, the smart offices of American multinationals, banks, insurance companies and, of course, management consultants are still to be seen in the fashionable and business districts of Brussels. But some big companies have gone elsewhere in Europe and a couple of American banks have withdrawn from Brussels in the past couple of years after a short stay.

Since the latter part of the 1970s, a

certain disillusionment has grown up on the part of foreign investors toward Brussels. In contrast to the decade of the mid-1960s to mid-1970s, when the European Community institutions were expanding and Belgium was one of the most prosperous countries in Europe, there is now a more sober air about the city. The residents say that this is the way it always was—the problems, particularly rapid rent increases, arose with the space requirements of the international bodies (NATO and the E. C.), which changed the surface of the city, mostly to its disadvantage.



U.S. investment in Brussels leveled off recently, but the city now offers new incentives.

The politicians and commercial interests, however, are very well aware of the importance of American investment to the prosperity of Brussels, and they are determined to make the city more attractive to newcomers. Both at corporate and personal tax levels, there are now considerable incentives to make companies consider Brussels as the place for their European head offices.

The most important incentive for corporate investment is the Coordination Centres law of 1983. This allows qualifying companies to be taxed on a "cost plus" basis, and it means that they can end up paying very little tax. The scheme has had to be modified a little following objections raised by the E. C. Commission that it amounted to a subsidy to companies, but it is now going ahead.

American companies have shown substantial interest: Those on the list of applications to the authorities include Heinz, IBM, American Express, Dow Chemicals, Cigna and Dow Corning. Some of these companies already have offices in Brussels, but if they can prove that they are bringing in additional functions, they can qualify. The idea is to encourage management to separate out the administrative functions from offices and plants elsewhere and put them into Brussels.

André van Landuyt, chairman of the American Chamber of Commerce's committee on investment in Belgium, is quite sure that this law, and other measures introduced by the present Government which apply to all companies in Belgium—notably the wage freeze—is making Brussels more attractive to outsiders. He describes the moves as "very effective." So far, 62 applications have been made to the authorities for coordination-center status. Half of the requests have been granted, one has not, and the others are still being examined.

One major American manufacturing multinational, so far not identified, is negotiating the return of its European head office from Switzerland to Brussels, and there are hopes that other multinationals which have left in the past few years to go to Paris, London, Frankfurt or Geneva will be enticed back. The law is also

Continued on page 29



COURTESY GEORGIA DEPARTMENT OF INDUSTRY AND TRADE

Atlanta's airport has played a key role in attracting European investment..

Continued from page 26

ican Tobacco Co. Ltd. that is located in Macon, a one-and-a-half-hour drive outside of Atlanta. The amount of British investment in the region has been recognized by English royalty as well as political leaders. For example, Princess Anne visited Atlanta last year, when she toured British companies such as Marconi Avionics, a subsidiary of Marconi-Elliott Avionic Systems Ltd. which manufactures high-tech avionic products.

Belgium also has increased its investment in the state. From 1978 to 1984, the number of Belgian firms increased from nine to 20, a 45-percent rise. Consul General Michel Servais and the Belgian-American Chamber of Commerce, presented a major festival called "Belgian Week" in February to promote the business and cultural ties between Atlanta and Brussels. In April 1984, Brussels and Atlanta became sister cities, partly because both centers serve as a transportation hub to the surrounding area.

One of the larger grocery food chains in the Southeast, Giant Food Inc., is owned by Delhaize Frères & Cie. "Le Lion" S.A. from Brussels. Other Belgian businesses in Atlanta include AMI Air Freight Inc., Bakaert International Trade America Inc., L. Parein International Inc. and Kredietbank N.V.

The Federal Republic of Germany is the second largest European investor in Georgia. Between 1979 and 1984, the number of German companies operating in the state grew from 28 to 122, a 230-percent increase. Although Germany was the first country to open a consulate in Atlanta in 1904, the level of German investment did not become substantial until the last five years. Now there is also an office of the German-American Chamber of Commerce as well as a private

group called the German Trade Center. Atlanta now has two German banks with offices here, and at least three others seriously considering opening a branch in Atlanta.

Siemens-Allis Inc., one of the U.S. subsidiaries of Siemens A.G., is headquartered in Atlanta, where it has several divisions. Other investors include the Kloeckner Machine Tool Corp., a subsidiary of Kloeckner & Co. in Duisburg, and the Buchtal Corp. USA, a subsidiary of Buchtal GmbH in Schwarzenfeld.

The Dutch also have been aggressive investors in the state, aided by direct flights by KLM. Dutch firms increased their investments from 32 companies to 62 in only three years, a 52-percent jump from 1981 to 1984. The Dutch, with a strong reservoir of savings, have made major real-estate investment and business acquisitions in the Atlanta area. "There has been a great movement of capital out of Holland," said Bill Fowler, an Atlanta partner in the Arthur Andersen accounting firm. "And it's true that Georgia has one of the largest concentrations of Dutch industry and real-estate investment in the country."

One of the state's largest insurance companies, Life of Georgia, was purchased by the largest insurance company in the Netherlands, Nationale-Nederlanden N.V., in January 1979 for \$360 million. The largest Dutch manufacturing company in the state is Dutch State Mines in Augusta. But the major interest of Dutch companies in Atlanta has been real estate. Wilma Inc., Noro Realty Advisors Inc., Pakhoed Holding N.V. and Hexalon Real Estate have all made major investments in the city.

Since non-stop flights between Atlanta and Paris began April 1, Atlanta business and political leaders expect French investment to increase in the area. Other European countries that have strong investors in Atlanta include Sweden, Finland, Italy and Switzerland, all of which are interested in direct air service to the city. The Atlanta airport plays an important role in attracting foreign investment because of its national hub system.

Georgia now is the home of 214 U.S. headquarters of foreign companies, with 80 percent of them located in the metropolitan Atlanta area. Although the headquarters operations account for only one-fourth of international firms in Georgia, they employ 20,728 people, or 45.7 percent of the jobs provided by foreign companies, according to a study conducted by the Peat, Marwick, Mitchell & Co. accounting firm.

"We need to increase our focus on attracting headquarters operations to

take advantage of the leverage they offer," said Jerry Licari, partner in charge of Peat, Marwick's international practice in Atlanta. "We believe the long-term potential for the creation of jobs and economic activity in Georgia will be even stronger if we are successful in attracting greater numbers of headquarters operations in Georgia."

The other foreign companies in the Atlanta area establish sales, warehouse, manufacturing and service operations for the region. Atlanta Attorney William Poole, who works primarily with international clients, said the city's international growth will rest in its service sector, which will cater to the needs of the Southeastern states.

The growth of Atlanta, with a population of more than 2 million, has developed a foundation of multilingual attorneys, accountants and bankers. The growth has not been accidental. For example, Jimmy Carter, who was Governor in the early 1970s, started eyeing an international frontier for Georgia. He decided the state should have a representative in Europe, so he sent John Turbiville to Brussels to lure foreign investments to the state. When Georgia opened its European office in 1973, only one other Southern state, Virginia, had an office on the Continent.

On several occasions, Atlanta Mayor Andrew Young has said proudly that critics call him "the only mayor in the United States with a foreign policy." But Young argues that the future of Atlanta rests as the U.S. gateway for the world. "This city is almost like a financial volcano that's quietly bubbling under the surface," Young said last year.

French President François Mitterrand, in his visit to the United States last year, decided to come to Atlanta where he could meet Young and see the city of Martin Luther King Jr. He also wanted to view the growth of the Sun Belt firsthand, looking for ways to improve the French economy.

Exactly one year later, Delta started flying to Paris. Before the flight started, Young went to France to officially return Mitterrand's visit. He also led a delegation of businessmen to Paris to promote new European investment and trade in Atlanta. He returned to Paris in April as part of an Atlanta Chamber of Commerce promotion, and he will be back in France in May to help promote an exhibit of Georgia artists. Three trips to France in as many months shows the kind of aggressive promotion that has helped make Atlanta an "international city." **☛**

Maria Saporta is a business reporter for the *Atlanta Journal and Constitution* who specializes in international business.

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designed to attract new investment from Japanese and other foreign interests as well as American firms.

Most of the companies which set up in Brussels, however, have stayed. American investment in Belgium has played an important part in the development of its manufacturing base which followed on the exploitation of coal in the south of the country in the last century. The first wave of American investment came after World War I and brought some financial institutions to service the needs of the manufacturers. The second period of investment by the United States was in the 1960s and early 1970s. Companies which set up manufacturing plants in Belgium frequently put their administrative offices into Brussels where all the normal facilities were available.

American manufacturing companies which have invested in Brussels consist broadly of three types: The list of those with their European head offices based in the city reads like a roll call of the big company names—ITT, Minnesota Mining and Manufacturing, Phillips Petroleum Chemicals (serving Africa and the Middle East as well as Europe), Procter and Gamble, General Foods, Levi Strauss and Champion Spark Plug, to name just a few.

The second category includes those companies set up specifically to look after their Belgian manufacturing, and sometimes research, interests. The third category, containing the most companies, is made up of sales and servicing outlets for American products in Belgium. These firms potentially are as important for Brussels as companies in the first two categories because they sometimes are expanded to establish a manufacturing base in Belgium.

The American service industries are also well represented in Brussels. McDonald's, Hyatt, Sheraton, Hilton and J.C. Penney (which runs department stores and supermarkets in Belgium, although under a different name) are as much in evidence as elsewhere in the world. While the culture of Brussels remains predominantly French (although, officially at least, it is a bilingual city of French and Flemish), the American style of life is discernible in certain quarters and there is a ready availability of English-speaking personnel, making the city attractive for American companies.

Brussels has a highly competitive financial services sector which includes many American interests. Several major American companies have quotations on the Brussels stock market, particularly those with interests in Belgium. There are over 20 American insurance groups

in Brussels, including AFIA and Cigna, which both have their European headquarters in the city. Some of these companies are primarily engaged in providing insurance facilities for American interests, but others have expanded to service much wider markets.

American auditing firms are expected to benefit from a recent change in Belgian law which requires auditing of companies to be carried out in a similar fashion to practice in English-speaking countries. International auditing firms in Brussels include Arthur Andersen, Deloitte Haskins & Sells and Peat Marwick International, which recently moved its European head offices from Paris to Brussels. Management consultants and executive-search companies which have American parents are also well to the fore in Brussels.

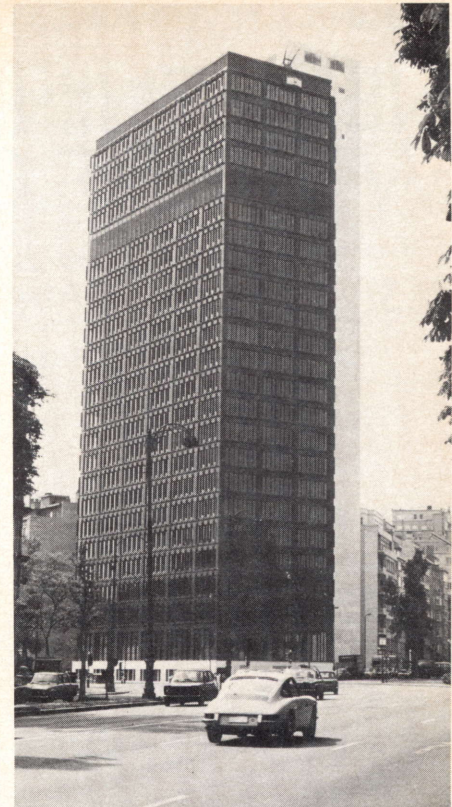
The U.S. banks in Brussels fall into two groups—those which are branches of the parent company, and those which have been formed as distinct subsidiaries under Belgian law. They include Bank of America, Morgan Guaranty, Manufacturers Hanover Trust, Citibank (its affiliate is Famibanque) and Chase Manhattan (Banque de Commerce being its Belgian affiliate).

Some of the banks have been established for many years—Morgan Guaranty, for instance, set up in 1919, partly to transact German reparations to Belgium—but others came with the more recent investment wave. Some have found the going difficult. One American banker says that the problem, quite simply, is that Belgium is "over-banked." The Belgian banks naturally have a very strong footing in the market and other foreign banks, particularly French, are very active.

The more successful American banks seem to be those that provide a range of corporate banking services. The global strategy of corporate banking is such that they could be called upon to help Belgian companies wanting to expand in the United States, or elsewhere outside Belgium, as well as advising American companies wanting to acquire Belgian interests.

But the problems associated with a low-growth Belgian economy, and fierce competition among banks, have led to a couple of American banks pulling out of Brussels in recent years. Chemical Bank of New York, for example, ceased operations in October 1983, preceded by the Chicago bank.

Brussels has attractions for American investment, however, despite these difficulties. One big advantage that it now has is that office rents are low in comparison



Above, the ITT-Europe headquarters building in Brussels.

with other major European capitals. According to the real-estate firm Jones Lang Wootton, good-quality office space (not prime) in Brussels can be had for one third the going rent in Paris, one sixth the rate in the City of London and about one fifth of the average in downtown New York.

Another attraction is the recently revised tax system, for expatriates working in Brussels and other parts of Belgium. Broadly it is designed to ensure that senior and middle managers and research specialists do not find themselves having to pay more tax than they would in their home country, which is of particular significance in Belgium with its relatively high rates of tax. This new tax regime, which is now being implemented, is also more generous in the treatment of personnel who spend some of their working time away from Belgium. For many senior employees who travel frequently, it can substantially ease their tax liability.

Brussels also has many cultural attractions, in addition to the practical advantages of living and working in a city of manageable size. These are qualities which are well recognized by Americans accustomed to more highly pressured city living, and they help to ensure continued interest by American investors in "the capital of Europe." €

Hazel Duffy reports for the *Financial Times*.

NEW THINK TANK WEIGHS E.C. OPTIONS

C.E.P.S. FILLS VACUUM IN EUROPEAN RESEARCH ON MANY TOPICS.

HELEN LEWIS

Think tanks are common in the United States, but rare commodities in Europe. Even at national level, they do not abound, while at a European level they simply did not exist until recently. The Center for European Policy Studies (CEPS) is now filling that gap.

Although the center is only two years old, its activities have mushroomed into an important range of policy-oriented research programs that fall into three broad categories: economic and social affairs, foreign policy and security questions and political and institutional problems. Springing from these programs are small and large conferences on various topics, formal and off-the-record general and high-level discussion meetings and a growing list of publications.

CEPS not only studies and debates medium- and long-term policy options concerning the development of the E.C., it also looks at Europe as a whole and at E.C. relations with other regions. The center's regional groups already cover the United States, ASEAN and the African, Caribbean and Pacific countries linked to the E.C. through the Lomé Convention. There are plans to set up groups covering Canada, Japan and Latin America this year. The scope of these activities shows the vacuum CEPS is filling.

While outsiders tend to think of the E.C. as "the Common Market," a mature and unified bloc, even committed Europeans recognize that the E.C. is still in the process of "becoming." Outsiders make increasing demands on the bloc. The United States wants a European partner in security policy and a European defense industry with which to work. Bankers want a European monetary network. Industrialists and traders want an integrated European market. ASEAN and others want a truly European bloc on which to model their emerging regional bodies.

And the E.C. member states themselves want a single European voice in East-West relations.

