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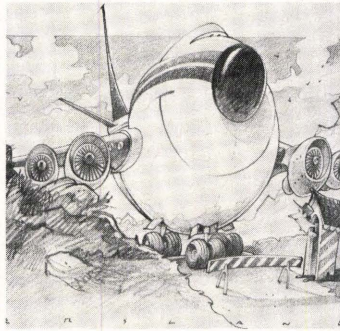
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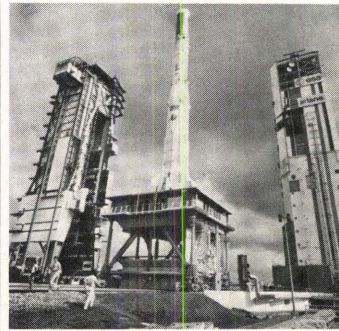
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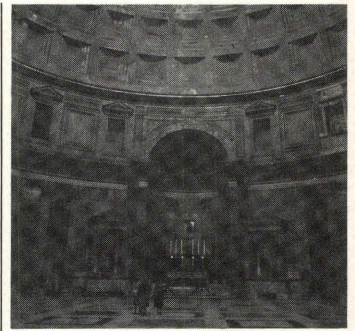
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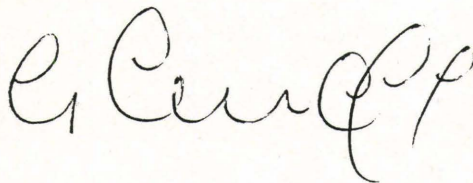
# PUBLISHER'S LETTER

**I**s Europe—or, more precisely, that collection of diverse and sometimes fractious countries known as the European Community—moving to a more assertive role on the world stage? And is the United States, Europe's great postwar partner, redefining its own mantle of leadership? Or, to combine the two questions, is a fundamental shift underway in how the trans-Atlantic relationship is managed, a shift that puts new, weighty and challenging responsibilities onto European shoulders?

The answer to all these questions is a qualified yes. And, interestingly, the shift toward a more assertive European role has been due in large part to the increasing interdependence between the United States and the Community. No longer can any Western country set its own trade, fiscal or monetary policies without being affected by what its partners are doing. And as the importance of European economic policies to the United States has grown, so has the obligation of the Europeans to act responsibly: i.e., to do what they believe is best to promote broad growth and stability in the global economy.

Not surprisingly, this has led to disputes, some of them rather severe, over policy choices and long-range goals. They will no doubt continue, these growing pains, as the Atlantic relationship matures. But the dance continues, and the music of interdependence plays on.

We take a look at some of the key issues facing the Alliance in this issue. In particular, Stephen Wrage of Georgetown University examines some of the changes going on as Europe tests its defense wings, David Dickson writes from Paris on the new move to make Europe autonomous in space by the end of the century, and Daniel Kasper, formerly with the Civil Aviation Board, looks at how U.S. and European aviation policies will affect each other—and the globalization of the world airline industry.





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# AROUND THE CAPITALS

## MADRID

### Strikes Against ETA

Whether or not the back of the Spanish Basque guerilla organization, ETA, has been broken, as some officials in the Spanish Government are suggesting, remains uncertain. However, no Spaniard doubts that the massive police arrests in southwest France in September and October constituted one of the most severe blows ever against the organization. In addition, the arrests implied a qualitative change in French attitudes toward ETA terrorism, and made it clear that the French Basque country adjoining the Pyrenees may no longer be considered sanctuary by the guerillas. ETA has used the area as a hiding place for almost the entire 30 years that the organization has been in existence.

When the French police crackdown started in the second half of September, two leading Basque terrorists—Santiago Arrospeide Sarasola, known as “Potros,” and José Ignacio Picadea—were arrested. On October 7, two more suspected members of the military wing of the Basque separatist movement were captured, one responsible for ETA’s propaganda and the other for the organization’s explosives. In the raid, French police rounded up 150 Basques in the region, of whom 50 were expelled to Spain and about a dozen to Algeria. The rest

were released.

After this, the arrests began in Spain. From documents found by French police during their raids, Spanish police were able to arrest about 55 ETA suspects and also learned the names of about 200 Spaniards in senior positions who were on ETA’s hit lists. The discovery of the documents further led to the identification of three Basques who were setting up a new terrorist cell in Madrid. Much of ETA’s “infrastructure,” such as flats used for hiding and arms caches, was also discovered.

Despite the success of the crackdown, Spanish reaction to the French operation was at first mixed. While welcoming it, Spanish officials said they would have preferred the information on Arrospeide’s arrest to have been kept a secret from the media for slightly longer, since that would have given them more time to round up more of the most dangerous members of ETA in France as well as the members of the new terrorist cell in Madrid. As it was, many of those arrested were allegedly “second-ranking” members of ETA—not the terrorists themselves. Another complaint of Spanish officials and of Spain’s opposition parties—with the exception of the Basque parties—was that they would have been happier had Arrospeide been sent to Spain immediately rather than taken to Paris with Picadea and charged by a magistrate specializing in terrorist cases. The Spanish Government has wasted no time putting in a



Since September, police have captured many members of the Basque guerilla organization ETA. Above, a Basque campaign poster from the 1986 regional election.

request for Arrospeide’s extradition to make sure that he cannot escape again if the French charges are not sufficient to keep him in prison.

Nevertheless, the operation represented an important step forward in co-operation between the two countries against ETA, which began in 1984 when the Governments of both nations were Socialist. At that time, the French began to accept the Spanish position that while Basque guerilla action during the French dictatorship in Spain had meant one thing, it meant quite another with a democracy in Spain. The French Government, as a first sign of agreement with the Spanish view, expelled three ETA suspects, an act that broke a long tradition of offering asylum to Basque guerillas that had begun during the Franco regime. Prior to this increase in cooperation,

the French had never expelled Basques in such large numbers before the crackdown last September. The latest expulsions brought the total to 147 since 1984. Ninety of these Basques are now in prison out of a total of 435 ETA prisoners in Spain. The change of attitude of the French Government was due to two reasons. First, a French policeman was allegedly killed by Basques over the summer in a southern French town. Second, there was a crucial meeting between French President François Mitterrand and Spanish Prime Minister Felipe González late in August, immediately after which the González Government announced for the first time that it had held talks with ETA, was continuing to do so and would go on holding talks with the organization in the future. The Spanish Government made it clear that it was not closing the door on



negotiations with ETA, even though these negotiations could only be about a cease-fire and not about other matters, such as an amnesty for ETA prisoners or reforms in the Basque region. However, ETA's reply was equally clear: Its rejection of the Spanish Government's stand was underscored by a fresh round of terrorist attacks including bombs in Barcelona and Santander, followed by the French police moving in.—JANE MONAHAN

## LISBON

### Booming Tourism

The Portuguese tourist industry is booming and, according to all estimates, will have had a record year in 1987. The global receipts of the foreign sector may go up to \$1.6 billion and the number of foreign visitors is expected to reach 15 million—roughly 50 percent of the total population of the country itself! The Algarve region in southern Portugal alone accounts for more than 50 percent of these figures.

In recent years, British and Spanish tourists in particular have come to Portugal in large numbers, representing in 1986 some 80 percent of all foreign visitors. This trend is expected to continue in future years, when authorities estimate that 15 million of the total 17.5 million tourists to Portugal will come either from Britain or Spain.

Reasons for the Spanish "invasion" are fairly straightforward. As Portugal's only neighbor, Spaniards benefit from relatively low transportation costs, shorter distances and less traveling time. (The cost of a short trip from Madrid to one of the main Portuguese cities, for example, is lower than going to Barcelona, northwestern Spain or southern France.) The generally lower prices in Portugal are an added advantage for Spaniards to come and indulge in shopping sprees to purchase everything

from tourist items to the more expensive consumer products across the border. The Portuguese Travel Agents' Association estimates that, in 1986, one Spaniard in five came to visit his western neighbor for an average stay of about 4 days. During Easter Week alone, some 550,000 Spaniards came to Portugal, a 120-percent increase compared to the same period in 1985.

The British are quite different. They usually come for a longer vacation, are in search of sunny beaches, good food, golf courses and tennis courts, quality hotels or tourist "villages" and apartments, rejecting the cheaper alternatives such as camping. As a result, more than 60 percent of all Portuguese tourist income is labeled in sterling, representing between \$500 million to \$1 billion a year.

The high dependency of Portuguese tourism on the British market is one of the most important concerns for Portugal. Although it is hoped that the French, the Dutch and the Germans will steadily increase their presence in Portugal in the near future, British tourists are expected to further reinforce their own share, with 12-percent annual growth forecast over the next three years. This increase, as well as the money

spent by them on the Portuguese tourist facilities, increases their importance as a major tourist-income group for Portugal. As a consequence, the Portuguese market has been seriously affected in recent years by the price war among British operators, which has led to incredibly low rates.

"We do not want our tourist industry to be a sale item," says Licinio Cunha, Secretary of State for Tourism. "This is a matter of competition among British operators, but the only way we can handle the problem is by improving quality and by diversifying our market promotion." Cunha compares the situation to the port market of the 18th century, "when England was allowed to control production and trading, keeping all profits of the operation. We do not want our tourism to end up like that. We want it to be a 21st-century industry in our own country."

Everybody agrees that quality must be the key element for such a change and it is, indeed, the basic guideline of the National Tourism Plan now underway to improve Portugal's image as an attractive tourist destination with a sophisticated tourist industry. New investment—both domestic and foreign—will certainly be part

of the answer and things seem to move favorably in that area. Essential, too, however, is the improvement of the country's basic infrastructure, an efficient water supply and a well equipped health system, all of which are vital elements in a smoothly running tourist operation.—JOSÉ AMARAL

## BONN

### The Power Of The Press

Week after week, the revelations of the so-called "Waterkantgate" scandal by the national news magazine *Der Spiegel* have become the center of passionate public debate in West Germany. This country has seen many political scandals, but none has done as much damage to the image of the political system as the one in the state of Schleswig-Holstein, where the conservative Christian Democratic Party (CDU) has had an unbroken monopoly for the last 37 years. The unearthing by *Spiegel* of an electioneering scandal led to the mysterious death of the state's Prime Minister Uwe Barschel in a bathtub in Geneva.

On September 12, the eve of the state elections in Schleswig-Holstein, the magazine splashed 43-year-old Prime Minister Uwe Barschel on its cover, accusing him of engaging in a "dirty-tricks" campaign against his opponent Björn Engholm, the Social Democratic leader. *Spiegel's* chief witness, Reiner Pfeiffer, was none other than Barschel's campaign press aide. He squealed to *Spiegel* that his boss had directed him to hire a detective to spy on Engholm's private life and to send an anonymous letter to the tax authorities, charging Engholm with tax fraud. Barschel dismissed these charges as a "pack of lies" and the CDU party leader and Finance Minister in Bonn, Gerhard Stoltenberg, denounced the magazine as "a periodical of the leftist combat press." Both politicians

According to all estimates, 1987 has been a record year for Portugal's tourist industry. Below: the Rossio Square in Lisbon.



COURTESY PORTUGUESE NATIONAL TOURIST OFFICE



blamed the report for the heavy losses incurred by the CDU in the state elections.

Nobody can say for sure how much effect *Spiegel's* revelation had on voters. Although the magazine did not hit the newsstands until one day after the elections, advance copies were made available to radio and television networks, which gave the story prominent coverage on election day. *Spiegel* continued to publish more details about the "dirty-tricks" campaign and, after two weeks of drama and suspense, Barschel was forced to resign as Schleswig-Holstein's Prime Minister. And after a parliamentary investigation committee was set up and when further details emerged, the Conservative party asked Barschel even to resign his position as member of Schleswig-Holstein's state parliament.

Then the bombshell struck. Uwe Barschel was found dead by two reporters of the weekly magazine *Stern* in the bathtub of his hotel room in Geneva. The circumstances of his death—he was found fully dressed in a tub filled with water—turned Germans into amateur detectives. The German press, unable to get any hard news, created its own evidence including, incredibly, a clairvoyant "talk" with the dead Barschel. Even Barschel's family does not accept the Swiss autopsy finding that Barschel died of an overdose of sleeping pills and tranquilizers, insists that he was the victim of some insidious plot and was murdered.

The soul-searching that resulted from Barschel's death concerns not only the state of the country's "political culture," but also the role of the press. Ulrich Wilckens, the Protestant Bishop of Holstein-Lübeck, warned against the blending of state power and political interests and also against the obsession to maintain power at any price, and then took the press to task. "Journalists are not only bound to tell the truth," he said, "Tact and firmness are equally imperative." He pointed out

that the power of the press also had limits, and objected particularly to the marketing of pictures of the dead Uwe Barschel in his bathtub. The *Stern* reporter shot the pictures before even informing authorities that he had found a body in the tub.

For *Spiegel*, the Barschel affair came propitiously in its 40th jubilee year. Since its very inception, the magazine has courted controversy, which is both its strength and weak-

ness. Investigative reporting remains a rarity, *Spiegel* also has many admirers. For Sebastian Haffner, writer and journalist, the news weekly fulfills a vital function in West German democracy.

However press analysts rate the publication, they are all agreed on one point: the magazine is publisher Rudolf Augstein's life and love, and he wields absolute power, aiming to have political influence both by exposing scandals and by

which has close ties to the trade unions, to lose its absolute majority in the Hamburg state elections. While the magazine is not tied to any political party, Augstein is himself a long-time member of the Liberal party, on whose ticket he was elected in 1972 to parliament but soon abandoned his political career.

Today widely feared in government and political circles, *Spiegel* is the only West German publication to have brought down a government. In 1962, a heavy-handed attempt by the then Defense Minister Franz-Josef Strauss to shut down the magazine following a leak of secret defense reports, led to a political scandal in which the government resigned and Strauss was forced out of office. The magazine was allowed to be published again, and the myth of *Der Spiegel* was born.

*Der Spiegel* is now the indisputable organ of the "unspeakable" in the Federal Republic of Germany, an institution that publishes news, documents and information that would otherwise never see the light of day. Anyone wanting to turn information into money offers his story to the monthly *Stern* or to the daily *Bild*. But someone wanting money—and also political repercussions—offers it to *Spiegel*. The magazine stings everybody and anybody. Moreover, its editorial policy of using informants like Reiner Pfeiffer, a sometime journalist with a checkered past, is rooted in the *Spiegel's* economic independence. There is no outside money in the magazine. Its circulation is 930,000 readers, and its annual revenue about 330 million marks (roughly \$170 million). Publisher Rudolf Augstein proudly calls his successful brainchild a "storm cannon of democracy." But poet and critic Hans Magnus Enzensberger sees it differently. "That we need a magazine like *Der Spiegel* does not speak for the magazine," he muses. "It speaks against [West German] press in its entirety, against the conditions of our society. It speaks, in a



The weekly news magazine *Der Spiegel* can be considered the "indisputable organ of the unspeakable" in German politics, having uncovered several of the scandals in German politics.

ness. First appearing in 1947, *Der Spiegel* (translated, it means "The Mirror") slipped into the cover of a news magazine *Diese Woche*, which the British occupation authorities had launched but were obliged to close down because it was too critical of Allied policies. Several decades later, *Der Spiegel* still sets the agenda for discussing the undiscussable. True, the magazine's aggressive—and often smug—style of muckraking has been criticized for being destructive and for falling wide of the mark. But in a country where

directly attempting to sway political opinion. The magazine's critical approach, or rather what is considered critical by German readers, has earned both publication and publisher success, power and periodic charges of being "leftist."

Nevertheless, all attempts to associate *Der Spiegel* with any particular conviction have so far failed. The magazine has no consistent political position and, indeed, its revelations of financial mismanagement by the "Neue Heimat," a trade union building society, caused the Social Democratic Party,



word, against us.”—WANDA MENKE-GLÜCKERT

**W**ellington Long, a regular contributor to *Europe* for many years, died in Bonn on November 5 after a long fight with cancer. Wellington Long's articles from Bonn always were informative and brought particular life to the many facets of German politics, culture and society he covered so well—all this with a sense of humor very much his own. Even during the last months of his life, his spirits were always high, his outlook on life positive and cheerful. We deeply regret the loss of such a respected journalist.

## DUBLIN

### Saving A Seminary

Ireland's oldest Catholic seminary and reputedly the world's largest, St. Patrick's College, Maynooth, is in financial trouble and an appeal to the Irish people at home and abroad to raise \$15 million has been launched. The college's 200th anniversary will be celebrated in 1995 and organizers are hoping that its financial situation can be made sound again by that date.

Maynooth, as the seminary is universally known, dominates a village of that name 15 miles from Dublin on the main road to the west of the country. The soaring spire of its collegiate chapel and the twin quadrangles enclosed by 18th- and 19th-century buildings were seen as a symbol of the resurgence of an Irish Catholicism that survived centuries of persecution under the infamous Penal Laws. About 10,000 priests have been trained there, not just to serve in Ireland but also in India, China, Africa and even North America.

Maynooth also has become a short-hand term for the power of the Hierarchy of bishops who meet there three times yearly and who are nearly all former students of Maynooth. Before Irish independence from Britain in 1922, the Hi-

erarchy fought public battles with the British authorities over control of education, the appointment of bishops and the excesses by the military forces.

After 1922, the thunder of Maynooth was directed toward respectful native Governments that were firmly encouraged to ensure the observance of Catholic moral principles in matters such as contraception, divorce, book and film censorship and social legislation. Since the Second Vatican Council, Catholic triumphalism, which reached a peak in the Ireland of the 1940s and 1950s, has greatly diminished. Nevertheless, there still are occasional flashes of Maynooth power as shown in the recent referendum on abortion and divorce, matters in which the Hierarchy's views easily prevailed. There also is evident a growing anticlericalism that has always existed in a subdued form but is getting less inhibited among younger people.

In previous national appeals to help Maynooth—which included the dark days of the 1847 Famine—there was a generous response from a largely rural population where money was scarce: Maynooth was an inspiring symbol for a Catholic Ireland that was struggling to get off its knees, and many farming and small business families dreamed of having a son go to Maynooth, just as in other countries the

ambition was for entry into military academies.

Maynooth today has no longer the same symbolic appeal. Catholicism is so firmly established as virtually the national religion—95 percent of the Irish population is Catholic—that there has been an inevitable reaction against its dominance in education and hospitals. The ever-present problems of Northern Ireland, with its sectarian conflicts, also have induced an unease among the southern population about the consequence of allowing a Catholic “ethos” to become so strongly entrenched.

Another factor is that in 1966, the Hierarchy took the rather daring decision to open Maynooth to lay students, male and female. Since 1910, Maynooth's philosophy, arts and science faculties have been recognized as a college of the National University of Ireland, but only seminarians took Bachelor of Arts or Sciences degrees. Today, only about 400 of the 2,200 students are students for the priesthood. The university part of Maynooth qualifies for the same large state grants as other higher-education establishments and is thus supported by the Irish taxpayer. The fundraisers try to explain that the money that is urgently needed now is for the renovation of the seminary buildings in which the clerical students have their quarters. State aid for this purpose is forbidden under the Constitution, which, although often seen as “sectarian or confessional,” in fact prohibits the state from endowments to any religion.

Ironically, Maynooth was originally created and endowed by a Protestant-dominated Irish parliament in 1795, and, until 1869, fairly generously financed by successive British Parliaments. There was a political motive behind such support, namely the hope that in return for official funding, the clergy would wean their rebellion-prone flock from resistance to British rule. This turned out to be a vain hope.—  
JOE CARROLL

## LONDON

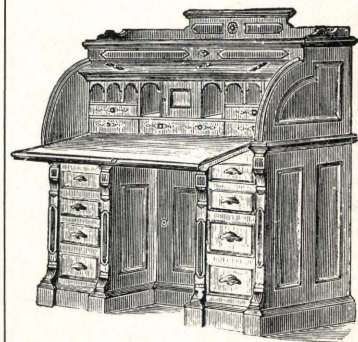
### Company Buyouts

**T**he \$1-billion buyout of England's MFI furniture company by its management in October set a new British and European record for staff buying the companies they work for, and showed again that “where America goes, Europe will follow.”