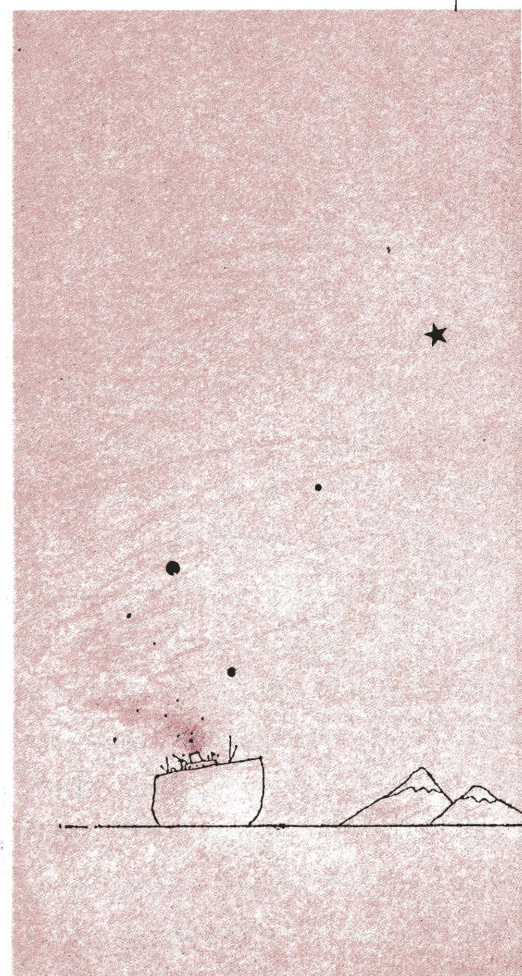
Melting down 10 (and soon 12 when Spain and Portugal join the E.C.) individual policies and hammering them together could produce a bland compromise instrument—or it could create a strong, forceful tool to help build a saner, more peaceful and more equitable international situation. The process is long and hard. Terms such as Eurosclerosis and Europessimism have had some appeal recently, but CEPS wants to help Europe move toward the strong, unified approach and is using its research and activities to back this.

First of all, CEPS is a truly *European* research institute. It chooses its researchers and academics from all over Western Europe and beyond. Projects include a European approach to non-proliferation, industrial affairs, Western Europe in the Atlantic alliance, a macro-economics group and European relations with the developing world. CEPS's director, Peter Ludlow, leads a distinguished group of politicians and experts studying political and institutional problems of European integration and cooperation. In addition to academics and researchers, each group has a steering committee of experienced participants in the field. For example, CEPS's new European Industrial Unit has a committee of top European industrialists chaired by André Bénard, board member and former managing director of Royal Dutch Shell and senior advisor to Lazard Frères (New York). The committee supplies practical advice and adds non-partisan political back-up to CEPS proposals.

The center's governing council also marks it as a non-partisan, independent institute. The council is chaired by Jean-Françoise-Poncet, former French Minister of Foreign Affairs, the French representative to the original Treaty of Rome negotiations setting up the E.C. and now

a member of the French Senate. The 27-member council, which draws its members from all sectors and political parties, includes Sir Michael Palliser, former Permanent Under Secretary at the U.K. Foreign and Commonwealth Office and head of the U.K. Diplomatic Service; Richard Cooper of Harvard University; French Ambassador Jean-Marie Soutou; Sylvia Ostry, Deputy Minister of External Affairs in Ottawa; Tommaso Padoa-Schioppa, Deputy Director-General of the Banca d'Italia; Gunther Köpke of the European Trades Union Institute; Niels Erbsbøll, Secretary-General of the E.C. Council of Ministers; Arnout Wellink, executive director of the Nederlandse Bank, Amsterdam; and Otto von der Gablentz, German Ambassador to the Netherlands.

With all of these goals and extremely varied activities, the young center has been remarkably successful. CEPS was launched in 1982 with grants from the European Cultural Foundation, the Ford Foundation and the King Baudouin Foundation. Its funds now come from foundations, official bodies such as the E.C. Commission and NATO, the private sector,



a growing number of companies who wish to become founding members and the center's own membership scheme for institution and individuals.

CEPS's annual conference in November has already become a regular event on the Brussels agenda, gathering the top voices from the center's various expert groups and constituencies to debate West European priorities right before the final meeting of the European Council meeting of the 10 E.C. heads of Government. It is already becoming a tradition for the E.C. Council of Ministers' President-in-Office to speak at the conference's opening dinner. Last year's conference was not only addressed by Irish Prime Minister Garret FitzGerald, and by Leo Tindemans, Belgium's Foreign Minister, and Valéry Giscard d'Estaing, former President of France.

Only a week before that, CEPS sponsored a conference on "The Western Economies and the Atlantic Relationship: The Challenge of Change", with the three U.S. Ambassadors in Brussels (to NATO, the E.C. and Belgium). This was attended by more than 170 people, including U.S. Trade Representative William Brock; Robert Anderson, chairman

of Rockwell International; Othman Benjelloun, chairman of Goodyear Morocco; Etienne Davignon, former vice-president of the E.C. Commission; Ichiro Hattori, president and chief executive officer of Seiko Instruments and Electronics; Robert Malott, chairman of FMC Corporation; and U.S. Senator Charles Mathias.

Conferences and seminars on CEPS's 1985 schedule include:

- Germany and Europe,
- Impact of the CAP on the Third World,
- The European Community and Central America,
- Toward the Second Stage of the EMS,
- Western Europe in the Atlantic Alliance and
- Europe's Future in High Technology?

Last year, CEPS published three books through Oxford University Press on Europe's industrial policy, economic situation and monetary issues (see *Europe*, Sept./Oct. 1984), plus 16 CEPS papers and a host of working documents giving interim reports on research.

Reflecting its European and internationalist outlook, CEPS invites membership applications from individuals, gov-

ernment departments, international organizations, trade unions, central and private banks, research institutes, university faculties, corporations, the media and similar organizations. As part of its activities beyond Europe, the center last year created CEPS-U.S. under the chairmanship of McGeorge Bundy. During 1985, this body plans to organize a number of events in the United States.

In sum, CEPS is adding high-quality, modern input into the European Community's process of development. It has high aims and high expectations for all who work within and with it. Evidence is accumulating that it is fulfilling a real need. As François-Poncet remarked to the center's 1984 conference: "If CEPS didn't exist, someone would have to invent it."

For more information about CEPS and its activities, contact CEPS-U.S., c/o Peter Ruof, Ruof International, 200 East 33d Street, New York, NY 10016. Telephone: (212) 219 2285. Or in Europe, contact the Center for European Policy Studies, rue Ducale 33, B-1000 Brussels, Belgium. Telephone: (02) 513 40 88; telex: 62818. €

Helen Lewis is an American free-lance writer based in Brussels.



E.C. ENLARGEMENT TALKS CONCLUDED

SPAIN, PORTUGAL TO JOIN THE COMMUNITY JANUARY 1 IF PARLIAMENTS RATIFY PLAN.

ALEX SCOTT

As long as there are no final hitches in the process of ratification by national parliaments in the 10 present E.C. member states, on January 1 next year, the 270 million population of the European Community will become 320 million with the accession to the E.C. of Spain and Portugal. The long and complex series of negotiations between the two candidate countries and the existing E.C. was all but completed at the end of March, almost at the eleventh hour if the January 1 deadline was to be met. Although there are several matters of detail to be resolved, the process of negotiation will be completed when the formal treaties of accession are put before the national parliaments and ap-

proved.

In addition to the purely geographical expansion of the E.C.—the surface area covered by the soon-to-become 12 E.C. countries will increase by more than a third—the most immediate effect of the Community's enlargement seems sure to be a shift in policy emphasis away from the richer "northern" countries of Europe to the less developed areas in the south. Indeed, the Spanish Prime Minister, Felipe Gonzalez, has stated publicly that he expects a "shift in the center of gravity" in the E.C. from north to south.

For the majority of the existing E.C. member states, the pressure to admit Spain and Portugal lay in the importance of cementing the democratic process started in the two countries when their hard-line and isolationist Governments

were replaced by more democratic regimes. One of the factors which held up negotiations with the two countries for so long—both Spain and Portugal applied for full E.C. membership in 1977—was the desire by certain of the present member states to ensure that the "price" of supporting the process of democracy should be carefully balanced within the 10 present E.C. countries.

Right up to the last minute, therefore, there were intense discussions among the member states over how to deal with the consequences of a Spanish fishing fleet bigger than that of all the existing member states put together, a massive increase in Mediterranean agricultural production, and, again in the case of Spain, a large and complex set of tariff barriers to trade in industrial products.

In the end, however, these problems were overcome, as a result of compromises reached both between the present E.C. members and with the two applicant countries. This will be the third enlargement of the E.C. from the original six member states in 1958, following the first big change in membership when the United Kingdom, Ireland and Denmark joined in 1973 and when the latest recruit, Greece, became an E.C. member in 1981. Inevitably, this process has resulted in changes to the way decisions are made in the Community.

Once there were only six voices to be



The accession of Spain and Portugal to the European Community is an important political success. Above, the city of Jaén, Spain.

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taken into account when making a decision, and now there will be 12 views—expressed in nine official languages—to be honed into a common E.C. stance. Owing to the difficulties that this may pose, one of the major subjects to be dealt with over the next few months within the E.C. will be how to refine the decision-making procedure to suit a larger Community. As a result, it is confidently expected, the E.C. will be able to continue reaching a common view on the range of policy decisions before it.

Outside the Community, of course, the newest enlargement of the E.C. has aroused certain fears and some apprehension, particularly from the United States and from the other countries in the Mediterranean region. The main fears seem to be that, with Spain and Portugal in the E.C. exports to the Twelve, particularly of agricultural produce, are likely to be adversely affected. The present Community countries have issued assurances, however, that the effects of enlargement on third countries have been, and will continue to be, taken into account as the process of enlargement is completed with Spain and Portugal.

In spite of seeking assurances as to the consequences of the E.C.'s enlargement, the United States appears to have recognized the political importance of bringing Spain and Portugal into the "democratic club," especially in relation to Spain's continued membership in the North Atlantic Treaty Organization (NATO). In a message of congratulations sent by the U.S. Secretary of State, George Shultz, to the current president of the E.C.'s Council of Ministers, Italian Foreign Minister Giulio Andreotti, the agreements with Spain and Portugal are described as an "important political success."

In Spain and Portugal themselves, the agreements are seen as a major turning point in their histories. The eight years of talks, the most intensive of which took place over the past 18 months, have resulted in membership in a group of nations which is bound to bring about positive and radical changes in the economies of the two countries. For Portugal in particular, with its underdeveloped economy, E.C. membership should bring about a much-needed boost. One of the main benefits for both countries will be a large and reasonably cohesive "home" market for their goods, with a total of 320 million consumers.

The E.C.'s outlook on the world is also likely to change as a result of Spain and Portugal joining. The recent initiatives by the E.C. to improve and expand political and economic ties with Latin and Central America are expected to get a big boost



Membership in the E.C. will give the two Iberian economies a valuable boost. Above, a church near Braga, Portugal.

from the accession of the two newest member states, as will relations with certain parts of Africa with which the two Iberian countries have had special links in the past.

The E.C.'s position in the world will change in other ways as well. The 12 member states will constitute half of the member countries in the Organization for Economic Cooperation and Development (OECD), and a large proportion of the industrialized countries belonging to the General Agreement on Tariffs and Trade (GATT), which will be particularly important as the GATT contracting parties head toward a new round of multilateral trade negotiations, possibly next year.

In addition, when the E.C. countries come together to draw up statements under European Political Cooperation (EPC), the common positions will carry even more weight than before, even if those positions might be more difficult to reach. It has been pointed out that in six of the 12 countries, there are currently Socialist Governments. On overall economic policy, up to now there has been broad agreement on objectives to be pursued by the present member states, and this is unlikely to be altered when Spain and Portugal join the E.C.

Obviously, all the changes which will be necessary both in the existing Commu-

nity and in the two new member states cannot take place overnight. In most areas, there are lengthy transition periods, to allow the main adjustments to take place. Gradually, however, E.C. membership will bring fundamental changes to Spain and Portugal, as well as for certain countries in the existing Community. To help cope with the negative consequences of the two countries' accession to the E.C., a program of assistance has been set up for Greece and certain regions of Italy and France over the seven-year period after Spain and Portugal join. For other parts of the existing E.C., the deal struck during the negotiations with Spain and Portugal is believed to provide sufficient assurances that the enlargement will provide advantages for both sides which will cancel out most major disadvantages.

The full consequences of what has been a relatively rapid shift in the E.C.'s composition over the past 27 years will be underscored in full later this year, when the member states tackle the complex questions of institutional reform and the overall future prospects for European Union. It is clear that Spain and Portugal will have a full part to play in this major assessment. **E**

Alex Scott is a regular contributor to *The Guardian* and the former editor of *European Report*.

WHAT IS THE E.C. COURT OF JUSTICE?

A REVIEW OF ITS JURISDICTION AND MAJOR CASES DECIDED IN 1984.

MARY MINCH

The Court of Justice was established in 1953 under the European Coal and Steel Community Treaty. In 1958, the Court's jurisdiction was extended to cover the European Economic Community and the European Atomic Energy Community. The Court is now composed of 11 judges, one from each of the 10 E.C. member states and an additional one from the Federal Republic of Germany. The Court is assisted by five advocates general, at present one each from France, Germany, Italy, the Netherlands and the United Kingdom. The judges and the advocates general are appointed by the member states for a term of six years and are eligible for reappointment. The Court normally sits in plenary session, but it has established three chambers to which it assigns certain cases.

Jurisdiction of the Court

This article is limited to the jurisdiction of the Court under the EEC treaty, as the majority of cases are brought under that treaty. Article 164 of the EEC treaty provides that the Court of Justice shall ensure that the law is observed in the interpretation and application of the treaty. Proceedings before the Court are generally classified into direct actions before the Court and reference for a preliminary ruling made by national courts and tribunals.

In addition, Article 228 provides that a member state, Council or the E.C. Commission may obtain the opinion of the Court as to whether an international agreement envisaged is compatible with the terms of the Treaty. For example, in 1978, the Commission requested the opinion of the Court (Opinion 1/78, Court of Justice) as to whether the draft international agreement on natural rubber was compatible with the EEC Treaty and

whether the Community was competent to conclude that agreement. The Court's reply was positive.

Direct Actions Before the Court

A variety of direct actions before the Court of Justice are foreseen by the EEC treaty. Under Article 169 of the Treaty, the Commission may bring an action against a member state if it considers that the latter has failed to fulfill its obligations under the treaty. The Commission must first deliver a reasoned opinion on the matter after giving the state concerned the opportunity to submit its observations. If the state does not comply with the opinion within the period laid down by the Commission, the latter may bring the matter before the Court. The Commission has taken an increasingly active role under this provision.

Under Article 170, a member state, which considers that another E.C. country has failed to fulfill an obligation under the treaty may bring the matter before the Court. Such cases are extremely rare. In 1980, the Court did issue a judgment against the United Kingdom in an action brought by France against a U.K. ban on the use of small-mesh fishing nets in British waters.

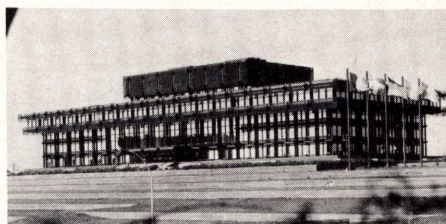
If the Court finds that a member state has failed to fulfill an obligation under the treaty, that country is required to take the necessary measures to comply with the judgment of the Court. There has only been one case so far where the member state involved (France) hinted that for internal political reasons it was

not prepared to implement a judgment of the Court (1979, Commission v. French Republic) requiring it to lift restrictions on the importation of mutton and lamb into France. The matter, however, was resolved at a political level following the introduction of a Community common organization for sheep meat.

A much more frequent form of direct action is that taken against the Commission or E.C. Council of Ministers under Article 173. The member states, the Commission and the Council may challenge the validity of both these institutions' binding acts before the Court. Individuals also may challenge decisions of the Commission or Council addressed to them, decisions in the form of regulations or decisions addressed to other persons which are of direct and specific concern to them. (A Community regulation has general application. It is binding in its entirety and directly applicable in all member states.) In fact, since Community legislation is often contained in generally applicable regulations, access to the Court by individuals under Article 173 is limited. Under Article 175, provision is also made for actions against the Commission and Council for failure to take action in violation of an obligation to act under the EEC treaty. An institution, whose act has been declared void or whose failure to act has been declared contrary to the treaty, is obliged to take the necessary measures to comply with the judgment of the Court.

Regulations made by the Council pursuant to the treaty may give the Court unlimited jurisdiction in regard to penalties provided for in such regulations. Thus, for example, the Court is empowered to strike down or modify fines imposed by the Commission for violation of EEC antitrust laws.