Ten years ago, the idea of a company's management getting together to raise the money to buy their firm from the owners was rare, even in the United States. In Britain, management buyouts began in a small way only five years ago, but finally became big business in 1987. Nowadays, photographs of groups of smiling managers are appearing regularly in British newspapers as more and more executive groups succeed in raising the capital to take over their own companies threatened with closure or asset stripping. The picture of the beaming MFI chairman Derek Hunt marked one of the most recent and by far the largest of these deals. The \$1 billion that he and his colleagues had managed to raise to buy the troubled furniture company set a new benchmark, but one that is expected to be surpassed soon.

In the United States, buyout schemes began in earnest in the mid-1970s, and by now huge deals are becoming commonplace, with the \$6.2-billion buyout of the Beatrice food and consumer manufacturer in 1986 hailed as the deal of the decade.

Development of the buyout movement in Britain was ham-





pered by legal barriers that prevented business from using their own assets to fund their purchases. However, pressure for change grew in the late 1970s, as the harsh economic climate forced more and more companies and plants to close. "Managers were faced with the simple choice," recalls dealmaker Robert Smith, the 43-year-old head of Charterhouse Development Capital. "They could buy their businesses from their employers or be put out of a job. It was a question of survival."

By 1981, the rules had been eased and leveraged buyout became possible. This meant that the intending purchaser could offer the assets and future cashflow of the company as collateral for the loan needed for the purchase, which enabled the buyout business to move into high gear.

The total value of management buyouts in Britain has now risen from \$175 million in 1981 to more than \$3.6 billion for just the first nine months of 1987. Since the laws were eased, the number of deals has been exceeding 200 each year, with the value of the transactions increasing from an average of less than \$1 million each in 1981 to an average of \$8 million in 1987—not including such mega-buyouts as the \$1-billion MFI deal. This growth reflects the high success rate of such transactions. The *Financial Times* notes that "starting out as a means of disposing of poorly performing subsidiaries—which often were sold at a discount to net asset value—the deals now usually involve successful but ill-fitting operations."

When it comes to buying such prospects, the management teams have the edge in some important aspects. They know the business, they are the natural choice if the owner or parent company wants a quick deal, and they can threaten to walk out if another bidder wins. Furthermore, experience has shown that most management teams perform extremely well after they have bought their independence.

Once they have improved the company's performance they usually float it on the stock exchange within two or three years, thus restoring the balance sheet to reasonable shape. This could mean huge rewards for the 350 executives at MFI who each invested between \$300 and \$130,000 for shares in the company. Their total investment of just under \$1 million could be worth as much as \$80 million if they can get the profits moving forward and can bring the company to the stock market in three years' time.

Just as Britain followed the U.S. lead, the rest of Europe—where such deals are still virtually unknown—is expected to be the next area for the expansion of the buyout philosophy and specialists believe that pan-European deals will become increasingly common over the next few years.—DAVID LENNON

## PARIS

### The Folies At 100

This year marks the centennial for a piece of Paris that is less photographed than the Eiffel Tower and perhaps less visited than the Louvre Museum. But after 100 years, the Folies Bergère is the best-known landmarks of France, often representing the soul of Paris for tourists.

Although the Folies opened more than 100 years ago, in 1868, with circus acts, singing and magic tricks, the elaborate *revues* featuring daring female performers that made it the first and the most famous music hall in Paris, began just a century ago. The women performers—*les showgirls*—have always been the dominant attraction of the Folies Bergère, which became the world's first cabaret to feature naked ladies in 1912. The heyday of the music hall was during the 1920s and 1930s, when it became renowned for Miss Bluebell's troupe of "Bluebell Girls" who adorned the elabo-

rate sets of the Folies' stage. At 75, Miss Bluebell still lives in Paris and has fond memories of that time, her marriage to the conductor of the Folies' orchestra and her work with the young performers who went on to make redoubtable reputations. "The glamor, the glitter,

star Fernandel. The Russian classical ballerina, Anna Pavlova, did a short stint at the Folies, and Mata Hari, the sensuous spy later convicted of treason, was once a Folies performer.

Most famous of all, perhaps, was Josephine Baker, the half-

# FOLIES-BERGÈRE



there was nothing like the 1930s at the Folies Bergère," says Miss Bluebell. "It was sensational."

The number of famous personalities and performers that either made their debut there or appeared on its stage, is long. A 14-year-old Charlie Chaplin started out there—doing a buffoon act that was a prelude to his famous little man with bowler, cane and duck walk—as did French movie

Jewish, half-Negro American who burst onto the stage of the Folies Bergère in the 1920s and later formed her *Revue Nègre*. Even today, there are oldtimers backstage who remember her and her famous "banana skirt," a costume that was her own invention: One day, when her costume had not arrived in time for rehearsals, she took some bananas from her dressing room and knotted them onto a men's necktie as a





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Elaborate shows, featuring daring female dancers, made the Folies Bergère the most famous music hall. It was the first cabaret to feature naked women and gave a start to the careers of many famous people, including Charlie Chaplin, Anna Pavlova and Mata Hari.

Josephine Baker was one of the most famous performers of the Folies in the 1920s and 1930s, known for her *Revue Nègre* and her outrageous banana-skirt costume.

joke, thus creating one of the most famous costumes in music-hall history.

The longevity of Folies associates has contributed to the great respect for tradition: The costume and set designer has been there for 50 years; Paul Derval directed the theater from 1918 until he died in 1966; and the great Art Déco artist Erté designed the Folies' posters through much of its history. The present director, Hélène Martini, says her goal is to retain that traditional and Parisian flavor without letting the show become anachronistic. The result is a rejuvenated Folies Bergère in its centennial year, with topless girls dropping out of the ceiling, sequin-encrusted girls mincing around the stage, and men who are almost as bare as the women forming a significant part of the show. At the same time, there is still the *can-can*, and the real traditional French music hall still makes its home at the Folies Bergère.—BRIGID JANSSEN

## AMSTERDAM

### Warming Oceans

In early November, Dutch Minister of Transport and Public Works, Neelie Smit-Kroes, and Genady Golubev, assistant executive director of the United Nations' Environment Program (UNEP), signed a "Memorandum of Understanding" in the Delft Hydraulics Laboratory, stating that the Netherlands will play a leading role in a research project designed to help master the problems posed to modern society by the unprecedented global rise of temperatures.

Pier Vellinga, deputy director of Delft Hydraulics, said there was now clear evidence that human activities, such as use of the aerosol, were affecting the climate on a global scale, and that, due to a rising concentration of carbon dioxide and certain gases in the atmosphere, global warming should be anticipated. Of all the

potential impacts of this human-induced climatic change, a rise in the sea level appears to be the most dramatic and worrying phenomenon, especially when considering that half of humanity lives in the low-lying coastal regions. On the basis of observed changes since the beginning of this century, is it estimated that the expected rise in global temperatures of between 1.5°C to 4.5°C would lead to a sea-level rise of 0.2 meters to 1.4 meters in the next 100 years. The greatest evidence of this change are thermal expansion of the oceans, the retreat of mountain glaciers and melting ice caps. Verringa pointed out that even if all carbon dioxide emissions were to be stopped now, this process, once started, would nevertheless still continue for decades to come.

The consequence of rising sea levels will be the erosion of beaches, loss of farmland and flooding, as well as problems with water management systems. A reasonable target to try to halt this phenomenon would be to limit human-induced rates of sea level rise to an amount comparable to the present measured rate of about 12 centimeters per century on average. This could be attained by lowering emissions of carbon dioxide by 2 percent a year coupled with a reduction in emissions of other trace gases.

British scientist Alexander King, former president of IFIAS, was the first to foresee the problem by examining the consequences of radical technological development, and has pointed out that efforts to rectify the impending problem must be a systematic part of government policy, and Golubev noted that it had become an urgent international task to meet these drastic changes. For, what would be the impact of sea-level rises on estuaries and deltas, on their ecosystems and on social and economic activities? To what extent would intrusion of salt water into deltas affect availability of fresh water and the impact of sea level rises on flooding of arable land? He



cited countries like Bangladesh, Egypt and the Caribbean, who are strongly affected by these factors, and asked what would happen if the phenomenon of such a climate change—unprecedented in modern history—became common?

Golubev said that the memorandum will help to usher in an era of closer cooperation between the Dutch Government and UNEP, pointing out that the experience and technology gathered by the Netherlands over the centuries in their fight against the sea will be invaluable not only to countries not as experienced in the matters, but also to UNEP's program.

The Netherlands itself has plans for prevention already at hand. Smit-Kroes said that since great hydraulic projects were the Dutch insurance policy against disaster, plans were underway to draw up an integrated coastal policy by 1990 that would take climatic developments into account. She went on to say that her Ministry was already closely monitoring the effects of climate change and that the Royal Netherlands Meteorological Institute was conducting extensive research. The draft Flood Protection Act, to be presented before the Dutch Parliament, requires that the degree of safety already achieved shall be maintained with the help of quinquennial climatic assessments on which appropriate action can be based.—NEL SLIS

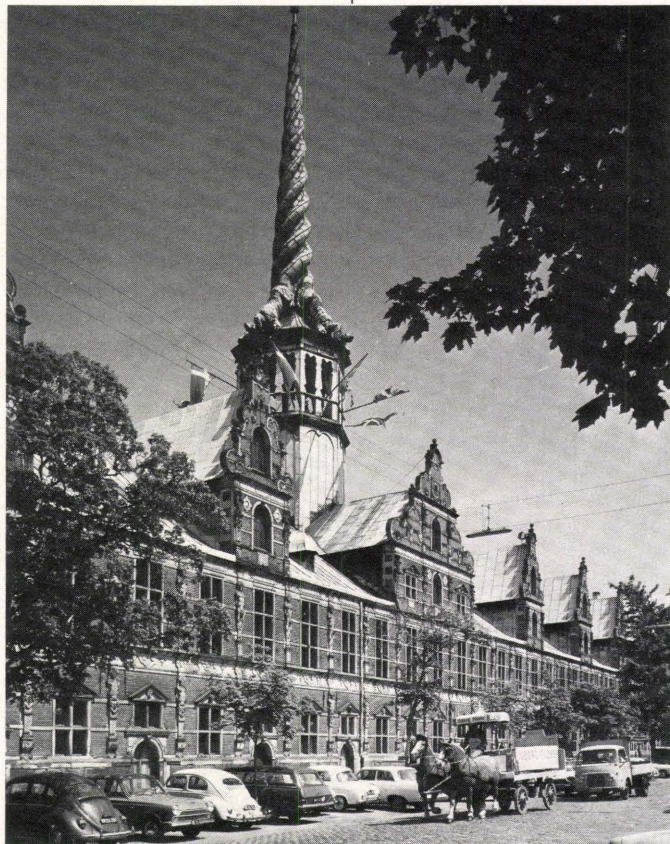
## COPENHAGEN

### Market Fall Is Slight

**A**lthough the Danish stock market did not escape the "Crash of '87" in October, the Danish bears were much less fierce than their U.S. counterparts. This was due partly to the fact that Danish stocks never reached Wall Street heights, partly because Danish stocks are not traded internationally to the same extent as most other European stocks, and because

there was no futures and options market to accelerate the market gyrations.

Most participants in the financial markets fear, however, that one of the most remarkable trends in Danish postwar history, the sharp rise in popular ownership of shares in the last five years, will now be reversed. Before the Crash almost one-third of all Danes owned stock, one of the high-



The Danish stock exchange, which did not escape the "Crash of '87," nevertheless did not experience the same fall in prices as other exchanges around the world.

est proportions in the world. This compares with the early 1980s, when less than one Dane in 10 owned stocks.

Studies show that stock ownership is a little higher than average among Danes voting right of center and a little lower than average among Danes to the left of center, though the differences are not enormous. Denmark's largest political party, the Social Democratic Party, is exactly on the average level, a fact that may be of crucial political importance if and when the party returns to power. Many expect this may happen next year.

Much of the rise in popular interest in owning stocks is at-

tributed to the five-year bull market, even though the Danish market was only a real bull market for three years, and Danes switched to international stocks to hitch a further ride. But the Social Democratic Party initiated legislation that made capital gains on stocks tax free if they had been owned for at least three years.

Financial legislation in Denmark has been extremely lib-

lifted somewhat, but is still very restrictive compared to freedoms allowed pension funds globally, and especially in the United States. Danes have feared that the unions might use their pension funds to dominate Danish business, but the restrictions have definitely siphoned off an important demand element in the stock market. Some economists believe that this is an important explanation of the more moderate price rises on the Danish stock market.

Certainly, buyers will be more welcome than sellers in the Danish market in the coming months. And both pension fund managers and more thoughtful private investors find solace in the fact that stocks have outperformed other investments historically, even accounting for the 1987 Crash. No consolation for those who had to sell, but a potent argument for those hoping that not all small investors will run for cover.—LEIF BECK FALLESEN

## ATHENS

### Amazing Trees

**T**en years ago, George Kallistratos, a researcher from Ioannina University in northern Greece, used to drive past the dry stone walls of the city's Turkish castle on his way to work and wonder how a full-size cypress tree was able to sprout from the battlements and grow to maturity. Today, he has developed an inexpensive and successful method of raising trees in the arid climates of sub-Saharan Africa.

Kallistratos, head of the university's experimental physiology department, worked from the idea that sufficient amounts of humidity and nutrients were the only indispensable elements for growing trees. If both were contained in a suitably sized bag, he reasoned, a tree could flourish on balconies and rooftops—or in deserts.

Planted in the carparks

COURTESY ROYAL DANISH EMBASSY



around his laboratory in an Ottoman-era hospital in Ioannina were several dozen flourishing peach, pear, plum, walnut and almond trees that all sported the green plastic frill around their bases. Elsewhere in the surrounding district of Eprius, Kallistratos has successfully planted olive trees, which are not usually found in such mountainous areas, vines, and even a giant Redwood tree, all in the heavy-duty plastic bags. The bags contain a special



tree-soil mixture that includes fertilizers, trace elements, insecticides and, most importantly, absorbants that can retain up to 500 times their own volume of water. They are perforated so that the seedling's roots grow out and stabilize the tree in the surrounding soil.

In Mediterranean climates, the result is a productive orchard for part-time farmers. The bagged trees need watering only once every three months and save considerably on fertilizer costs, yet still produce a top-quality crop. In hot, dry regions, on the other hand, this method of planting can prove to be a life saver: the trees produce food, shade and ground cover that can ward off starvation in times of drought and eventually make localized alterations in the climate.

Thus, Kallistratos' experiments with seedlings grown in 50-liter plastic bags have now expanded into an ambitious tree-planting program in the Cape Verde Islands and six Af-

rican countries—Djibouti, Ethiopia, Sudan, Chad, Mali and Senegal. Eventually, he hopes, a green belt of reforestation will stretch across the African continent. In his first experiments in the barren Cape Verde Islands off western Africa, he found that fruit trees grown with his method—which he calls “Kallidendron”—needed only 20 liters of water once a month, compared with up to 1,200 liters of water monthly under ordinary growing conditions. At the same time, only 5 percent of a normal fertilizer ration was necessary since it was retained inside the plastic bag.

The method can also halt desertification since only a few square centimeters of soil around the tree base are left exposed to evaporation. With traditional irrigation systems, at least one square meter of ground remains exposed around each tree and up to 80 percent of the moisture from a single watering is likely to evaporate immediately, leaving a salt layer around the tree. With successive waterings, the salt layer thickens until eventually the tree dies and the soil becomes too salty for cultivation.

Kallistratos hopes to demonstrate that fairly extensive plantations of several varieties of fruit trees would meet all nutritional requirements in famine-prone areas of Africa (a combination of just nuts, dates and avocados could cover emergency needs, for example) while their leaves could provide fodder for animals raised to supply protein.

With a carefully calibrated combination of nutrients, the method has maintained an 80-percent success rate for a wide variety of both local and imported species of trees. Islanders on Cape Verde welcomed the reduced workload and in Ethiopia, experiments with a horizontal variation of the method produced vegetable crops grown successfully in desert surroundings from seedlings in a soil-absorbant mixture sandwiched between plastic sheets.—KERIN HOPE

## BRUSSELS

### Mighty Little Village

**T**he issue that has brought a small cluster of villages, Les Fourons, to the forefront of Belgian politics once again has managed to bring down the national Government. The question of whether a man cannot or will not speak Dutch in a bilingual country seems of marginal interest. But when the man is José Happart, the elected mayor of a small group of French-speaking villages in a Dutch-speaking province, the issue assumes national importance. There will be a general election in Belgium on December 13 as a direct result of Happart's obstinacy.

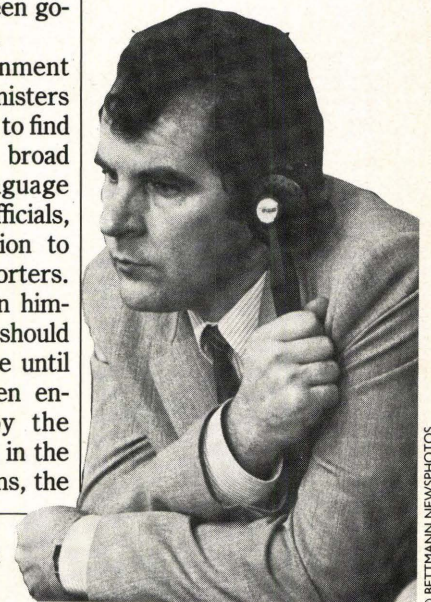
There are about six villages in Les Fourons with a total population of 4,500 people. They all speak French, but by some fluke of geography they fall within the Dutch-speaking Belgian province of Limburg. Limburg's rules say that all elected officials should be able to speak Dutch. Mayor Happart is a militant Francophone, however, and has refused to utter a single word in Dutch (although, according to reports, he came in first in his class at school for that language). As a result, Happart was stripped of his authority by the Limburg officials, but his villagers subsequently re-elected him. This has been going on for several years.

The Belgian Government summoned all senior Ministers in October in an attempt to find a solution. There was broad agreement on the language rules to be applied by officials, marking a big concession to Happart and his supporters. But what about the man himself? A proposal that he should be suspended from office until the new laws have been enacted was rejected by the French-speaking parties in the coalition. Wilfred Martens, the

Prime Minister, declared that the situation was irreconcilable and asked King Baudouin to dissolve the Parliament.

Martens is a masterful politician who has already headed six Belgian Governments and is widely expected to head his seventh. But whether this will come about through elections or by clever political in-trading between the parties is still unclear. Even more uncertain is how Happart and his grievances will be dealt with. A cynical political commentator has observed that “Les Fourons has been with us for five years now and we have managed to survive it, so perhaps we could expect another five years of muddling through.”

What the latest crisis tells outside observers is how acutely the Government of Belgium rests on maintaining a balance between the different linguistic cultures. Both the French-speaking and Dutch-speaking arms of the Government recognize the same economic disciplines that need to be applied to restore the growth of the late 1970s and early 1980s. In many cases, these involve unpopular decisions—such as the cut-back in spending on education and public transport. While the parties in the center-right coalition are more or less agreed on this, it only takes a pin-prick, like the affair of Les Fourons, to re-awaken longstanding hostilities.—ALAN OSBORN



**Francophone Mayor José Happart's refusal to speak Dutch has forced early elections in Belgium.**

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## LUXEMBOURG

# A Second E.C. Capital?

Europe's "alternative capital," the city of Luxembourg, is hanging in there and anyone expecting different is under-estimating the determination of the Luxembourgers. The issue of the E.C.'s rightful capital arose again in October because that was one of the three months of the year—along with April and June—when all meetings of the decision-making E.C. Council of Ministers were switched from Brussels to Luxembourg. It makes life a little more expensive and inconvenient for all concerned, but given the way the routine was set up—and clad in thick Treaty-of-Rome iron 30 years ago—the prospects for change are remote. Even if there were to be change, who is to say that it would not be in Luxembourg's favor? "We have just as

much right to demand more meetings of the Council as Brussels does," said one of the Grand Duchy's Members of the European Parliament. This is legally correct and no doubt the main reason why Brussels is cautious about pressing its claim for E.C. capital status.