According to Article 215, the contractual liability of the Community is governed by the law applicable to the contract in question. The Court of Justice will only consider these cases if it is designated as the competent body under the contract. The Court also has jurisdiction in disputes relating to compensation for damage incurred by the institutions under the noncontractual liability of the Community. The noncontractual liability of the Community is governed by principles common to the laws of member states in this field. The Court has ruled, however, that even if a legislative act of the Council or Commission is declared null and void by the Court, there can be no successful claim for damages under the noncontractual liability of the Com-



The Court building in Luxembourg.

munity unless the institution manifestly and seriously exceeded its powers. As a result, it is difficult for a litigant to undertake a successful action under Article 215. Finally, the Court also has jurisdiction in disputes between the Community institutions and their officials.

Requests for Preliminary Rulings

Under Article 177, the Court has jurisdiction to give preliminary rulings concerning the interpretation of the treaty and the validity and interpretation of acts of the Community institutions. Any court or tribunal of a member state may request such a preliminary ruling. A court against whose decision there is no appeal under national law is obliged to refer such questions to the Court. (The Court's jurisdiction also covers requests for interpretation for conventions concluded under Article 220.)

Article 177 has been used extensively by national courts and has proved to be a very valuable vehicle for the development of Community law. It also has meant, for example, that individuals who cannot directly challenge the validity of Community acts before the Court of Justice, can do so indirectly through litigation in the national courts involving Community law. It ensures the uniform application of Community law throughout the Community.

It has been through cases referred to it under Article 177 that the Court has made some of its most important judgments for the development of Community laws. The Court, for example, ruled already in 1964 (*Costa v. Enel*) that Community law prevails over conflicting na-

tional laws of the member states, and it held in 1963 (*Van Gend En Loos*), that the treaty and secondary Community legislation create obligations and rights for individuals which must be protected by the national courts.

The interpretation of Community law given by the Court under a preliminary ruling is binding upon the judge who requested it. Other courts may always invoke it without further reference to the Court of Justice. Judges in the member states remain free to ask the Court for a new interpretation. When the preliminary ruling concerns the validity of a Community provision, the Community institution which enacted it must either repeal or amend it in accordance with the judgment of the Court.

General Procedural Matters

According to the statute of the Court, member states and the institutions of the Community shall be represented before the Court by an agent appointed for each case. The agent may be assisted by an advisor or by a lawyer entitled to practice before a court of a member state. The Commission's agent, for example, is always a member of its Legal Service. Other parties must be represented by a lawyer entitled to practice before a court of a member state. Proceedings are conducted in one of the official languages of the Community: Danish, Dutch, English, French, German, Greek, Irish and Italian.

Activities of the Court in 1984

Each year in its annual report of the activities of the E.C., the Commission

publishes an overview on the activities of the Court of Justice. In 1984, a total of 312 actions were initiated before the Court of Justice and it decided 220 cases. Those figures cover cases brought under the ECSC, EURATOM and EEC Treaties.

During that year, the Commission took Court actions against member states in 45 cases, 16 concerned nonimplementation or the incorrect implementation of Community directives, and 19 concerned infringements of Article 30 of the EEC treaty on the free movement of goods. The Court delivered 17 judgments in cases brought under Article 169. It dismissed the action brought by the Commission in only one case. There were no actions brought by one member state against another under Article 170 of the Treaty.

The following are some of the important judgments which the Court delivered in 1984:

In an important judgment (*Campus Oil Limited v. Ministry for Industries*) on a request from a preliminary ruling from an Irish court relating to the free movement of goods within the Community—one of the fundamental principles upon which the Community is founded—the Court ruled on the scope of the exception on public security grounds to the free movement of goods within the Community contained in Article 36 of the EEC treaty. Article 36 of the treaty provides that member states may, inter alia, impose restrictions on imports of certain goods for public-security reasons. The Court ruled in this case that a member state which is totally dependent on imports for its supplies of petroleum products may invoke grounds of public security to re-

Cases analyzed by subject-matter¹

Situation at December 31, 1984

	ECSC				EEC										Eur-atom	Privileges and immunities	Proceedings by staff of institutions	Total
	Scrap compensation	Transport	Competition	Other ²	Free movement of goods and customs union	Right of establishment and freedom to supply services	Taxation	Competition	Social security and free movement of workers	Agriculture	Transport	Article 220 Conventions	Other ³					
Actions brought	167	35	64	169	462	66	118	282	285	783	29	50	120	12	8	2,088	4,738	
			(1)	(34)	(68)	(10)	(17)	(21)	(26)	(47)	(5)	(7)	(28)	(7)		(41)	(312)	
Cases not resulting in a judgment	25	6	22	51	72	12	11	27	21	57	4	2	28	1	1	745	1,085	
				(18)	(7)	(3)	(1)	(2)	(2)	(3)	(1)		(7)			(74)	(118)	
Cases decided	142	29	41	81	296	36	78	223	223	648	20	41	70	3	7	645	2,583	
				(22)	(27)	(5)	(12)	(16)	(17)	(42)	(3)	(5)	(10)			(61)	(220)	
Cases pending	—	—	1	37	94	18	29	32	41	78	5	7	22	8	—	698	1,070	

Tables 1, 2 and 3 were compiled in part from the *Synopsis of the work of the Court of Justice of the European Communities in 1984*.

The figures in brackets represent the cases dealt with by the Court in 1984.

¹ Cases concerning more than one subject are classified under the most important heading.

² Levies, investment declarations, tax charges, miners' bonuses, production quotas.

³ Contentious proceedings, Staff Regulations, Community terminology, Lomé Convention, short-term economic policy, commercial policy, relations between Community law and national law and environment.

quire importers to cover a certain proportion of their needs with purchases from a refinery within the country.

The Court ruled (*Luisi v. Ministero del Tesoro and Carbone v. Ministero del Tesoro*) explicitly for the first time that the freedom to provide services, guaranteed by Article 59 of the EEC treaty, includes the freedom for persons to visit another member state in order to receive a service there without being subject to any restrictions whatever. The Court went on to rule that by virtue of Article 106 of the treaty, transfers of money are liberalized for recipients of services such as tourists, persons receiving medical treatment and persons traveling for the purposes of education or business. The member states are not free, therefore, to impose limits on the amount of such transfers.

The case arose out of a restriction on the exportation of foreign currency imposed under Italian exchange legislation. Two Italian residents had exported amounts in excess of that allowed by the legislation to cover expenses relating to tourism and medical treatment in the Federal Republic of Germany and France, and they had been fined by the Italian authorities. The Italian court had requested the Court to rule on the compatibility with the treaty of such re-

strictions on the export of foreign currency.

On July 12, the Court delivered a very important judgment (*Ordre des Avocats au Barreau de Paris v. O. Klopp*) on freedom of establishment guaranteed by Article 52 of the EEC treaty. The case was referred to the Court of Justice by the French Court of Cassation, which was hearing an action between the *Ordre des Avocats au Barreau de Paris* and a German lawyer, Mr. Klopp of the Düsseldorf bar. Mr. Klopp, who had all the French academic qualifications required to practice in France, had applied to be registered with the Paris bar, while retaining his residence and his chambers in Düsseldorf. The Paris bar council had rejected his application on the ground that under French law a lawyer may establish his chambers in only one area.

The decision was appealed and the Court of Cassation requested a preliminary ruling from the Court of Justice. The Court ruled that Community law prevents the competent authorities of a member state from denying, in accordance with their national legislation and the rules of professional conduct which are in force in that state, to a national of another member state the right to enter and to exercise the legal profession solely on the ground that he simultaneously maintains

chambers in another member state.

In *Allied Corporation and Others v. the Commission of the European Communities* the Court held that producers and exporters in a nonmember country may in certain circumstances have the right to challenge the validity of a Community regulation imposing an anti-dumping duty on goods exported by them to the Community. The Court said they have this right if they are identified in the acts adopted by the Commission or the Council of the European Communities, or if they were involved in the anti-dumping negotiations. The Court had already ruled that a complainant may challenge the Commission's rejection of an anti-dumping complaint (*Case 191/82, EEC Seed Crushers and Oil Processors' Federation (FEDIOL) v. Commission*).

These are just a few examples of important judgments delivered by the Court in 1984 under the EEC Treaty. There were others, for example, in the areas of free movement of goods, antitrust, free movement of persons, social provisions, equal treatment for men and women, the common agricultural policy. The Court continues, therefore, to play an extremely important role in the development of the Community. €

Mary Minch is first secretary for legal affairs at the E.C. Commission's Delegation in Washington D.C.

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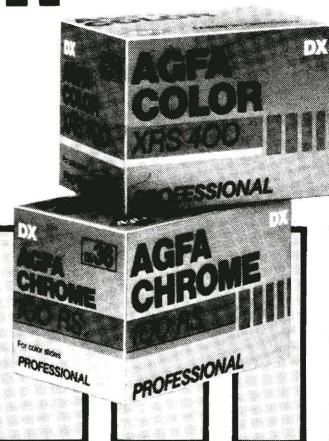
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EUROPEANS ACT ON ENDANGERED SPECIES

THE E.C. ALSO CONTRIBUTES TO THE PROTECTION OF NATURE THROUGH ITS REGULATIONS AND LEGAL ACTIONS.

What do lady's slipper, the fen orchid, the otter, the forest dormouse, the common tree frog, the minnow, the white-headed duck, the corncrake and the black grouse all have in common? Answer: They are among the surprisingly large number of plants and animals which, in the not-too-distant future, may disappear from Europe. With public attention concentrating on problems of acid rain, lead in gasoline, or dangerous waste, it is easy to overlook the European Community's wide-ranging measures for nature conservation.

For example, the E.C. has found itself at the center of a worldwide controversy concerning its decision to ban imports of skins and products derived from baby harp and hooded seals. That measure was modeled on an earlier successful ban on whale products, designed to influence a cutback in whale-hunting by closing the European market.

Monitoring international trade in certain species of wild flora and fauna has led to over 60 countries ratifying the Washington Convention, limiting or outlawing the hunting and killing of such endangered species as the gorilla, the cheetah, and the alligator. All E.C. member states are signatories. Belgium, whose annual wildlife trade is estimated at \$30 million, ratified the convention on January 1, 1984, when the E.C.'s own regulation on international trade in endangered species of wild fauna and flora came into effect. The E.C. regulation goes further than the Washington Convention by "upgrading" some species considered to be in greater danger of extinction and by adding new ones not formerly listed.

But the E.C. is not only concerned about exotic species. It is already a signatory of the 1979 Bern Convention on the Conservation of European Wildlife and Natural Habitats, and to the Bonn Convention on Migratory Species. It also commissioned a study from the United Kingdom's Nature Conservancy Council

(NCC) on threatened species of wild flora and vertebrate fauna in the E.C., as guidance for possible action.

According to the study, the greatest threat to survival of European species is posed by tourism, both inland and in coastal areas. This, together with agriculture (wetland drainage) and urbanization (dams built to regulate water levels), causes a greater pollution burden and disturbs, if not destroys, deciduous and coniferous woodlands, calcareous grasslands, heaths, moors, mudflats, sand

Of the 11,000 plant species native to the E.C. countries, almost 2,000 are threatened.

dunes, rivers, streams, ponds and lakes. For example, half the 204 bird species breeding in the United Kingdom are dependent on woodland. Since 1946, between a third and a half of Britain's ancient forest has been lost.

Hunting and trapping increase the pressure on animal populations. Thirty-one of the 86 species of wild mammal found in the E.C. are in danger of extinction, and 15 are threatened. They include the wolf, the brown bear, the European mink, the otter, the lynx, the beaver, the red deer, and the chamois. Bats, which make up over 30 percent of indigenous terrestrial mammal species in the E.C. countries, are all more or less threatened, and are protected throughout the E.C. except in southern Belgium and Northern Ireland.

Of the 11,000 plant species native to the E.C. countries, almost 2,000 are threatened to some degree. The same applies to all 111 E.C. breeding species of reptiles and amphibians.

Birds are doubly exposed to the threat

of extinction, says the NCC. Some species have declined at an alarming rate. The male tetrae tetrix population, native to the Hautes Fagnes region of Belgium, fell from 200 to 45 in 10 years. The peregrine population of the Federal Republic of Germany declined from 400 in 1950 to 30 in 1980.

The NCC recommends that another 53 species be added to the endangered list of the E.C. birds directive which came into force in 1981. It bans all forms of netting and trapping, as well as the collection of eggs and nests of 74 species of wild birds such as petrels, herons, falcons, gulls, terns, the kingfisher and the woodpecker. It also calls for the preservation of their habitats by the creation of protected areas, in particular wetlands. However, derogations in the interests of air safety, damage to crops and livestock, and the protection of flora and fauna have permitted loopholes.

In addition, national legislation (or lack of it) in certain countries, such as Belgium, France or Italy, has allowed hunters to open seasons early, even turning a blind eye to the hunting of listed species. The E.C. Commission has been forced to enter into legal proceedings against all 10 member states for faulty application of the directive.

The directive also requires member states to collect information for an inventory of protected areas. These are divided into Zone I—which allows no disturbance by humans at all—and Zone II, where certain economic and social activities are permitted, as long as they are compatible with the maintenance of the habitat. The Commission has also classified important bird areas such as the Camargue in France, Texel in the Netherlands and the Gran Paradiso in Italy. The proposal to map out the ecology of the Community should also play an important role.

The Community also has taken steps to save the Mediterranean monk seal, one of the oldest and rarest seal species, whose plight is particularly urgent. In 1978 the world population numbered 1,000 animals in all, living largely in small colonies off the Greek Dodecanese and Northern Sporade islands. But pressure from tourists has forced the monk seals off the sandy beaches that were their natural nurseries, into cramped caves where they risk drowning at high tide. Stocks were weakened even more by interbreeding and marine pollution. In addition, it is suspected that the high PCB (polychlorinated biphenyls) content of sea water is taking its toll of seal fertility. €

MEMBER STATE REPORT/OVERVIEW

THE NETHERLA

ECONOMIC RECOVERY AND LESSENERED
POLITICAL TENSIONS ARE REVITALIZING
THE COUNTRY.



INDS



LAURA RAUN

The Dutch are emerging cautiously from a troubled period with a fresh confidence about the future. The economic recovery has revitalized the business community, austerity measures have restrained government spending, the cruise-missile protest has waned a bit and some social schisms have narrowed.

This renewed optimism—tempered by economic and political uncertainties—follows a harsh reassessment of the government's burgeoning role in the public and private sectors. Beginning in the late 1970s, critical questions were raised about the gaping budget deficits, rampant social-security system, burdensome taxes and social premiums and enfeebled private sector. Huge squatters' riots and anti-cruise missile demonstrations have given way to more social cohesion. Some even say the work ethic that succumbed to the "Dutch disease" gradually is reappearing.

Many Dutch say the Netherlands now has paid its price for the spendthrift ways of yesteryear. The center-right Government of Prime Minister Ruud Lubbers entered office in November 1982 on a three-track platform of restraining mushrooming government spending, reinvigorating the private sector's sapped spirit and eroding persistently high unemployment. The Christian Democratic-Liberal coalition has succeeded in simultaneously slowing government outlays, cutting the budget deficit and reducing the tax-and-premium burden.

Corporate earnings have rebounded on the economic upturn and lower taxes, and profit no longer is a dirty word. Generous social-security and welfare benefits have been trimmed without creating undue social turmoil, while the chronic post-war housing shortage is showing faint signs of easing.

The Cabinet's June 1, 1984, cruise-

Last year's export-led recovery has led to a current-account surplus that is expected to rise even further this year. Inflation, meanwhile, is at a low 2-2.5 percent. Clockwise from right: a canal in Amsterdam, Blaupunkt factory, supertankers in Rotterdam.



missile decision defused much public outcry by delaying a final deployment agreement until next November 1 and by making it dependent on the number of Soviet SS-20 missiles in place at the time. The Cabinet decision was so complicated and subtle that it left many groups baffled.

If the Soviet Union has deployed more than 378 SS-20 missiles as of this November 1, then the Netherlands will accept its 48 cruise missiles. If no more than 378 SS-20s are in place as of the deadline, Holland will station no nuclear-tipped cruise missiles. If the Soviets and Americans reach an arms-control agreement by the November 1 deadline, the Dutch will accept a proportionate number of rockets in conformity with the arms pact.

The North American Treaty Organization (NATO) has counted 414 deployed Soviet missiles, but in the past the Dutch have noted that only the level as of November 1 is relevant. Lubbers recently added that the Netherlands would consider the tendency in Soviet deployment, rather than precise numbers.

Belgium's recent siting of 16 missiles leaves Holland as the only European NATO member yet to fulfill its commitment to the 1979 NATO accord. The Dutch dearly hope to talk to the Soviets before their November deadline and meanwhile are watching the resumed Soviet-American arms talks in Geneva with a vested interest.

The Dutch opposition Labor Party is adamantly opposed to the placing of the NATO missiles at Holland's Woensdrecht site in the south of the country. The Socialists, who have been gaining strongly in public-opinion polls, have promised to make the missile question a major issue in the campaign for the May 1985 national elections.

The public at large, however, apparently is showing slightly more willingness



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As a result of across-the-board cuts in government spending, the budget is expected to shrink to 8 percent of net national income. Above, Amsterdam's main train station.

to accept the missiles. More people now believe a decision to site the rockets would be good, compared with three years ago, although they still are outnumbered by those who reject such a decision, according to two recent polls. More than a third of the population would regret such a decision but still accept the missiles, a slightly higher percentage than four years ago.

The missile question is not the only uncertainty looming on the horizon. Political dickerings in advance of next year's elections already has begun. The Socialists, the largest party, would like to replace the rightist Liberals as the Christian Democrats partners in the next Government. The Christian Democrats have been a partner in every coalition Government since the war and seem likely to continue in the next administration while the junior-partner Liberals



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Although the Dutch economy still faces problems, first signs of recovery have revived confidence and optimism.

have been suffering sharp losses in the public-opinion polls. The Liberals, who are staunch advocates of private enterprise, have been trying without much success to galvanize voters around their banner. The Laborites, meanwhile, hope they can translate today's polls into tomorrow's votes.

The economy is a prime source of renewed confidence. The export-led recovery produced a record \$4.9 billion current-account surplus on the balance of payments last year and is expected to further fuel the surplus this year. Holland's centuries-long tradition of trading has produced an extraordinarily open economy, with imports and exports making up more than 60 percent of gross domestic product (GDP). The worldwide economic upturn in the past two years has provided a windfall for Dutch trade.

The national budget deficit is expected to shrink again to 8 percent of net national income this year from 9.3 percent last year as government spending is slashed further. Unemployment, disability and sickness benefits are being trimmed this year, following across-the-board reductions in social-security benefits last year. Civil servants compensation is being pruned again this year after a 3 percent salary cut last year. Further savings also are being made in ministerial budgets.

Inflation is to remain at an enviably low 2 percent to 2.5 percent as wage demands continue at a relatively modest pace. In the past, cost-of-living allowances have been traded for shorter worker hours and thereby helped preserve productivity gains. Consumer spending is seen edging up 1.5 percent this year for the first time in several years as private-sector workers purchasing power improves. Business investment is to accelerate slightly to 5.5 percent this

year after plunging between 1978 and 1983.

Less impressive is Holland's economic growth, which has lagged behind the Organization for Economic Cooperation and Development (OECD) average for the past decade. Real national income will contract 1.5 percent this year after expanding 3.5 percent last year, according to the Central Planning Bureau, a semi-autonomous forecasting agency. Comparatively poor corporate profitability, a wide public-sector deficit and stubbornly high unemployment are blamed for the lackluster performance. The jobless rate isn't expected to fall much below 17 percent this year because of a continuing influx of women and youth into the labor pool.

Women's rate of participation in the labor market has been behind that of the rest of Europe for some time, with the result that women now are scrambling for jobs. The baby boom in the Netherlands also persisted longer than in much of Europe so that many youths still are flooding the job market. These two demographic trends are among the intriguing paradoxes of modern Dutch society. While boasting of their political progressiveness and social tolerance, the Dutch still generally believe that the woman's place is in the home.

The huge ranks of jobless also are attributed to the relatively high level of labor costs and to narrow differentials between wages, despite years of moderating wage demands. The strong Dutch tradition of egalitarianism has undermined efforts to widen wages further to reflect talent and experience. Furthermore, tangled dismissal procedures make employers think twice before hiring new workers.

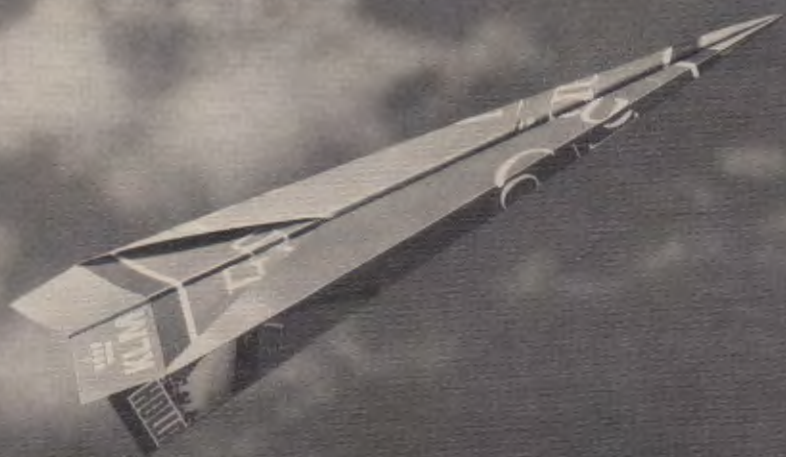
Among youth, where joblessness seems particularly intractable, a disturbing malaise seems to have manifested itself in Amsterdam's public graffiti. The brightly colored scribbles, which bear a striking resemblance to New York graffiti, have proliferated from an occasional brick wall to all over the city.

The more prevalent mood, however, is one of new-found confidence. Even if some problems have been papered over, the Dutch have tired of fretting about their inadequacies. The caretaker state has been tinkered with here and adjusted there, but it remains essentially in place. The Netherlands still is a place where there is more talk about sharing out wealth than creating it. But now it no longer is considered in bad taste to want to create a castle of your own. ☛

Laura Raun reports from Amsterdam for the *Financial Times*.

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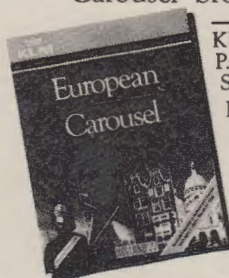
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HOLLAND ATTRACTS MORE CONVENTIONS

CONCERTED EFFORT TO ATTRACT INTERNATIONAL MEETINGS IS PAYING OFF

HANK FISHER

The Netherlands is now recognized as the ninth ranking country in the world as a site for international conventions according to the latest survey by the Union des Associations Internationales (UAI). Twenty-two percent more international congresses were held this past year than in 1983. Holland's statistical leap was 3 percent greater than anywhere else in the world. The UAI is an organization for professional associations which registers for its members how many congresses are held and where. The UAI also reported that The Hague has appeared for the first time on the list of the 35 most important congress cities—and at 22d place—while Amsterdam has climbed from 17th to 12th place.

The main reason for Holland's growth as a meetings and convention country has been the interest on the part of the Dutch government and business community in competing for a larger share of this grow-

ing market. This policy, together with a stable, low inflation rate and government subsidies offered to foreign organizations for holding their meetings in Holland, has given the country a growing prominence in this service industry. In fact, the large Dutch convention centers already have confirmed reservations for major events through the 1990s. Last year's convention spending in Holland was an estimated 550 million guilders (about \$170 million).

There are other reasons for this growth. Among them is the dramatic physical expansion of Amsterdam's RAI Congress Center, which was already a major European meeting site. And there is the convenience of one of the most highly rated airports in the world—Amsterdam's Schiphol International Airport. There are modern and ever-expanding Dutch hotel facilities available to convention delegates and meeting participants and the efficient transfers to and within convention cities offered by experienced bus and tour operators. The latest state-

of-the-art audiovisual and translation facilities are available and professional congress-organizing companies can help do the actual planning of meetings large and small.

Recognizing the economic importance and potential of all this economic activity, the Dutch government established the Netherlands Convention Bureau (NCB) to promote and market Holland as a meeting and convention destination. The bureau acts on behalf of the country's convention facilities. The Netherlands Board of Tourism's office in New York serves as the NCB's representative in North America and has played an increasingly important role, in cooperation with KLM and Dutch hotel chains, in steering meetings and convention business to Holland.

Facilitating and servicing international gatherings from sales meetings of 100 to a congress of 10,000 is a specialized Dutch art. The fact that the Dutch are probably the world's most linguistic people and known to be shrewd global traders and businessmen has given them a considerable competitive edge in attracting and serving international conventions and trade shows as well.

Holland's major congress facilities are:

- International Congresscentrum RAI located in Amsterdam, the cultural and commercial capital of Holland where people from everywhere seem to feel most at home when they are abroad. The city has a backup of 200 hotels, offering overnight accommodations for more than 20,000 people.
- The Netherlands Congress Center situated near the center of The Hague, seat of the Dutch government, and a short distance from the seaside resort of Scheveningen. Its 20 halls vary in capacity from 40 to 2,000 people. As an elegant diplomatic community and site of the International Court of Justice, The Hague has special appeal to parties from both developed and developing countries.
- The Music and Congress Center of Doelen in Rotterdam, site of the world's largest and busiest port. Top hotels in the immediate area can accommodate over 20,000 people. Ahoy Rotterdam consists of a modern sports palace, six exhibition halls and a congress center. The main hall can seat 8,000 and smaller halls can accommodate groups of 100 to 300 persons.
- The Philips Congress Center located in Eindhoven, where the giant Philips electronics company has its headquarters. The meetings that take place here are mostly in the upper strata of high-tech-nology with high-quality area hotels to



The International Congresscentrum RAI, above, is in Amsterdam, the cultural and commercial capital of the Netherlands.

COURTESY NETHERLANDS BOARD OF TOURISM

match.

- Martinihal Centrum is located in the northern city of Groningen, a scaled down Amsterdam. The spacious hall has a constant schedule of events ranging from sports to medical congresses.

- Het Turfschip is a congress facility in the historic southern city of Breda, centrally located for the Benelux countries. The main hall seats 850 guests. Breda boasts 700 beds with star recognition within 10 minutes of Het Turfschip.

A number of deluxe Dutch hotels have facilities for anything from sales meetings of 10 to mini-congresses of several hundred. The following Amsterdam facilities are particularly popular to American and international concerns:

- Hilton International, located in the city's green belt and the first hotel built here by an American hotel chain. It has four meeting rooms and one major hall, ranging in accommodations for 45 to 500 persons.

- Amsterdam Sonesta Hotel is situated in the heart of town. In addition to its in-house facilities for small meetings, it operates the beautiful Sonesta Congress and Cultural Center across the street. It was formerly the 17th Century Round Lutheran Church and still retains the aura of that era.

- Grand Hotel Krasnapolsky is situated on Amsterdam's famed Dam Square across from the Royal Palace. It has three conference halls, seating 300, 550 and 1,025 people respectively. This updated traditional hotel has 300 renovated bedrooms.

- Amsterdam Marriott Hotel combines the Dutch style architecture and ambience with American hotel comforts and

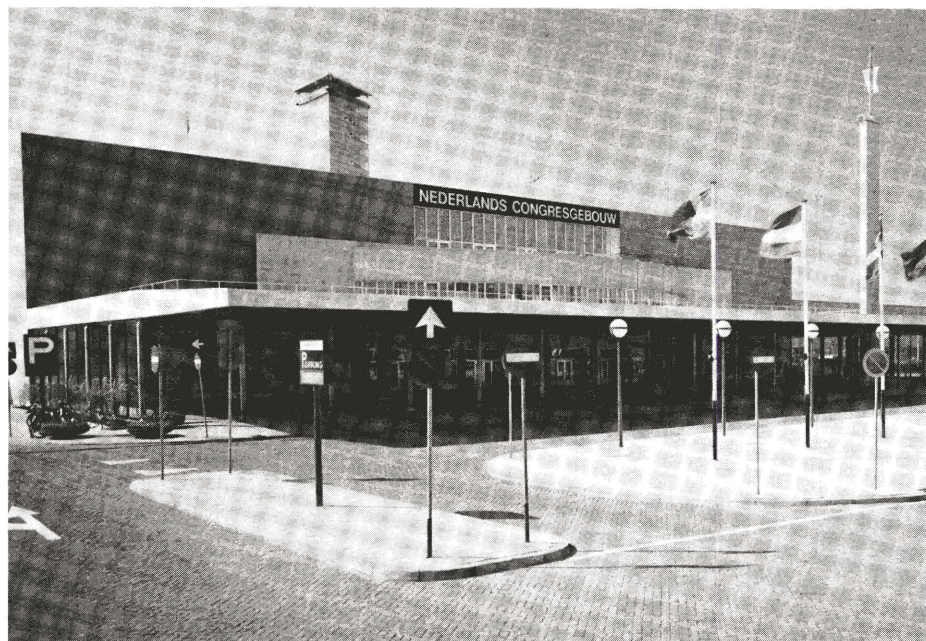
efficiency. It is conveniently situated to the city's entertainment, shopping and well known cultural attractions.

Amsterdam, however, is not the only Dutch city with hotels suitable for good-sized conventions. The Hague has its fabulous Hotel Kurhaus, a unique institution on the North Sea resort of Scheveningen, now celebrating its centennial of culture, casino and cuisine. It also has a giant indoor heated wave pool for cold weather surfing. Rotterdam has its centrally-located, luxurious Hilton International with a grand ballroom and foyer that can accommodate 450 at a banquet, 650 at a meeting and 800 at receptions. The hotel can sleep 500 persons.

Finally, in the historic city of Maastricht, now a major Dutch tourist town located in the southern boot of the Netherlands, is the Hotel Maastricht on the banks of the Meuse River. The complex, built within the last decade and only 10 minutes from Beek International Airport, has conference halls ranging in capacity of up to 500 persons. The hotel has accommodations for 290. The area is known for its haute-cuisine restaurants.

When Queen Wilhelmina and Czar Nicolas II of Russia called the first world peace conference in The Hague in 1899, that meeting was in the best tradition of international conclaves in Holland, a tradition that has thrived and grown to the present day. For further information contact George D. Szybel, Netherlands Board of Tourism, 576 Fifth Avenue, New York, NY 10036. Telephone: (212) 245-5323. €

Hank Fisher is director of public relations for the Netherlands Board of Tourism in New York.



The Netherlands Congress Center, above, is near the center of The Hague, seat of the Dutch government.

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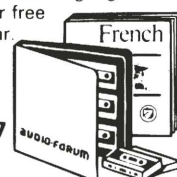
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E.C. SPONSORS YOUTH ORCHESTRA

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LEONARD PEARCEY

In 1974, the idea of a European Community Youth Orchestra (ECYO) was put to the European Parliament by the International Festival of Youth Orchestras Foundation of the United Kingdom. A resolution was submitted to the Committee on Cultural Affairs and Youth as the result of efforts right across the political party spectrum, and it passed with overwhelming support in the European Parliament in Strasbourg on March 8, 1976. I remember setting up a cheer in Wimbledon at the time.

Two years of frantic fund-raising then began, leading to the birth of this highly musical child at Easter in 1978. A very successful tour followed, conducted by the orchestra's music director Claudio Abbado, who has been closely committed to the ECYO ever since. Abbado is music director of La Scala Milan, principal conductor of the London Symphony Orchestra, principal guest conductor of the Chicago Symphony and has many other commitments, to which next year will be added the post of music director of the Vienna State Opera.

When the E.C. Commission announced its contribution through scholarship grants available to young musicians in the E.C. member countries, the orchestra's future was assured. For the even more successful 1979 tour, there were generous contributions from E.C. member governments toward the cost of travel and accommodation, with the remainder of the orchestra's budget being made up by IBM Europe.

The ECYO has appeared in all the major capital cities of Europe. It was the first youth orchestra to perform at the Salzburg festival, and has also appeared at the festivals of Berlin, Flanders, Lucerne and Edinburgh. In 1982, it traveled to Mexico to appear at the prestigious Cervantino festival.