Besides being the seat of the Council for three months of the year, Luxembourg is also the home of the European Court of Justice, the Court of Auditors, the European Investment Bank and a number of services of the E.C. Commission, including statistics, translation and computers. Until 1979, it was also the joint seat, with the French city of Strasbourg, of the European Parliament. The Euro-MPs took their own decision to discard Luxembourg as a working place, though this was merely an "operational" move and does not affect the city's legal rights, as its lawyers are consistently pointing out.

What Luxembourg does retain, and guards with considerable tenacity, is the Parliament's Secretariat, a body of

some 2,000 European officials who make the Parliament work. Strasbourg would love to have them and so would Brussels, though the latter is a little more circumspect in its wooing. "We've been fighting a battle with Strasbourg for more than 10 years over the seat of the Parliament, and it certainly isn't lost yet," says a Luxembourg Government official, "but the main threat is still Brussels."

The threat is taking physical shape in the form of a massive office complex being constructed in Brussels for the European Parliament that appears to include an Assembly Chamber. Most of the Parliament's committee work takes place in Brussels and virtually all of the main political groups in the assembly have made that city their headquarters. The Luxembourgers seek, and get, constant reassurance from the Belgian Government that there is no bid underway to grab the Parliament, but these do not quite end the broad sense of unease about the

development.

The best bet for Luxembourg now, in the opinion of many both inside and outside of the country, might be to give up the fight to retain the Parliament and to concentrate on cornering the E.C.'s financial institutions. The logic of the E.C.'s move toward economic and monetary integration is that sooner or later there will be a single central bank for the Community. By virtue of both its banking expertise and its legal and financial structures, Luxembourg is well placed to seize the role.

A Luxembourg Euro-MP sees his country as becoming "the center of law and finance for the Community," something that is "neither illusionary nor unimportant," he says. Like many, he believes that this is Luxembourg's surest way of maintaining its role as the Community's "alternative capital."—ALAN OSBORN €

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The E.C.'s Council of Ministers meets three times a year in Luxembourg instead of Brussels. The city also is home to the European Parliament's Secretariat, housed in this new building.



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# E.C. CONFIRMS BAN ON HORMONE USE IN ANIMAL FEED

## IMPLEMENTATION IS DELAYED ONE YEAR TO DEFUSE TRADE BATTLE WITH U.S.

JACQUES VONTHRON

The European Community, through its Council of Ministers, has confirmed a ban, beginning January 1, 1988, on the use of hormones in animals (beef and sheep) destined for human consumption. This is nothing new, merely reiteration of a decision taken two years ago in December 1985. Nevertheless, to allow for a transition period, the E.C. also decided not to apply the ban on meat imports—which applies to trade among the 12 E.C. member states as well as to third countries such as the United States—until January 1, 1989. This breathing period of 12 months will allow everyone affected—producers, consumers and exporters from third countries—to adapt to these new health standards, which are of great importance to both consumers and producers in the Community.

These chemical substances, administered to animals for their hormonal effect, have never been popular with the public... and with good reason. There were a number of accidents in several E.C. countries during the early 1980s involving infants who had eaten foods prepared using "treated" meat. Public opinion, supported by the European Parliament, pushed the Council of Ministers toward its historic decision: banning these products for anything other than therapy, the use for which they were originally conceived.

Thus, the E.C. has chosen the "risk-free" route. No scientist worthy of the name has been able to explain the metabolic mechanisms set in motion by the use of hormones. This is why, to those who defend the use of hormones in animal feed by saying "prove that hormones are dangerous to human health," the E.C. answers "prove that they are safe." Accidents have happened, for example in the

Jacques Vonthron is agricultural attaché at the E.C. Commission's Delegation in Washington, D.C.

United States. From 1950 to 1979, a hormone called diethylstilbestrol (DES) was used freely. It took 30 years before tests proved that DES was carcinogenic and its use was banned.

The E.C. can produce the quantities necessary to feed its populations; it also wants to ensure the quality. The new rules are not discriminatory (as the United States claims) since they apply to all producers in the E.C. as well as third countries.

The E.C. and Washington have been arguing about the hormone ban for months. Despite the one-year delay in implementation, Washington plans to draw up a list of measures against E.C. imports that it says it will put into effect if its \$130-million-per-year export trade in meat, mainly offal, to the E.C. is affected by the ban.

In a statement, the E.C. Commission Vice President responsible for agriculture, Frans Andriessen, and the E.C. Commissioner responsible for external relations, Willy De Clercq, called the plan "regrettable and unjustified."

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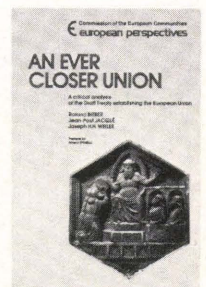
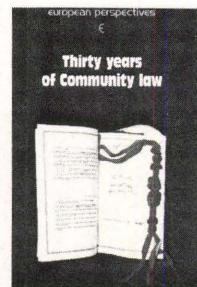
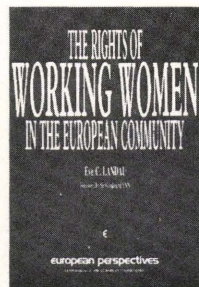
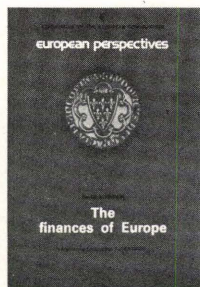
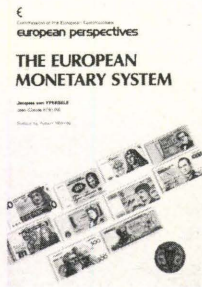
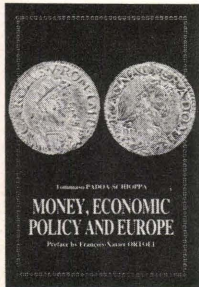
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# STRENGTHENING THE WESTERN EUROPEAN UNION

## W.E.U. MEMBERS SIGN NEW "PLATFORM" ON COMMON DEFENSE.

ELIZABETH POND

In a period of uncertain transition in superpower relations the Western European Union (WEU) continues to grope toward revival. It may not yet have acquired the "charter" that French Prime Minister Jacques Chirac urged a year ago. And it may be conspicuously lacking in any real role in coordinating the ships that five of its seven members have now dispatched to the Persian Gulf.

But it did get a platform that put it squarely in the middle of "the broader process of European unification" at the last meeting of WEU Foreign and Defense Ministers at The Hague on October 28. It is the sole forum in which these ministers meet jointly to discuss security issues. And at The Hague it did get Bonn to declare itself on the need for nuclear deterrence and Paris to commit itself to defend each ally "at its borders."

As might be expected, then, the WEU, while it is doing worse than the enthusiasts hoped when it was rescued from decades of desuetude in the early 1980s, is doing better than the cynics expected. It provides a focus for European defense identity (the French view) or a strong European pillar in the North Atlantic Treaty Organization (the British and West German view). And it provides at least a modicum of insurance for Europeans against any weakening of the American security guarantee for Europe.

The WEU statement in October illustrated the divergent pulls of the member states of the Federal Republic of Germany, France, the United Kingdom, Italy, and the Benelux countries—but also the common fear of a new wave of American isolationism that binds them together.

The French won from the nuclear-skittish Germans the statement that "deterrence and defense must continue to be

based on an adequate mix of appropriate nuclear and conventional forces, only the nuclear element of which can confront a potential aggressor with an unacceptable risk." The Germans won from the French "the determination to defend any member country at its borders." The British ensured that the compromise statement that emerged was called a "platform" instead of a charter, so as not to fuel American suspicion that the WEU might be seeking to supplant NATO. And the British also got the French to endorse the concept of a European pillar in referring to members' "obligations of solidarity" under both the WEU and NATO treaties.

Basically, the WEU was resurrected in response to two complementary worries: the French scare about German hankering after neutrality during the battle over Euromissile deployments and Europeans' concern about a weakening U.S. security guarantee for Europe. Paris wanted an energized WEU, along with intensified bilateral French-West German military cooperation, to bind Bonn firmly to the West. Bonn in particular wanted to pin France down to early military assistance should Germany ever be attacked—and, if possible, to lure France away from its infatuation with nuclear weapons to put more resources into its woefully equipped conventional forces.

The Europeans as a whole worried that growing pressures in the U.S. Congress to pull troops out of Europe might deprive them of a conventional defense robust enough to repel any Soviet attack without quick resort to nuclear escalation. And, after President Ronald Reagan and General Secretary Mikhail Gorbachev set the surprise goal at Reykjavik in 1986 of freeing the world of all nuclear missiles (or maybe even weapons), the Europeans feared that the U.S. nuclear umbrella itself might eventually be withdrawn.

In a decade of shrinking real defense budgets as well as shrinking draft-age populations, the only move that could

dramatically shore up Europe's defenses and address these various worries was some demonstration of recommitment of French forces to the defense of France's glaxis of Germany. This required a device for reintegrating Paris into European security cooperation without making France renounce its Gaullist heritage of independence from NATO's unified military command. The French would not join the "Eurogroup," since this was drawn from NATO's military wing. Nor was the European Community appropriate, since it has no brief to deal with security issues as such and, in any case, has a neutral member, Ireland. Nor did anyone want to invent a new institution.

Conveniently, the WEU already existed, already had France as a member, was autonomous of NATO and, moreover, had an even stronger obligation to mutual security than does NATO. The 1949 NATO treaty pledges each member only to take "such action as it deems necessary" to assist an ally that is attacked. The 1954 WEU treaty requires members to give any ally that has been attacked "all the military and other aid and assistance in their power." In addition, the original WEU members all viewed themselves as serious about defense in a way that NATO's "footnote nations" of Greece and Denmark were not. And the attraction of the revived WEU to other European states that wanted to join it in order not to be left out of a major European institution gave the core countries at least some leverage in setting a strong commitment to defense as a precondition for membership.