The orchestra has worked with inter-

nationally famous soloists such as Dietrich Fischer-Dieskau, Yehudi Menuhin, Maximilian Schell and Anne-Sophie Mutter, and with distinguished conductors like Herbert von Karajan, Daniel Barenboim, Antal Dorati and Sir George Solti. It appears on Eurovision each year, and its performances from Berlin (1979), Siena (1980), Athens (1981), Rome (1982) and Berlin again in 1983, have been seen by millions of people. The ECYO's first record—the Berlioz "Te Deum"—was made in 1981 for Deutsche Grammophon.

Abbado's associate music director is the young English conductor James Judd, who first came to prominence when he was invited by Lorin Maazel to become assistant conductor of the Cleveland Orchestra, initially for one year and subsequently for a second. Since then he has conducted extensively in Europe, and has returned to the United States to the Cleveland and to conduct the Houston Symphony Orchestra. Judd is also musical director of the Chamber Orchestra of Europe, and he conducted the ECYO in April 1984 on a triumphant, 10-concert tour of the People's Republic of China and Hong Kong.

The 140 players in the orchestra, aged between 14 and 23, are chosen from over 4,000 candidates in the 10 E.C. countries. Competitions are held every year in each country to find the best young musicians, and the final selection is made by Judd and a panel of specialist musicians. Members of the orchestra have to re-audition along with new applicants each year in order to keep their places, and there are a large number of new players every year.

The musicians are brought together from their various countries in order to work and rehearse before giving public performances. These rehearsal and tour periods take place during school and college holidays at Easter and in the summer. For the young musicians, the experi-

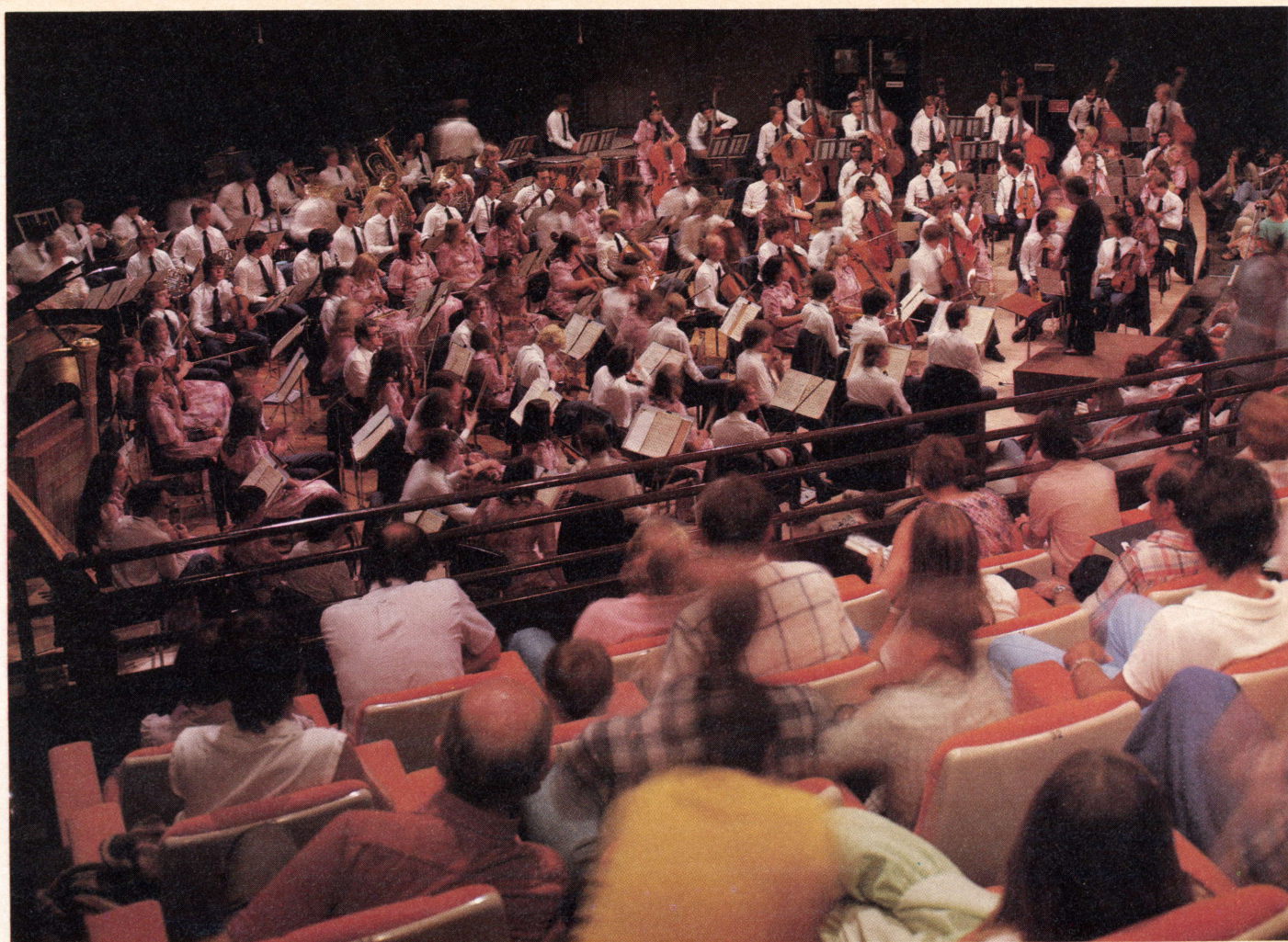
ence of being in the ECYO is of tremendous assistance in their careers. The chance to work in rehearsal and performance with leading conductors and soloists—and with the professors who take the specialist section rehearsals when the works to be performed are studied in depth—and the experience of performing in different halls and countries, mean that the young people learn a great deal musically. They also confront the realities of the life of a professional musician and the rigors of touring. In fact, most ECYO players do go on to become professional musicians, and many have found jobs with Europe's leading orchestras.

It is not surprising therefore, that competition to get in is very keen. The young people explain why: "It's a fantastic orchestra; the travel's great; so's the social life; and they look after you really well. The standard of music is really excellent; it's absolutely everything. There's so much enthusiasm. Everyone loves playing together. Rehearsals are excellent. Abbado is fantastic."

As Judd explains: "They all fall in love with Abbado and have a tremendous devotion, which is mutual and intense. He has tremendous rapport and patience. For them, it's the best youth orchestra around, it's *the* orchestra to join. And they contribute to us too, of course. Their freshness and sheer intelligence really hits you. They're capable of absolutely anything. They like to meet and play together more often, which is why in 1979 they set up the chamber orchestra. In an orchestra, when you put young people from different countries and backgrounds together they really do get on."

Their seven tours to date present a guide to the major composers of the 18th, 19th and 20th centuries and their works. For this year's Spring tour, Gyorgy Ligeti, one of the great composers of our time, was "composer in residence" for the 12-day ECYO contemporary music project in the beautiful hillside town of Asolo, just north of Venice. The group performed his works "Lontano" and "Scenes and Interludes from Le Grand Macabre."

In addition, the orchestra commissioned 10 new chamber works from one young composer under 30 from each of the 10 E.C. member countries. Each composer was picked by Ligeti himself. Selected performances of these works, each about 10 minutes long and involving 10 players, were given in and around Asolo, and will be repeated on future tours of the orchestra. It is Judd's hope that this contemporary music project



Generous grants and scholarships from the E.C. Commission as well as the governments of the 10 E.C. member states have assured the success and the future of the ECYO. Above, a performance by the ECYO with music director Claudio Abbado.

"will stimulate an increased interest of the ECYO musicians in music written today, and that they will return to their countries a little better equipped to meet the challenges of this music."

This Easter tour came under the auspices of European Music Year and was financed by the E.C. Commission, the



Competition to join this extraordinary orchestra is great: Out of 4,000 candidates each year from the 10 E.C. member states, only 140 are chosen.

European Parliament and the 10 E.C. member governments. A generous sponsorship by Hewlett-Packard completed the budget from the private sector, demonstrating one of the orchestra's principles: cooperation between the public and private sectors in cultural and humanitarian endeavors.

These principles stem very much from the personal philosophies of the remarkable couple behind the ECYO, Joy and Lionel Bryer, secretary general and chairman/founder, respectively. Lionel Bryer came to England from South Africa in 1950 as a Rhodes Scholar in Oxford, bringing with him his great interest in music, one of the fruits of which was the aforementioned International Festival of Youth Orchestras. His American wife, Joy Bryer, was educated at Mexico University and the Sorbonne, and she went into advertising and public relations, just one of the many tasks she carries out for the ECYO.

The ECYO's 1985 summer tour begins in mid-July with rehearsals and concerts in England, then moves to Athens to rehearse with Leonard Bernstein prior to

concerts with him, including his Kaddish Symphony. From mid-August Abbado rehearses Mahler's "Resurrection" symphony for performances in Berlin, Copenhagen, Amsterdam, the Lucerne festival, Paris and Vienna, for Eurovision.

Not surprisingly, Joy Bryer is very excited about the American tour planned for the summer of 1986; "The orchestra felt it important and timely that there should be activity between the E.C. and the United States, especially in view of President Ronald Reagan's forthcoming address to the European Parliament. We plan to do Washington, Boston, New York, Chicago and the West Coast. I'm also hopeful to incorporate an American youth choir to show young Americans and young Europeans working together. I really am most anxious for the young of Europe and America to meet; a visit by the Orchestra will show *live* what the European Community is all about—the human face you can actually touch and feel as opposed to just reading about." €

Leonard Pearcey, formerly music director of Guildhall School of Music and Drama, is a London-based columnist for *Classical Music*.

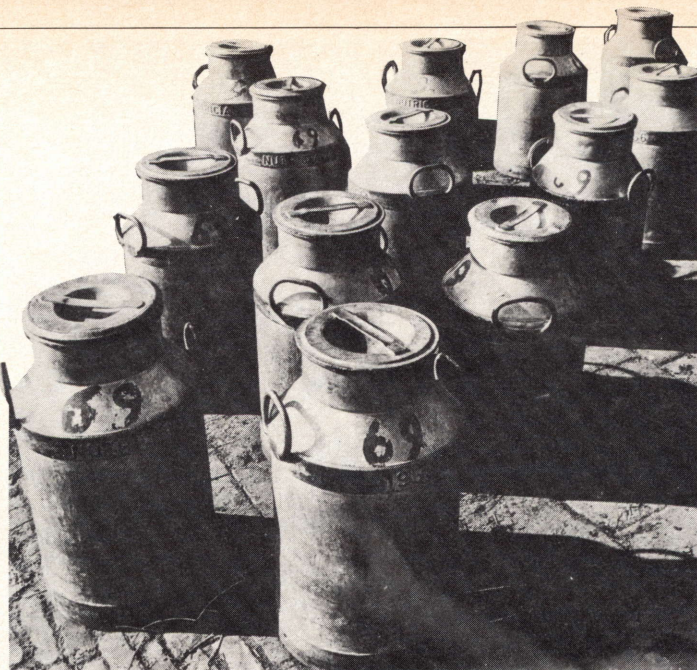
NEWS OF THE E.C.

E.C. UNDERTAKES FARM REFORM

Substantial reform of aspects of the Common Agricultural Policy (CAP) continues in the Community, as agreements were reached in late February on ways to reduce overproduction in the wine and milk sectors. In what was called by British Agriculture Minister Michael Jopling "another giant step toward bringing the CAP back to reality," a compromise was reached on implementing the milk-quota arrangement agreed in March 1984. Changes were made in the quota system which should remove some of the technical problems that hindered its application and go far toward implementing it on a more realistic basis. The reduction in milk output that has been achieved since last year is expected to continue.

As of September 1, 1985, new regulations on wine will permit the distillation of practically all table-wine surpluses and the grubbing up of up to 200,000 hectares of vineyards. These measures are expected to restore a better balance between supply and demand and help reduce Europe's "wine lake," now estimated at about 780 million gallons.

The agreements on milk and wine have removed a major obstacle to the setting of this year's guaranteed farm-product price levels, now under discussion by E.C. Agriculture Ministers. The European Parliament, following extensive discussions in its agriculture and budget committees, rejected in mid-March the Com-



mission's call for a virtual price freeze and voted instead for an average 3.5-percent increase in this year's farm prices.

E.C. Agriculture Ministers also agreed on March 13 on a new five-year program of grants to modernize the Community's poorest and most inefficient farmers. A financial ceiling of about \$3.6 billion has been placed on the program, in accord with rules drawn up last year on control of high farm spending. The limit is the first set for an individual farm spending program and was hailed as the first successful test of the new regulations.

E.C. SUPPORTS REGIONAL DEVELOPMENT CENTERS

The E.C. Commission is promoting the creation of a number of centers for encouraging enterprise and innovation throughout the Community. These centers, designed to furnish a complete range of services and support to new and innovative businesses with potential for increasing employment, will constitute an important instrument of both national and Community regional policy.

To promote synergy among the eight new centers and others of a similar nature, the Commission is supporting the

Business and Innovation Center Network, created last autumn in Brussels. This center will group together about 40 of the smaller centers, with the aim of increasing marketing and technology transfer possibilities. Its initial costs—about \$280,000—will be borne by the Commission.

Other regional development projects recently approved include construction of an information-technology training center and a biotechnology laboratory in Denmark, rehabilitation of an industrial site in Berlin, completion of the Messina-Palermo highway in Italy, construction of a motor-vehicle cable factory in France and the building of a word-processor equipment plant in Ireland. Other projects include improvement of the telecommunications network in Greece and improvement of highways elsewhere in the Community.



Highway improvement is a concern of E.C.-funded regional development centers.

E.C. COUNCIL AGREES ON BUDGET PLAN

The E.C.'s Council of Ministers agreed on March 21 on a plan to resolve the Community's most pressing financing problems, allowing the Commission to relaunch the budgetary procedure which had been blocked since last December by the European Parliament's rejection of the 1985 budget. The agreement enables the Community to continue its work in a normal way, said Commission Vice President Henning Christophersen, and clears the way for projects in agriculture, food aid, research and other areas which had been placed in jeopardy under the month-by-month budgetary regime in force so far this year.

The Council's agreement has three main points. First, supplementary budget needs for 1985 can be covered by an inter-governmental agreement on non-reimbursable advances by E.C. member states. Second, member states will increase their contributions to the E.C.'s "own resources" by

lifting the value-added tax (VAT) ceiling from 1 percent to 1.4 percent as of January 1, 1986, provided the enlargement of the Community to include Spain and Portugal is completed. Finally, the United Kingdom will receive its VAT rebate of 1 billion European Currency Units (about \$670 million) for 1984 as soon as ratification of the decision on "own resources" has been completed.

The Commission is now assisting the European Parliament and the Council of Ministers, the two branches of budgetary authority, to agree as quickly as possible on a budget for the current year.

E.C. AGREES TO PARTICIPATE IN NEW TRADE ROUND

The E.C. has agreed in principle to take part in a new round of international trade negotiations being promoted by the United States, but is concerned that a new round, unless carefully prepared, risks a failure that could damage the entire GATT system. "The Community considers that a new round would help promote world economic recovery and growth," noted E.C. Commissioner for External Relations Willy De Clercq in Washington recently. But it is essential, in the E.C.'s view, that as many contracting parties as possible participate and that a consensus be achieved in a number of important areas before the talks begin.

Successful negotiations depend, among other things, on the absence of any new protectionist measures in the months to come; concerted action to improve the functioning of the international monetary system in parallel with improvements in the trade area; the opening of Japanese import markets and a greater willingness from Tokyo to correct current trade imbalances; and the inclusion of counterfeits, trade in services, and the defense of intellectual property as topics for

consideration in the new round. While ready to discuss trade in agricultural goods, the Community will not allow the basic goals and mechanisms of the Common Agricultural Policy to be placed in question.

E.C. APPROVES NEW TEMPORARY AID TO STEEL INDUSTRY

A number of E.C. countries have been granted permission by the E.C. to increase temporarily subsidies to their steel industries, in line with Community guidelines established in 1980 under the "Davignon Plan." The plan, Europe's master strategy for modernizing and restructuring the troubled Community steel industry, calls for halting all government subsidies by the end of this year, by which time some 30 million tons of excess capacity should have been shed since 1980.

The E.C. Council of Ministers agreed in late March to an extension of the deadline for the payment of operating aids and accepted the principle of capacity cuts in return for new aid where necessary, as long as these cuts do not interfere with the overall restructuring plan. The December 31 deadline for an end to all subsidies, the Commission emphasized, remains fully in force.

The Council also adopted a declaration on the current talks on steel trade underway between the United States and the E.C. The Council registered its strong opposition to the possible imposition of unilateral protectionist measures which could, it cautioned, damage U.S.-E.C. relations.

E.C. AGREES ON CAR EMISSION STANDARDS

E.C. Environment Ministers resolved an 18-month dispute over automobile exhaust emission standards on March 21 by agreeing on the phased intro-



The E.C. Commission's plan to modernize the Community's steel industry still calls for a halt to government subsidies by the end of 1985.

duction of low-pollution cars—a decision hailed by E.C. Environment Commissioner Stanley Clinton Davis as one that "will bring a considerable reduction in atmospheric pollution that is causing such damage to our forests." Under the new program, tougher emission standards will be implemented by 1989 for large automobiles, by 1993 for medium-sized cars and by 1994 for the smallest cars, and lead-free gas will be made available throughout the Community by 1989.

In a move especially welcomed by the Federal Republic of Germany, which has spearheaded much of the progress toward tougher emission standards, the ministers also agreed that limited financial incentives by E.C. member states to encourage the purchase of low-pollution cars would be allowed. One key element of the agreement allows for both the introduction of catalytic converters, as are used in the United States to fight pollution, and for the development of "lean-burn" engines and other cost-effective pollution controls.

At an earlier meeting in March, the ministers adopted a directive providing for a system of environmental-impact assessment throughout the Community, a decision considered an important milestone in the development of E.C. environment policy. The ministers also met with U.S. environment officials in late February to discuss negotiations for a global convention on the pro-

tection of the ozone layer. They exchanged views on chemical pollutants, damage to the atmosphere, and the movement of toxic wastes within the E.C. The meeting also focused on environmental issues which will, for the first time, appear on the agenda of the Western economic summit this May in Bonn.

POPE TO VISIT E.C. COMMISSION

Pope John Paul II will make an historic first visit to the headquarters of the European Community in Brussels on May 20. The Pope will meet with E.C. Commission President Jacques Delors, European Parliament President Pierre Pflimlin, and E.C. Council of Ministers President Giulio Andreotti, as well as with members of the European Parliament and officials of E.C. member states.

Following the meetings, Pope John Paul II will deliver an address on Europe to several hundred European dignitaries. The address, which will be televised in Europe, also will be broadcast to the public over loudspeakers in the nearby esplanade.

BERLINERS TO GET BUTTER BONANZA

As part of an experiment seeking ways to increase the consumption of dairy products in the Community, the E.C. Commission has decided to offer Berlin shoppers two 250-gram

packs of butter for the price of one, for a 10-month period this spring. The object of the scheme, which consists basically of giving Berlin traders 900 tons of butter from E.C. stockpiles at an estimated cost of \$800,000, is to assess how effective similar bargain offers would be in helping reduce the E.C.'s butter mountain.

Butter stocks now amount to about 1 million tons, and they cost about \$1 million per day to store. An independent German research institute will report on the findings of the experiment by September 1, 1985.

E.C. FUNDS ENERGY SAVING PROJECTS

New conservation techniques, the development of petroleum substitutes and the use of renewable energy sources have been the focus of European efforts over the last several years to develop a more independent and energy-efficient economy. Since 1978, the E.C. has given financial backing to over 800 energy "demonstration projects" in a program that has played a key role in developing new technologies, and the Commission is now recommending that another 700 million European Currency Units (currently about \$500 million) be spent on similar schemes between now and 1990. To help disseminate information on the various projects, their results are being fed into a data bank known as "Sesame."

These and other measures now underway are expected to result in energy savings by the end of the century of roughly 300 million tons of oil-equivalent and to permit zero growth in energy use while maintaining normal economic expansion. Action is being taken on a number of fronts, including a resolution recently adopted by the Council of Ministers calling for a European policy on energy conservation in the building industry. This alone should save the equivalent of about 75 million tons of oil by 1995 by

fixing existing buildings and improving norms for new construction.

In an effort to ameliorate the effects of the fluctuating price of dollar-denominated oil, the Commission has also been holding talks with oil-producing countries and oil-market operators on promoting the use of the ECU as a reference currency for crude oil and oil-product transactions.

The Community also may hold talks with other industrialized countries on the 50 million tons per year of extra petroleum products expected to result from new refineries being built in Saudi Arabia, Kuwait and Libya. The E.C. feels that world markets ought to be able to absorb these smoothly, depending on the positions taken by the new exporting countries, the United States and Japan. The E.C. also believes there should be no need to contemplate tariff measures against exporters benefiting from the E.C.'s Generalized System of Preferences.

E.C. CALLS FOR V.A.T. EXEMPTION FOR WORKS OF ART

Tax authorities in E.C. countries are not generally regarded as patrons of the arts, and the charging of value-added tax (VAT) on original works of art, which makes it even more difficult for artists to sell their work in a time of economic recession, is a case in point. Currently only France and Denmark do not charge VAT on original works of art. Elsewhere the tax ranges from 5 percent in the Netherlands to 23 percent in Ireland. In Belgium, it is 6 percent, in the Federal Republic of Germany 7 percent, in Luxembourg 12 percent, in the United Kingdom 15 percent and in Italy 20 percent.

In November 1984, the E.C. Commission asked for a total VAT exemption for original art, including paintings, drawings, engravings, tapestries, sculpture, pottery and written

works such as music, literary works and theater. The proposals are currently under consideration.

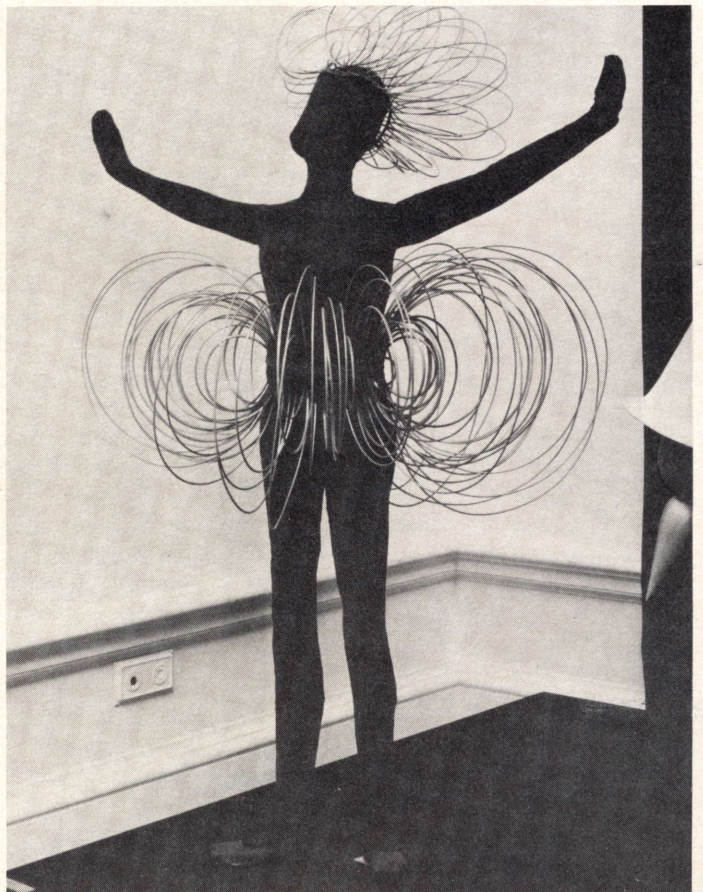
M.E.P.s CALL ON E.C. DIPLOMACY TO SAVE THE WHALE

Members of the European Parliament (MEPs) intend to ask the E.C. to exert diplomatic pressure on Japan, Norway and the Soviet Union to abide by an International Whaling Commission (IWC) decision to phase out commercial whaling by 1986. Both Dutch independent MEP Memmo Muntingh, who has drawn up a draft report for the Parliament's Environment Committee on objections from the three countries to the IWC action, and other MEPs say that without their agreement, the decision will become meaningless and whales will continue to be slaughtered.

The E.C. imposed a ban on all imports of whale products

into Europe in January 1982 in a bid to save the unique mammals from extinction. But a number of traditional whaling countries have persisted in hunting ever-declining numbers of whales, notably off Greenland, the Faroes and the Azores, arguing that the interests of fishermen and consumers come before conservation.

Europe's actions to save the whale should take the form of economic sanctions, or the threat of them, unless the three countries comply with the IWC ruling within the 1986 deadline, says Muntingh. Possible sanctions might include the introduction of E.C. measures comparable to U.S. legislation that bans fish imports and cuts fishing quotas of countries that defy the IWC ruling, he says. Pressure could also be exerted on Norway through the various fisheries agreements it has with the E.C. and on Japan through the extensive economic links and trade that it enjoys with the E.C. But there is little, Muntingh admits, that



To help artists sell their work, the Commission has called for a value-added tax exemption on original works of art. Above, Oskar Schlemmer's figure of the "triadisches Ballet."

the Community can do to influence the Soviet Union, apart from asking the member states to bring the subject up at bilateral talks.

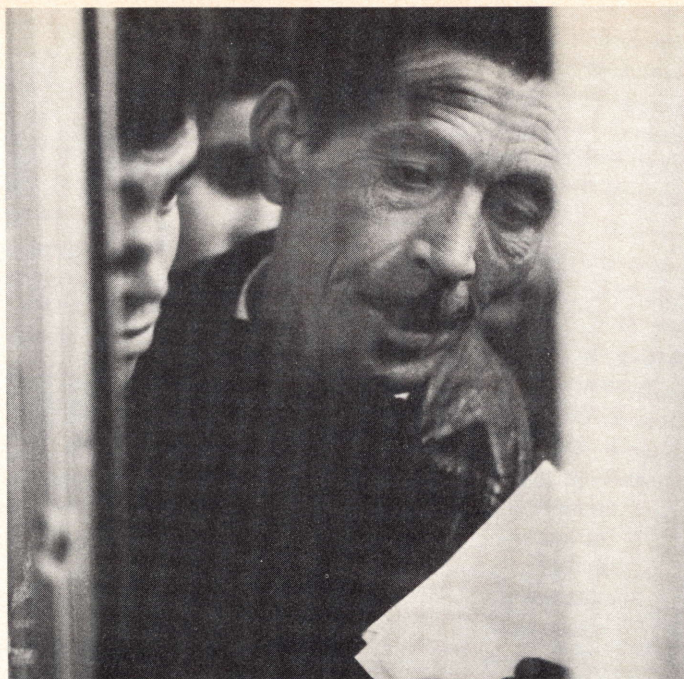
UNEMPLOYMENT IN E.C. RISES

Unemployment in E.C. member states (excluding Greece) rose to a record 13.6 million people, about 12 percent of the workforce, according to Eurostat, the E.C. statistical office. The recent sharp monthly increase of nearly 570,000 could not be attributed solely to the bad weather and followed several months of falling or stable levels of unemployment, Eurostat said.

The biggest monthly increase, 12.7 percent, was in the Federal Republic of Germany, followed by rises of 12.2 percent in Denmark, 6.9 percent in Luxembourg and 3.8 percent in the United Kingdom and Ireland. In Belgium, the number of jobless rose by 2.3 percent, in Italy by 2 percent, in France by 1.1 percent and in the Netherlands by 1 percent.

The number of unemployed people under 25 increased slightly from the 5 million recorded at the end of December, but as a proportion of the total number of jobless, their numbers fell to about 37.4 percent from 38.8 percent.

Overall unemployment is now running at about 18.1 percent of the workforce in Ireland, 15 percent in Belgium, 14.1 percent in the Netherlands, 13.7 percent in Italy, 12.6 percent in the United



The E.C. Commission has put forward several proposals to ease the racial discrimination which immigrant workers often face.

Kingdom, 11.2 percent in France, 11 percent in Denmark, 9.7 percent in the Federal Republic of Germany and 1.9 percent in Luxembourg, Eurostat said.

E.C. TRAINS EUROPEAN MANAGERS IN JAPAN

The E.C. Commission has announced its sixth Executive Training Program in Japan—a unique scheme to train young European managers to speak the language and improve their understanding of the Japanese market and business practices. The all-expenses-paid, 18-month program, which in-

cludes a year's language instruction and six months with a Japanese firm, was set up in 1979 and has already sent about 100 executives from a wide range of export-oriented firms to find out "how the Japanese tick."

Graduates of previous programs are now occupying important posts, spearheading their companies' export drives to Japan and other Far Eastern markets and using their knowledge of Japanese management techniques and contacts developed during their period of training. Applications for the new program, which will run from February 1986 to August 1987, will be accepted from employees of export-oriented firms eager to develop links with Japan. Approximately 40 places will be offered.

E.C. PLAN TO HELP MIGRANT WORKERS

The E.C. Commission announced in late February a number of proposals for improving the conditions of Europe's 12 million immigrant workers, who have faced increasing racial discrimination as a result of high unemployment and economic recession.

"One of our primary purposes," said Peter Sutherland, E.C. Commissioner for Social Affairs, "is to combat the overtly xenophobic, and indeed racist, reaction to the problem of immigration."

While efforts have been made in recent years by individual E.C. member states to stabilize and integrate their immigrant populations, no common policy has yet been fully developed, and some tendencies have emerged favoring limits to immigration and even voluntary return of immigrant workers to their countries of origin.

The new Commission recommendations, aimed at developing a more coordinated and broader approach to the problem, include granting political rights to immigrants who are citizens of member states; improving provisions for the free movement of workers; strengthening social security programs; reforming education for the children of immigrant workers; and strengthening consultation between member states and the Commission on national policies. Information campaigns directed at citizens of countries both sending and receiving immigrants should also be expanded, as a way of increasing understanding on both sides, said the Commission.

Concern about the situation of immigrant workers has also surfaced in the European Parliament, which has established an ad hoc committee to investigate the rise of racist and fascist activity in Europe.

EUROPEAN COURT RULES ON EQUAL TREATMENT FOR STUDENTS

An E.C. member state cannot subject students from other member states to requirements different from those to which it subjects its own nationals, according to the Court of Justice of the European Communities. The ruling, which applies to all students,



Unemployment in the E.C., still on the rise, now stands at 13.6 million people.

resulted from a recent case involving a French art student who wanted to study cartoon drawing at the Liège art college in Belgium.

When Françoise Gravier signed up for the course in 1982, the Belgian authorities asked for a special fee charged to all students who do not come from either Belgium or Luxembourg. She refused to pay on the grounds that, as an E.C. citizen, she was entitled to the same treatment as Belgians in the course.

The Belgian authorities refused to accept her argument, and Gravier was refused both an extension of her resident's permit and permission to re-register for courses the next year. She took her case to court in Liège, where it was referred to the Court of Justice. The Court asked for clarification on two issues: Did the ban on discrimination on grounds of nationality contained in the E.C. treaties extend to students studying in other member states? And did it apply to cartoonists?

The Court ruled in Gravier's favor on both counts. While welcoming the decision, E.C. officials note that numerous other obstacles to education still exist in the Community. Despite a decision in principle by ministers in 1980 to create a common education policy, no such policy yet exists, they say. But the E.C. Commission recently announced new proposals to improve student mobility, another step toward European unity.

E.C. LAUNCHES MAJOR PLAN FOR AFRICAN FAMINE RELIEF

The E.C. and its member states have launched a major emergency food aid plan for Africa that will provide about 1.45 million tons of food this year to combat the famine that is devastating large parts of the sub-Saharan area. The food aid, most of which is grain, is being provided at a cost of about \$400 million as part of

the "Dublin Plan" agreed to at last December's E.C. summit. The Community will supply about 820,000 tons of the grain from both emergency and normal aid funds, while individual member states will provide at least 625,000 additional tons. All the food aid is being deployed under expedited procedures, coordinated both through E.C. facilities and those of the United Nations.