Germany and France both profess satisfaction with the way the WEU is developing. Of the larger WEU members, Britain remains the most dubious about prospects for future development. Prime Minister Margaret Thatcher has publicly warned the French and Germans not to get carried away with their planned bilateral defense council and joint brigade. The Italians, too, want to ensure that the WEU does not become a cloak for a French-German "directorate." But, after decades of British suspicion about a closer association with the Continent and emphasis on London's more exclusive special relationship with the United States, the fact of British participation in the WEU is more significant than the reservations. €



# EUROPE LOOKS TO

## EUROPE IS MOVING DOWN THE PATH TO INDEPENDENCE.

STEPHEN P. WRAGE

**T**he British military historian, John Keegan, says that the past six months have shaken the Atlantic alliance more gravely than any other period in its 38-year existence. Keegan may exaggerate; after all, there have been no great and damaging political earthquakes. No second Charles de Gaulle has withdrawn his forces from the alliance. Yet, there have been some tremors, and an interesting evolution may be occurring: The North Atlantic Treaty Organization (NATO) may be transforming itself backward into the balanced alliance of equal partners that was envisioned in the late 1940s and early 1950s.

There was a small tremor when former German Chancellor Helmut Schmidt suggested that the Federal Republic of Germany effectively put its troops in France's hands. In a long letter to the West German weekly, *Die Zeit*, he argued: "Now is the time to replace the 20-year-old flexible response strategy with a new approach—for example, by massing sufficient conventional forces through the integration of German, French and Benelux troops under a unified French command." Spelled out more simply, this comes down to saying "Let's see Europe shed its nuclear dependency," and is a step toward "Let's deal out the American hand at the table."

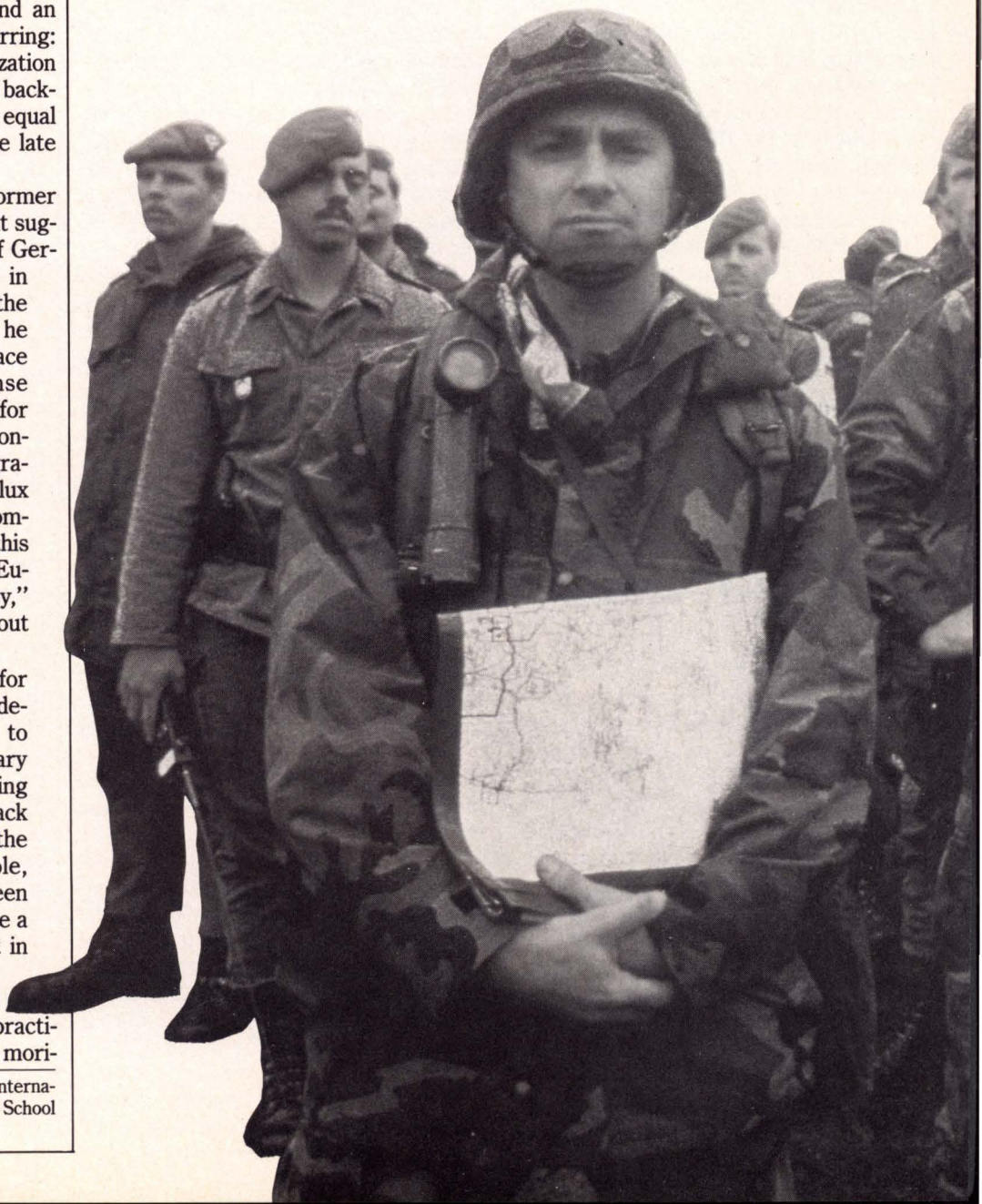
Flexible response is the strategy for employing the American nuclear deterrent, so Schmidt is proposing to factor those forces out of the military equation. Further, he is suggesting Europe draw the French forces back into the fold by giving France the supreme allied commander's role, which, of course, has always been filled by an American. This would be a strange and new arrangement, yet in another sense it is old and familiar. It is a revival of the old European Defense Community, which was practically a stillborn idea and has been mori-

bund since 1954.

The earth trembled slightly again when former French Prime Minister Laurent Fabius declared that a nationalist, self-sufficient France should extend the small nuclear umbrella of its jealously guarded *force de frappe* to cover Germany. This, too, is a step toward Europe going it alone, since it amounts to spreading the French umbrella where the American umbrella has stood. French nuclear forces, though small, are independent and free of American control. (They are also, in these days of U.S.-Soviet negotiations over Euromissiles, outside the purview of

American arms control negotiators.) Interestingly, some German spokesmen responded to Fabius' proposal by urging that new seaborne or airborne nuclear weapons be added under joint European command. Again, this is strange, yet familiar; it is an echo of the old Multilateral Force that preoccupied governments in the Kennedy years but was abandoned by 1964.

What Fabius, Schmidt and others are proposing is to remake NATO in its original image. The state of affairs in 1987, after all, is hardly what was intended in 1949, the year that the treaty was signed. At



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# ITS OWN DEFENSE

that time, it was by no means clear that the American military role would ever go beyond providing naval support and strategic bombing capability. American troop deployments were justified as interim measures until the Europeans could fend for themselves. Yet today there are 320,000 American troops permanently stationed in Europe. In the beginning, American involvement was to proceed slowly, step by step with matching European initiatives, but after four decades of an American-dominated alliance, the words President Harry S. Truman used to sell the pact to Congress sound naive

and hopeful: "A basic element in the implementation of the decision is the degree to which our friends match our action in this regard."

Actually the determining element was the degree to which Europeans *failed* to match American contributions. Hence the U.S. role quickly outpaced the European and soon was pervasive and dominant. A shift in the other direction, with European measures outbalancing American ones, may be beginning to emerge. Today it is a European, not an American, who is putting the crucial question most bluntly. Jean Pierre Bechter, Secretary of

**Changes in the NATO structure are slowly emerging. Below: NATO maneuvers in September 1986.**

the French Parliamentary Committee on Defense, remarked lately, "Do you think 320 million Europeans can continue forever to ask 240 million Americans to defend us from 280 million Soviets?"

It is not hard to locate the forces that touched off calls for European self-reliance from Schmidt, Fabius and others. First, America has always been in some degree a reluctant partner, and its ambivalence about its commitment to Europe was newly exposed in the Reagan Administration's enthusiasm for strategic defense. Since the days when Jefferson spurned what he called "the exterminating havoc of the Old World," Americans have cherished the invulnerability and also the innocence that isolation from the rest of the world afforded them. Until World War II, Americans enjoyed the luxury of episodic engagement in world affairs while Europeans attended incessantly to preserving their security. Then, however, nuclear weapons, long-range bombers and intercontinental ballistic missiles shrank the distance that made America uniquely secure and deprived Americans of their privileged status.

Since 1945, the effort of world engagement has been wearisome, and the compromises it requires have been morally distressing. But in the 1980s, a saving vision has emerged, and many Americans have been smitten with it. It is the dream of a new, high-technology shield, the Strategic Defense Initiative (SDI), that would render harmless the weapons that ended the American sanctuary. If strategic defense could restore to America the security and comforts of disengagement, Europeans should not expect that the NATO commitment would stand in its way for long.

Second, Europeans are recognizing that America feels itself poorer, more put upon and resentful of the kind of dependency from allies that it once encouraged. In recent years, it has run large trade deficits with Japan and Europe, and has run several hundred billion dollars into debt to them for its deficit spending. Naturally the United States is eager for some new arrangement that would deliver elsewhere the bills for protecting the Persian Gulf and the European front. Former Sen. Michael Mansfield (D-MT) has been suggesting the recall of Ameri-

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# LIBERALIZING TRANS-ATLANTIC AIR SERVICES

## SHOULD THE U.S. WAIT FOR EUROPE? OR IS NOW THE TIME FOR NEGOTIATIONS?

DANIEL M. KASPER

**B**y the year 2000—and perhaps sooner—a score of large, multinational airlines are likely to provide most of the scheduled airline services between and within developed and major (non-communist) developing countries around the globe. For an industry that, until quite recently, could be accurately described as a series of protected, monopolistic national markets connected by a set of similarly protected international routes, the change will be little short of revolutionary.

The reason for the change is clear. The powerful economic forces unleashed by U.S. airline deregulation and its companion, the competitive international aviation policy, are inexorably forcing governments and airlines alike to accept more liberalization than most would have chosen voluntarily.