The Community, which has been particularly sensitive to Africa's problems due to its current and historical links to the continent, has supported health and nutrition programs there for many years. "The Community did not wait until the African tragedy mobilized world opinion, nor until the full extent of the catastrophe was known, before taking large-scale emergency action," said E.C. Commissioner Lorenzo Natali recently.

Immediate emergency steps aside, the Commission believes that long-term solutions to Africa's food-security problem

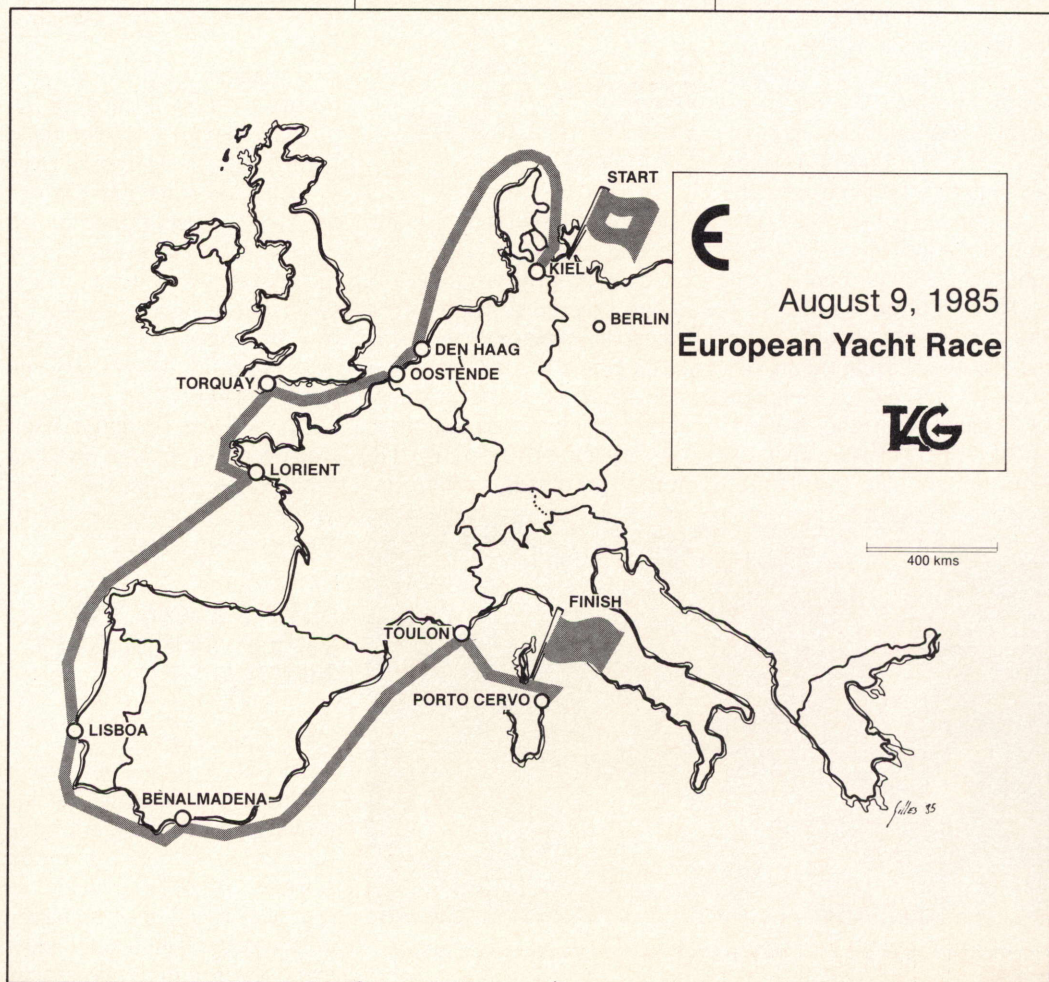
must be developed and implemented. The Community has begun to prepare yearly reports on the farm situation in drought-stricken areas, from which to prepare plans for any future emergency action, and it has begun to integrate its food-aid programs more closely into the agricultural programs of the recipient countries. A recent Commission report stressed the importance of such integration, and noted that short-term food-aid measures should not undermine longer-term agricultural planning.

EUROPEAN MULTIHULL YACHT RACE SET FOR AUGUST

Yacht racing fans have a major new event in the international program to look forward to this summer, as final plans are laid for the first European Yacht Race along the European

coast. The race will start on August 9 in Kiel, Germany, and will touch in at ports in the Netherlands, Belgium, the United Kingdom, France, Portugal and Spain, before finishing in Italy. A maximum of 36 multihulls, between 13 and 26 meters long, will be competing and at least three American and three Canadian entrants will join the race.

The European Yacht Race is one of the initiatives of the Committee on the People's Europe, set up last June at the Fontainebleau E.C. summit. It is, in fact, a distinctly "European" event: The race logo is based on the Community emblem and will be the only such marking on the European boats in the race. In addition, each of the nine ports of call will organize "Europe Days," several of the European crews will be multinational, and the prize money will be awarded in European Currency Units. Jacques Delors, President of the E.C. Commission, will fire the starting gun.



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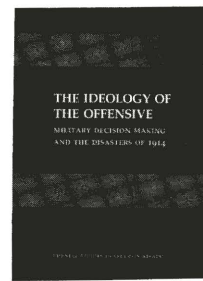
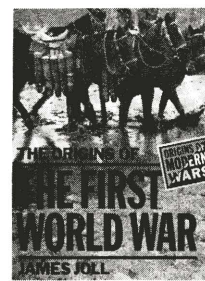
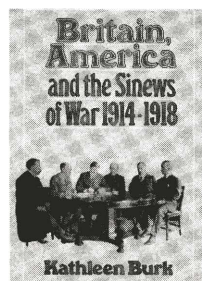
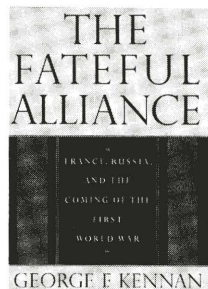
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BOOKS IN REVIEW



The Origins of the First World War. By James Joll. Longman, 288 pp. \$14.95.

The Fateful Alliance: France, Russia, and the Coming of the First World War. By George F. Kennan. Pantheon Books, 300 pp. \$17.95.

The Ideology of the Offensive: Military Decision Making and the Disasters of 1914. By Jack Snyder. Cornell University Press, 268 pp. \$35.00.

Woodrow Wilson and World War I. By Robert H. Ferrell. Harper & Row, 288 pp. \$17.95.

Britain, America and the Sinews of War, 1914-1918. By Kathleen Burk. George Allen & Unwin, 268 pp. \$29.95.

JAMES DAVID SPELLMAN

The outbreak of World War I in August 1914 is repeatedly mined to learn why wars erupt. Alliances then, some assert, caused provincial Balkan crises to escalate into a European conflagration, locking the Great Powers into a strategic timetable that inevitably led to war. Marxists contend that capitalism's innate drives—imperialism and insatiable quests for profits—generated international conflicts. Others probe the European social tableaux emerging in the early 20th century: a Social Darwinist *Weltanschauung* reigned, nationalist passions raged, febrile and unyielding, and the *anciens régimes* fell apart. All undermined Europe's internal stability. All pushed Europe's nations to the war's precipice.

In the *realpolitik* view, the anarchy of a Hobbesian international society means World War I is one in a ceaseless stream of wars nations pursue to guard their sovereignty. What governs nations' diplomacy are the calculations of power politics. Still others stress that World War I was the cataclysm of aberrations, miscalculations and errors in judgment made by governments.

Explaining World War I with a single thesis, though, only offers a monochromatic view, the illusion of sharply seeing events unfold: nations functioning in a vacuum, their motivations, rationales, ac-

tions and visions wrongly recounted as unique, precise, detached, immediate and of singular consequence. But "the tapestry of history has no point at which you can cut it and leave the design intelligible," as John Adams Dix wrote. History is the weave of many yarns. This poses another problem: How should various explanations be woven together into a coherent whole?

Drawing analogies between 1914 and today offers us insights into the ways that alliances, economic forces, social dynamics and international politics are influencing, for example, the course of U.S.-Soviet negotiations to control the nuclear arms race or the future of regional conflicts in Central America, the Middle East and Afghanistan. Combined, these books challenge, revise and confirm one's thoughts about what compels nations to resort to, become entangled in or avert war.

James Joll's book is a good starting point to understand the origins of World War I and the way this war illumines contemporary events. It is a panoramic survey, authoritative and balanced, of diplomatic history, adeptly distilled from the vast accumulation of literature of the era.

The shattering of one of the longest periods of peace (1871-1914) that Europe has known since the Roman Empire, in Joll's view, can be traced partly to the evolution of the "Concert of Europe" into a complex system of alliances that narrowed the Great Powers' flexibility. France and Russia forged bonds so France would not have to defend itself alone against Germany and so Russia could counter Germany's attack from two borders. Britain pledged to defend Belgium and, less clearly, France against a German invasion. Countering the Triple Entente were the mutual defense pacts among Germany, the Austro-Hungarian empire and Italy, forming the Triple Alliance. These ties arrayed the dominoes.

Other factors converged, in Joll's account, to increase the risks of war. Military staffs on both sides wielded tremendous influence, building acceptance for their strategies that a war could be won

swiftly with one massive, direct strike. And the "willingness to risk or to accept war as a solution to a whole range of problems, political, social, international" was pervasive. But Joll discounts arguments that rulers launched into World War I to quell internal conflicts and shore up their political support. Imperialism similarly offers a weak explanation, after Joll's probing analysis shows the bankers and merchants divided and sometimes uninfluential.

George Kennan's focus is narrower: the growth and demise of the Franco-Russian alliance. **The Fateful Alliance** is the second of a three-part series. In the first, *The Decline of Bismarck's European Order*, he examined why the secret bonds between Russia and Germany unraveled, clearing the way for Russia to navigate a new course with France. The third part will trace the alliance from its signing in 1894 to its collapse when Russia pulled out and signed a harsh settlement treaty with Germany at Brest-Litovsk. Kennan's implied purpose is to help us refract today's dealings with the Soviet Union through another era's prism.

The terms of the Franco-Russian alliance, Kennan writes, were critical in causing a Continental war to explore from irredentist struggles in the Balkans. This convention placed "largely in Russian hands . . . the power to unleash a major European war whenever this might suit Russian purposes—and this in undefined future situations then impossible to envisage. But even more fateful . . . were certain omissions." No objectives for fighting were laid out. No circumstances were listed which would trigger contingency plans into force.

In the chronicle of this entanglement, one sees how the impulses of nationalism interfere with a government's ability to define its security interests abroad. One sees the role that diplomatic errors, misperceptions, personalities and milieu all play in influencing a state's foreign affairs. Finally, one sees the "pitfalls that lie in wait for statesmen who try to look too far into the future and to meet distant and

imagined contingencies by the devices of military alliances."

As the architect of containment policy in his famous article signed "X," statesman and professor Kennan has wielded tremendous influence in the debate over U.S. policy toward the Soviet Union. The conclusions he has drawn from Franco-Russian relations resound in this debate. Kennan again has demonstrated his mastery at the art of the historical narrative.

The strategic decisions that guided France, Russia and Germany are examined by Jack Snyder's **The Ideology of the Offensive** to answer a central question: "Why did the military strategists of Europe's major industrial powers choose to defy the inexorable constraints of time, space and technology, which so heavily favored the defensive?" Underlying his inquiry is his theory that a nation's reliance on offensive strategies generates instability in the international system.

To answer this question, Snyder looks at the logic that decision makers used both to define their security aims and to assess their offensive capabilities against potential enemies. He considers the patterns of conflict among various branches making policy to determine the military's overall influence. Further, he analyzes how the need to simplify and make intelligible security assessments compels

states to stress offensive strategies.

France's *offensive outrance* was the least rational when compared to that of Germany and Russia. The need to coordinate with Russia was one of many disincentives that should have led France to adopt a defensive strategy. But the entrenched professional cadres, trying to protect themselves from becoming a mass of civilian conscripts, stressed the offensive. They maximized crises like the German army's buildup to amass public and government support behind their strategies. Germany's Schlieffen Plan reflected the General Staff's tremendous influence and its ideological biases that war was inevitable and would be a short, decisive one. Russia overcommitted its limited forces to a three-pronged offense against Germany and Austria-Hungary partly because the strategies oversimplified their planning, possessed by an "ingrained, institutionalized" mindset.

Robert H. Ferrell and Kathleen Burk both trace the United States' involvement in this conflict. Ferrell portrays America as naive, headstrong with its youthful bravado, deeply provincial, entrepreneurial and with the pulse of manifest destiny still strong. Woodrow Wilson emerges in a familiar role as being caught in what is an enduring paradox in American foreign policy—ambitions and en-

deavors as a world leader clash with the constraints imposed by the domestic polity and others, which lead the United States to parochial, neutralist and indeed aloof efforts. Ferrell ultimately blames him for "perversely insisting on losing the fight" for the League of Nations, thereby becoming the "Great Architect of World War II."

Kathleen Burk, in examining the economic aspects of Anglo-American relations, reaches some of the same conclusions. "Throughout, it is apparent that the American government was relatively unprepared, both morally and technically, to face the demands and temptations of a world power."

The nature and use of force has changed dramatically since World War I with nuclear-weapons proliferation and the emergence of the "Star Wars" defense system blurring and changing what defense and offense mean. But there are lessons to inform our attempts to forge nuclear arms control pacts and security arrangements that all of the books offer. What the authors leave unresolved is a primeval debate in history—whether fate or man's entrepreneurship holds sway over us. €

James David Spellman is a free lance writer based in Washington, D.C.

RECENT BOOKS

Europe periodically lists books dealing with Community and Atlantic topics. Prices are also given when known. This presentation does not indicate approval or recommendations of these publications, which can be purchased or ordered from most booksellers.

The European Energy Challenge: East and West. By George W. Hoffman. Duke University Press, Durham, 1985. 207 pp. \$34.75.

Beginning with a discussion of the energy problems suffered by Europe in the wake of the oil shocks of 1973/74 and 1979, this book studies current energy trends and options available to Europe in the 1980s and beyond. Reviews the relative importance of renewable energy sources, hydrocarbons, coal, and nuclear energy as alternative sources of energy. Considers the effects of policies and programs for energy conservation and improved efficiency. Statistical appendices.

Commerce and Industry in the Netherlands, 11th edition. Amsterdam-Rotterdam Bank N.V., Amsterdam, 1984. 65 pp., paper.

A brief economic profile of the Netherlands prepared for parties interested in either import/export trade or establishing a business in the Netherlands. Contains sections on transport and trade, imports and exports, industry, labor and labor relations, banking and finance, insurance, taxes, holding and finance companies and facilities and regulations for investments.

The European Community and

EFTA in the 1980's: What Trade and Industrial Strategy for Western Europe in an Increasingly Hostile Economic Environment? By Robert Taylor et al. European Research Associates, Brussels, 1984. 206 pp.

Pointing to perceived shortcomings in the free trade agreements between the E.C. and the European Free Trade Association (EFTA), suggests strategies to consolidate the West European market beyond free trade in industrial goods. Also proposes the development of a West European industrial potential capable of competing with the United States and Japan. Analyzes issues affecting the adaptation of E.C.-EFTA cooperation to the demands of the technological revolution, including, harmonization of technical standards, elimination of non-tariff trade barriers, industrial policy coordination, competition policy, state aids and cooperation in technological research.

Economic Summits and Western Decision-Making. Edited by Cesare Merlini. St. Martin's Press, New York, 1984. 212 pp. \$25.95.

A series of papers emanating from a project to study developments in the first seven (1975-1982) annual Western economic summit conferences. Common themes in the collection of essays include

tangible results produced by the summits, the effectiveness of the summitry approach in dealing with Western interdependence and the role of the European participants (including the E.C.) in the annual summit conferences.

Banking and Finance in West Germany. Edited by Hans-Hermann Francke and Michael Hudson. St. Martin's Press, New York, 1984. 168 pp. \$25.00.

An overview of the banking and financial system in the Federal Republic of Germany, this book contains chapters on the system's historical development, the Deutsche Bundesbank, credit institutions, financial markets, instruments of monetary policy and monetary targets in Germany. Concludes with an analysis of prospects for future developments in German finance and banking.

Trade Liberalization Among Major World Trading Areas. By John Whalley. MIT Press, Cambridge, 1985. 311 pp. \$30.00.

Describes and uses a numerical general-equilibrium model of world trade to explore issues of trade liberalization among the E.C., the United States, Japan and the developing countries. The Tokyo Round trade agreement and its tariff-cutting formulas, incentives for a retaliatory trade-protection war between world trade blocks and the impact of protectionist policies on North-South trade are all considered.

Trade in Services: A Case for Open

Markets. By Jonathan David Aronson and Peter F. Cowhey. American Enterprise Institute, Washington, D.C., 1984. 46 pp. \$3.95, paper.

Arguing in support of liberalizing international trade in services, this paper investigates the United States' national interest in trade in services, the feasibility of negotiating general rules for the services trade under the General Agreement on Tariffs and Trade and the political guidelines that should govern service negotiations.

The European Community: Past, Present & Future. Edited by Loukas Tsoukalis. Basil Blackwell, Oxford, 1984. 244 pp. \$12.95, paper.

A collection of papers delivered at a March 1982 conference celebrating the 20th anniversary of the "Journal of Common Market Studies." Topics addressed include the compatibility between the nation-state and the E.C., the role of popular participation in European integration, the problems of integrating mixed economies, the role of the E.C. as a world power and its defense dimension and the relationship of the E.C. with Africa and the Middle East.

Portugal in Development: Emigration, Industrialization, the European Community. By Thomas C. Bruneau et al. University of Ottawa Press, Ottawa, 1984. 254 pp., paper.

A series of papers focusing on the themes of emigration, industrialization and the E.C. as critical elements in the development of contemporary Portugal.

Among the subjects treated are regional distribution of Portuguese emigration, including case studies of emigration to France, the United States and the E.C. Portuguese economic policy in the 1930s and its detrimental modern-day consequences, economic reintegration of returning Portuguese immigrants, structural problem's of Portugal's pending entry into the E.C. and the role of foreign direct investment in Portuguese industrialization are also discussed.

Politics and Change in Spain. Edited by Thomas D. Lancaster and Gary Prevost. Praeger, New York, 1984. 238 pp. \$31.95.

A volume of papers probing Spain's transition to democracy following former Spanish dictator Francisco Franco's death. Studies the formulation of the 1978 constitution, the Spanish economy, the Catholic Church, Spanish public policy and financial power, ethnic fragmentation and Spain's foreign policy within the context of the country's three major political influences, namely, the military, business and labor.

Report of the World Food Programme/Government of the Netherlands Seminar on Food Aid. World Food Programme, Rome, 1983. 209 pp., paper.

Proceedings of a seminar held October 3-5, 1983, in The Hague. Papers presented for discussion addressed the following topics: development through food aid, development impact and effectiveness of food aid, the right to food and the contributions of food aid to equitable growth.

Third World Instability: Central America as a European-American Issue. *Europe/America* 3. Edited by Andrew J. Pierre. Council on Foreign Relations, New York, 1985. \$5.95, paper.

With contributions from Fernando Moran, Irving Kristol, Michael Barnes, Alois Mertes, and Daniel Oduber, this volume examines differing approaches in Europe and the United States to political instability in the Third World, using Central America as a case study. Discusses the extent to which the situation should be viewed in an East-West versus a North-South context, the question of whether the Europeans should defer to the United States or assert their priorities in the region and the degree to which U.S. policy in Central America will affect its credibility in alliance engagements elsewhere.

CSCE Decision-Making: The Madrid Experience. By J. Sizoo and R. Th. Jurrjens. Martinus Nijhoff, The Hague, 1984. 348 pp.

Using the Madrid Conference on Security and Cooperation in Europe (1980-83) as a case study, this book constitutes an investigation into international conference diplomacy. Describes the course and results of the meeting and studies the objectives and ideals of the 35 participating states.

The Common Agricultural Policy: Past, Present and Future. By Brian E. Hill. Methuen Inc., New York, 1984. 168 pp. \$25.00 cloth, \$11.95, paper.

Provides an introduction to the history

of agriculture in Western Europe, states the case for government intervention and analyzes the E.C.'s Common Agricultural Policy (CAP) as it currently operates. The author concludes that the CAP's costs fall heavily on the poorer consumers, render food prices artificially high and forces surpluses to be sold at a loss on the world markets. The proposals for reform of the CAP and the prospects for their adoption are examined.

The Common Fisheries Policy of the European Community. By Mark Wise. Methuen Inc., New York, 1984. 316 pp. \$33.00 cloth, \$14.95 paper.

Examines the development of the E.C.'s Common Fisheries Policy from its origins in the 1960s to its reform in the 1980s. In addition to chronicling the process leading to the 1983 revised Common Fisheries Policy, the study profiles the fishing industries of both E.C. and non-E.C. members in Western Europe, explores control of European fisheries prior to the Common Fisheries Policy and examines the role of fisheries in the E.C.'s first enlargement negotiations. Includes tables, maps, and figures.

West-German Politics in the Mid-Eighties: Crisis and Continuity. Edited by H.G. Peter Wallach and George K. Romoser. Praeger Publishers, New York, 1985. 276 pp. \$34.95.

A volume of scholarly works focusing on aspects of contemporary politics in the Federal Republic of Germany. Includes papers concentrating on various political parties: the Christian Union Parties, the Social Democratic Party, the Free Democrats and the Greens. German public opinion and the effects of international politics on the country's 1983 election are also topics studied.

European Security and France. By François de Rose. University of Illinois Press, Champaign, 1985. 143 pp. \$19.95.

In this book author François de Rose, former French ambassador to the North Atlantic Treaty Organization (NATO), argues that the preservation of European security dictates greater cooperation among the Western allies, especially between France and members of NATO. Calling for a greater European reliance on conventional weapons and increased European unity to assume that responsibility, implicitly develops a conceptual framework within which to reconcile France's pursuit of an independent defense policy.

The Reduction of Working Time. By Rolande Cuvillier. International Labour Office, Washington, D.C., 1984. \$14.25, paper.

Concentrates on the economic and social effects of a potential reduction in working time in the industrialized, market-economy countries. Looks at the possible consequences of the following measures to reduce working time: reduction in normal and maximum working time (including overtime), extension of paid annual leave and lowering of the retirement age.

Policies and Politics in Western Europe. Edited by F.F. Ridley. Croom-Helm Ltd., Kent, 1984. 221 pp. \$25.00.

Examines the effect of recession on policy making and content in five countries: the United Kingdom, France, the

Federal Republic of Germany, Italy and Sweden. Identifying particular problems in each country, uses comparative analysis to demonstrate how each government's policy-making processes have responded to inflation, unemployment and economic stagnation.

Car Pricing in Europe. By Krish Bhaskar. University of East Anglia, Motor Industry Research Unit, East Anglia, U.K., 1984. 171 pp., paper.

A discussion of the effects of the E.C.'s plan to harmonize car prices in Europe in its draft regulation on certain categories of motor vehicle distribution and servicing agreements. In addition to examining the legislation and its financial implications, contains sections on the economic importance of the European car industry and the origins of car-price disparities in Europe.

Mixed Agreements. Edited by David O'Keefe and Henry G. Schermers. Kluwer, Hingham, MA, 1983. 248 pp. \$42.00, paper.

Contributions to a December 1982 colloquium sponsored by the Leiden Europa Institute. Essays probe the complexities of mixed agreements, i.e. accords in which the E.C. participates together with some or all of its member states. Negotiations, liability, participation clauses, and adherence and withdrawal are among the elements discussed.

Yearbook of the European Communities and of the Other European Organizations 1985. Editions Delta, Brussels, 1985. 408 pp. BF 1800.

A detailed reference guide to the structure, activities and personnel of the E.C. and 22 other European organizations. Also includes a listing of institutes of European studies and the names and addresses for the diplomatic missions accredited to the E.C. Text in English, French and German.

Toward European Economic Recovery in the 1980's: Report to the European Parliament. The Washington Papers/109. By Michel Albert and James Ball. Georgetown Center for Strategic and International Studies, Washington, D.C., 1984. \$7.95, paper.

Originally prepared as a report to the European Parliament, this study makes a detailed analysis of economic and related political issues that prevailed in the 1970s to culminate in economic stagnation in Europe in the 1980s. Outlines a plan for economic recovery that entails new strategies for industry and research, energy and regional policy and employment.

A Singular Stance: Irish Neutrality in the 1980's. By Patrick Keatinge. Institute of Public Administration, Dublin, 1984. 162 pp. £4.95, paper.

A case study in Irish neutrality. Traces the theme of neutrality in Irish political history and compares Ireland's nonaligned nature to that of other neutral West European nations. Examines Irish neutrality vis à vis the pressures of Anglo-Irish relations, Ireland's strategic value, the United Nations, the E.C. and bilateral links with the United States and the Soviet Union.

Distribution, Effective Demand and

International Economic Relations. Edited by J.A. Kregel. St. Martin's Press, New York, 1984. 209 pp. \$30.00.

A compilation of essays which examines the short- and long-term effects of government intervention in the economy. Discusses the relationship between Keynes' theory of effective demand and the long-term framework of Marx and the classical economists. Focuses on the importance of raw materials and international monetary arrangements both in theory and in policy implementation.

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THE HALF-TRUTHS OF 'EUROPESSIMISM'

Everyone's down on Europe these days. The fashion is to regard Europe as slowly becoming an economic backwater to Asia, too torpid to pioneer new technologies and too burdened by rigid government to generate much economic growth. There's just enough truth to these sweeping generalizations to make us forget that they're only half-truths. We need to focus on the full truths, because our future is very much bound up with Europe's.

Europe remains, after the United States, the world's greatest concentration of wealth. In Northern Europe, living standards still exceed Japan's and, as a whole, the European Community produces about twice as much as Japan. Europe's economic sluggishness is important—and worrisome—precisely because Europe looms so large in the world economy. A healthy global recovery is difficult if Europe's economy remains sickly.

Our stake in this is huge. Ever since the 1940s, the core idea of American foreign policy has been political alliance with Europe and Japan based on common prosperity. The concept has survived the economic stresses of the past decade, but not with flying colors. Economic problems make governments introverted, and economic nationalism is now rampant. Would another severe global recession cripple our overseas alliances?

The risks are clear. And, unfortunately, the current recovery is dangerously lopsided. Not only is Europe's growth meager, but Japan's depends heavily on exports. If the American expansion falters—and sooner or later it will—the world could slip back into a deep slump. Developing countries might default on their overseas debts, Japan could face massive protectionism, and Europe's unemployment, now about 11 percent, could worsen.

Stronger European economic growth, then, is vital, and at first glance seems within easy reach. Aside from high unemployment, European factory utilization was only about 80 percent last year. That's 5 to 7 percentage points below levels reached in past boom periods. And

yet, the Organization for Economic Cooperation and Development (OECD) forecasts growth of only 2.5 percent in 1985—not enough to reduce unemployment.

What's wrong? Two basic explanations are given for Europe's sluggishness. The first blames the strong dollar. High U.S. interest rates, it's argued, keep European interest rates high. The Europeans face an impossible choice: If they don't keep their rates high, their currencies will depreciate more and raise inflation; but high interest rates smother economic growth.

The reasoning goes as follows. International investors constantly decide whether to put their funds in dollar securities such as Treasury bills or securities of other currencies, say, German marks. Thus, to prevent investors switching into dollars, European governments have to maintain competitive interest rates. Not doing so would aggravate inflation, because many of Europe's imports (such as oil) are paid for in dollars. When European currencies fall against the dollar, import prices increase; between 1980 and 1984, the rising dollar increased Europe's price for oil about 60 percent, even though the dollar price dropped.

The other explanation for Europe's sluggishness is the welfare state. European efforts to guarantee well-paying jobs are said to frustrate job creation. Wages are too high, job security provisions too strict. Firms don't hire new workers because the costs are too great. The difficulty of dismissing workers in a downturn discourages the formation of companies. Investors fear becoming permanently locked into uneconomical labor costs. Finally, Europe's generous welfare system and unemployment benefits relax pressure on workers to accept lower-wage jobs.

The result, it's argued, is an inflexible economy that discourages employment growth. To offset high labor costs and restore profits, managements substitute machinery for people. Even between 1973 and 1980, Europe's jobless rate doubled from 3 percent to 6 percent. Generous welfare benefits then raise government spending, which impedes growth by increasing taxes and budget deficits. In most of Western Europe, government spending averages between 40 percent and 50 percent of total output.

Both arguments are probably correct, but they may exaggerate Europe's weakness. "Europessimism" is now in such vogue that it's easy to forget that, only a few years ago, Europe was the envy of

many American commentators. It was said to have achieved a better balance between social justice and economic growth. Today's pessimism may be as distorted as yesterday's envy. Many basic ingredients of good growth—skilled workers, technological competence and modern management—have not suddenly vanished.

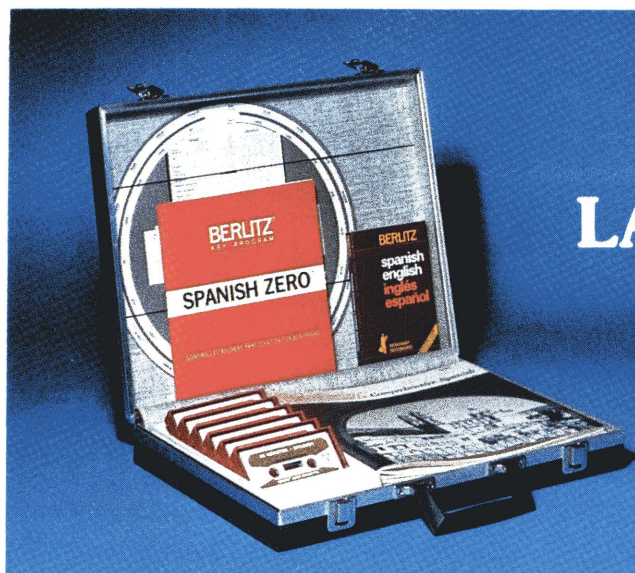
So higher growth is possible, if not preordained. A fall in the dollar could accelerate growth and make it easier for European governments to reduce existing economic rigidities. Growth then might feed on itself. According to Jean-Claude Paye, the new secretary general of the OECD, most governments recognize the problems. Already, some social spending has been trimmed, and wage increases have abated. But major changes are difficult while unemployment is rising. In December, for example, French workers rejected a plan to spur new companies by making layoffs easier.

No one, of course, can predict the dollar's future, but it has risen so high that a decline of perhaps 10 percent to 25 percent within six months does not seem implausible. Although the drop ultimately would hurt European exports, the initial economic impact would be positive. European governments would have more room to relax interest rates, and inflation would decline because dollar imports would cost less. Lower inflation would boost demand by raising workers' purchasing power and companies' profits.

Just possibly, then, Europe's growth potential may be underestimated. The United States could help. Our interest rates are kept unnecessarily high by government deficits and a tax system that subsidizes borrowing. Tackling these problems would aid the Europeans directly and, by force of example, might spur them to take difficult political decisions.

But what we should not do, as historian John Harper of Johns Hopkins University argues, is preach to the Europeans. The Reagan Administration's lectures about the virtues of free-market ideology are useless and offensive. Most European leaders know the problems. But their dilemma is that, although an expensive welfare state may hinder economic growth, it has made high levels of unemployment socially and politically tolerable. America can best help Europe out of this trap by deeds, not sermons. ☺

Robert J. Samuelson is an economic columnist for *Newsweek*, *The Washington Post* and other newspapers. This article is reprinted from the March 13 *Washington Post*.



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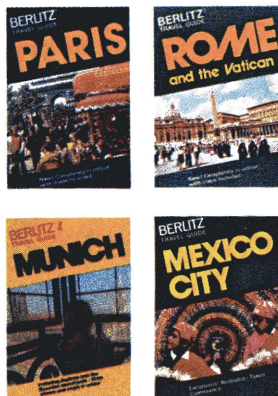
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