Deregulation sharply increased airline competition and precipitated major structural changes in the U.S. airline industry. Of particular significance is the large-scale expansion of international services by the largest and strongest U.S. airlines, which has simultaneously increased U.S. carrier competitiveness and, by reducing the availability of U.S. airlines to provide competitive connections to interior U.S. cities, hurt the competitiveness of European airlines serving the United States market.

Prior to deregulation, only two U.S. airlines—TWA and Pan American—provided scheduled service to Europe. Today, TWA and Pan American have been joined by a flock of other U.S. competitors. American Airlines, for example, has instituted nonstop services to London, Manchester, Frankfurt, Geneva and Paris

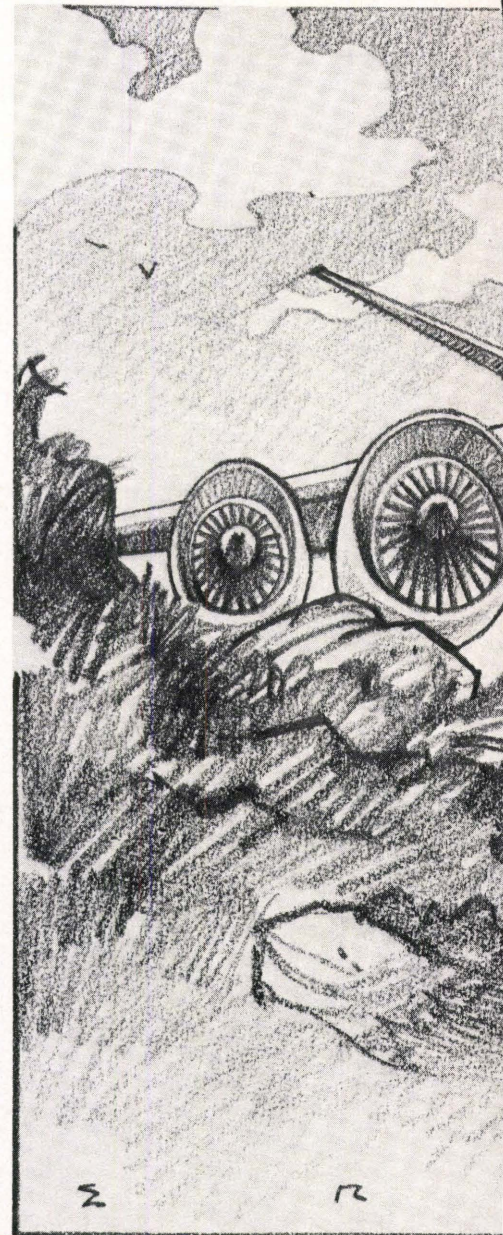
Daniel M. Kasper is Director of Transportation Practice of Harbridge House. From 1979-1983 he served as Director of International Aviation for the U.S. Civil Aeronautics Board. This article is based on his forthcoming book, *Deregulation and Globalization: Liberalizing Trade in Air Services*.

from Dallas, Chicago and New York. Northwest serves Scandinavia, London, Scotland, Ireland and Germany from Boston, New York and Minneapolis. Delta serves Europe from Atlanta, Dallas and Cincinnati, while Continental operates to Europe from Newark, Miami, Houston and Denver. Piedmont's (now part of USAir) recent introduction of London-Charlotte service leaves United as the only major U.S. airline without scheduled service to Europe.

Plagued by small domestic markets, restrictive international agreements and/or inefficient airlines, European nations have begun to liberalize (reluctantly in many cases) their generally restrictive domestic and international air services regulations in an effort to replicate the efficiency and competitiveness gains enjoyed by deregulated U.S. airlines. Many are doing so not because they are convinced of the virtues of competition, but because they view liberalization as essential to the viability of European airlines in an increasingly competitive international marketplace.

Scandinavia is a fascinating case in point. After almost a decade of vigorous resistance to U.S. bilateral deregulation efforts, Norway, Sweden and Denmark and their flag carrier, SAS, reversed position and, in early 1987, proposed a liberal "open skies" agreement to an incredulous U.S. delegation.

The Scandinavian proposal, however, highlights the dilemma facing the United States as it attempts to respond to the pressures for liberalization turned loose by its successful efforts to deregulate air services: Under the prevailing regime of bilateral agreements, neither the Scandinavian countries nor any other country in Europe is capable of providing additional access for U.S. airlines sufficient to justify politically a large-scale opening of the U.S. internal market to European carriers. The economic equivalent of open access to the U.S. market would be open

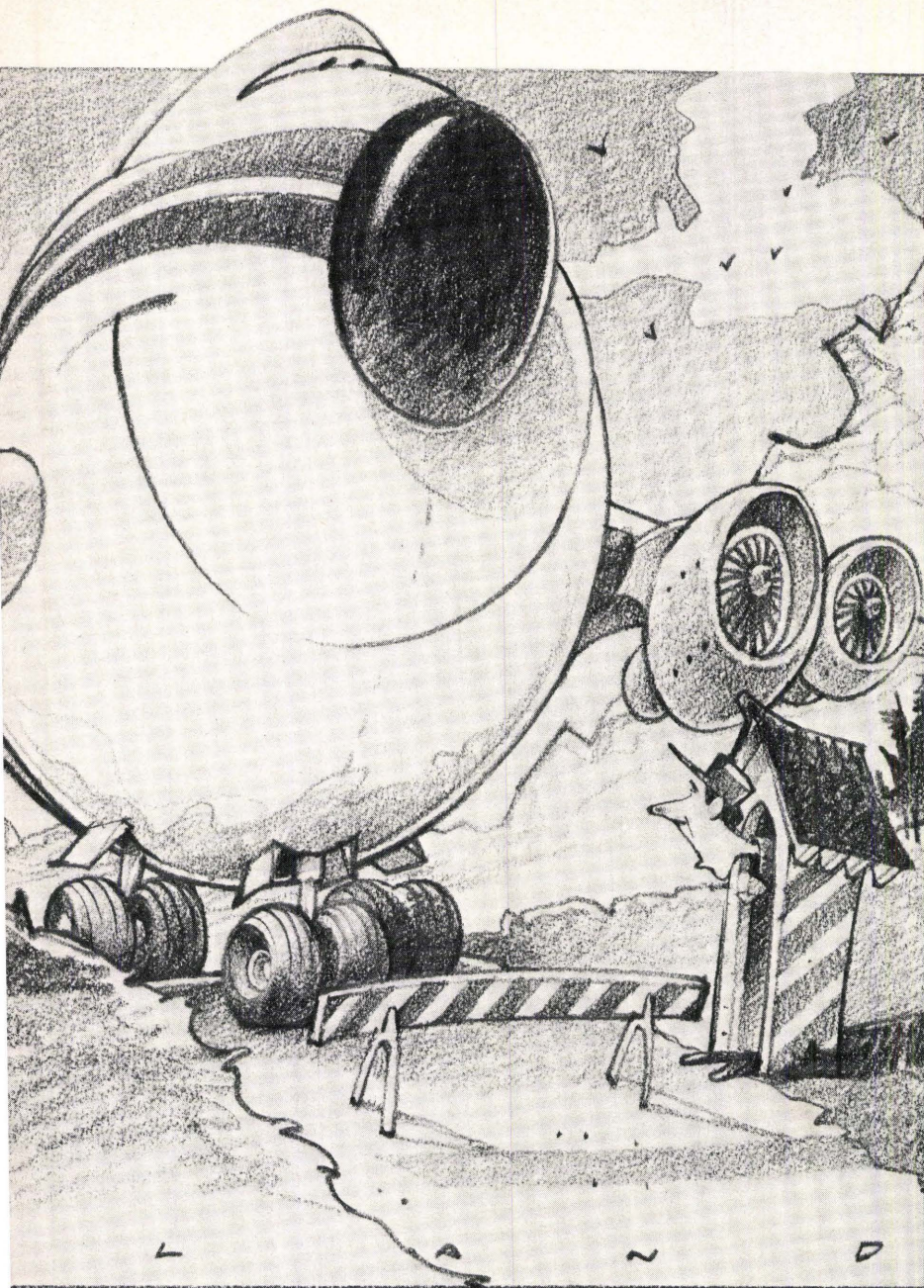


access for U.S. carriers to the internal European market. Even if U.S. negotiators obtained legislative authority to negotiate access to the American market, no single European government would be in a position to provide economically equivalent access for U.S. airlines.

It is thus becoming clear on both sides of the Atlantic that—for a variety of economic and political reasons—the United States and Europe will eventually be forced to negotiate a multilateral air services agreement. The key question is not whether, but when and how the negotiation and agreement will occur.

At present, however, both Washington and Europe appear content to wait for the European Community to "get its act together," presumably sometime after the 1992 deadline for an internal E.C. common market in air services, before pro-





willing, they would find it extremely difficult to get domestic support for trades with the United States that effectively unravelled the (no doubt) delicate compromises struck as part of the internal E.C. negotiations. Thus, by waiting for Europe, the United States, the Community and the world could be faced with another odious Common Aviation Policy by 1995.

Third, as the prime mover behind airline deregulation and in the broader effort to liberalize trade in services, the United States should have a strong policy interest in advancing liberalization in the highly visible airline industry. Further, the United States is institutionally and ideologically more committed to market-based systems than are many other nations, and its failure to take the lead may leave the field to those less committed to open markets.

Finally, there is a distinct possibility that changes in the world airline industry will force governments to accept multilateralism long before the deadline for an internal European common market. Multinational airline consortia to provide computerized reservations systems are a reality today and transnational affiliations are not far behind. SAS and Sabena have publicly acknowledged negotiations aimed at integrating their airline operations, while the chairman of Alitalia has announced that he is seeking a merger partner, preferably European. And reports of private (but widely acknowledged) discussions involving numerous international airlines appear regularly in the trade press. Indeed, among airline executives, particularly in Europe, the coming era of the "global airline" is widely viewed as inevitable. Unless governments are prepared to act quickly to establish a liberal international regime, events may force the establishment of a new regime to accommodate the emergence of multinational global airlines.

If waiting for Europe is risky, what, then, can be done to more rapidly advance liberalization in the air services sector? The most dramatic and effective step would be for the United States to invite several of its key aviation trading partners (e.g. Britain, the Netherlands, Belgium, Canada and the Scandinavian countries) to begin negotiations to liberalize air services between and among themselves.

By focusing negotiating efforts on an agreement among an initially small group of nations with competitive airlines and market-oriented economies, the United States and other liberal (air services) nations could establish an air services re-

Continued on page 45.

ceeding to major U.S.-European air service negotiations. In light of the difficulties of forging an internal consensus among Community members, the protectionist sentiments in Congress, and the lack of strong interest by U.S. airlines, it is not surprising that an increasingly "lame-duck" U.S. Administration might favor a strategy of "wait-and-see."

By failing to press aggressively for liberalization, however, the United States may miss, perhaps irretrievably, a major opportunity to help shape a more open, competitive worldwide market for air services, a market in which privately-owned airlines could be expected to prosper. A decision to "wait for Europe" is risky for several reasons.

First, by lessening the economic pressure on Europe to move rapidly toward liberalization, a wait-and-see approach

strengthens those in Europe opposed to a more open, competitive regime for air services. In short, without the threat of an active U.S. effort to further liberalize air services (and divert traffic from the airlines of illiberal nations), liberalization will be slowed not only across the North Atlantic but within the European Community as well.

Second, a decision to "wait for Europe" to attain a common market is almost certain to delay U.S.-European liberalization far past 1992 and may make European nations less willing to pursue broader liberalization in air services. The explanation for this is straightforward. It is simply not realistic to expect Europe to engage in substantial market-opening negotiations with the United States on the heels of bruising internal E.C. negotiations. And even if the governments were



# THE EUROPEAN MONETARY SYSTEM

A FORCE FOR STABILITY AMONG VOLATILE CURRENCY MARKETS.

Since the European Monetary System (EMS) came into operation on March 13, 1979, the countries of the European Community have had to face a second oil price shock, a sustained rise of the dollar and, since February 1985, a marked fall of the same currency. Despite these unsettled international conditions, the EMS has satisfactorily answered its first purpose. This was to establish close cooperation that would result in a zone of monetary and price stability in Europe.

This article first traces the historical context of the EMS and describes its genesis and objectives and how it works; it goes on to review the eight years during which the system has been functioning and concludes with a reflection on future prospects.

The Treaty of Rome, signed in 1957, which founded the European Economic Community, made no provision for a European monetary zone. It confined itself to setting out certain principles for the coordination of internal monetary policies and for exchange-rate policy, and set up a Monetary Committee with the task of formulating opinions on these matters. The creation in 1974 of the Committee of the Governors of the Central Banks completed these arrangements by setting up a framework and a procedure for regular consultations among the central banks of the Community.

The fact that the Treaty of Rome has no specifically monetary aspect is hardly surprising, if one remembers the priorities of the E.C. at its inception—customs union, common agricultural market, competition rules, free circulation of persons, services and capital and so on—and the international monetary climate of the day, with a system of fixed exchange rates set up by the Bretton Woods agreements.

The success of the “common market” and the interdependence that followed from it, as well as the “growth in stability” of the world economy in the 1960s,

helped foster the ambition to bring the countries of Europe still closer together, partially in the economic and monetary sphere.

## From the “snake” (1972-1979) to the EMS

The Hague conference of Heads of State or Government of the European Community, held in December 1969, saw a commitment in principle and a new beginning. During that meeting, the idea was launched of achieving, in stages, European economic and monetary union. The details of this union were spelled out in 1970, in the Werner Report (called after the chairman of the group of leaders, the head of the Luxembourg Government). In the monetary field, the union was to lead to:

- The institution of a single E.C. currency or at least the total convertibility of European currencies and irreversible fixing of their exchange rates;
- The transfer to E.C. level of various national competences in monetary and credit policy.

The first stage of this project began at the beginning of 1972. It consisted of restricting to approximately 2.25 percent the margin of fluctuation between European currencies. The currencies would remain linked to the dollar, with a similar margin. This system gave rise to the image of the “snake in the tunnel.” A European Monetary Cooperation Fund (EMCF) was set up, destined to be the embryo of a European central bank. To begin with, the EMCF had the task of managing the exchange mechanisms of the “snake” and its various credit arrangements.

The first stage met with little success. The collapse of the Bretton Woods system, the energy crisis and the recession prevented its aims from being realized: There was not sufficient political will to form a united front to cope with the difficulties. The “snake” was first uncou-

pled from the floating dollar, then abandoned by several important member currencies. It wound up, against a general background of floating currencies, as a mere German-mark zone, comprised of the German mark along with the currencies of the Benelux countries and Denmark.

It was from this abortive exercise that the EMS took over in March 1979.

## Genesis of the EMS

When the Bretton Woods system disintegrated in 1973, there were many who welcomed the advent of floating exchange rates. They believed that market forces would make for automatic adjustment of each country's external account: Where there was a trade imbalance because of excessive export prices, depreciation of the national currency would follow, due to the fall in demand from foreign importers. This depreciation would boost exports and reduce imports, thus restoring the balance of external trade. An important consequence would be that floating exchange rates, by neutralizing the external constraint, would allow each country greater autonomy in the conduct of its general economic policy.

Events, however, did not live up to these expectations. There were many reasons:

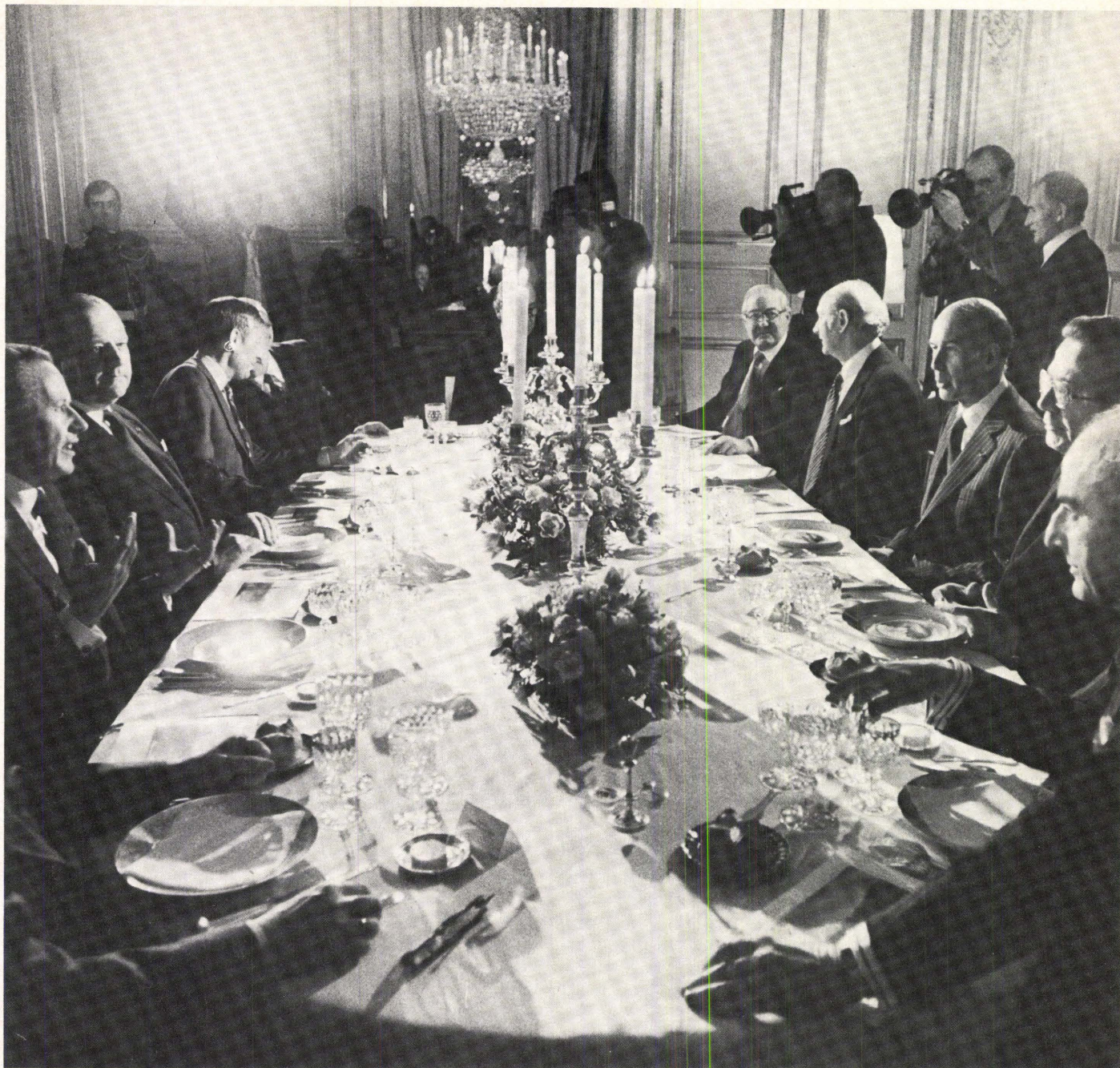
- The increasing international division of labor, which has led to an ever more marked specialization of national economies, so that an exchange-rate variation does not always have the anticipated effect on imports and exports;
- Competitiveness, which is a matter not solely of price but also of quality and of meeting demand;
- The greater mobility of capital in search of profitable investment, which meant that capital flows became less and less a simple reflection of movements of merchandise.

The floating of currencies, far from linking exchange-rate trends coherently to fundamental trends in the economy, has encouraged erratic flows of capital. It has thus given rise to exchange-rate movements unconnected with underlying economic realities, a phenomenon that has stimulated inflation and impeded growth.

At European level, there was a gradual recognition of the risk and the cost of such an arrangement for the countries of the E.C., economically integrated as they were: Their trade with each other represented more than half of their total external trade.

The initiative for a European monetary





The European Council summit meeting on March 12, 1979, in Paris gave the final green light to the European Monetary System.

revival based on the EMS was taken by Roy Jenkins, then President of the E.C. Commission, in a speech in Florence in October 1977. The subsequent negotiations spread over four European Councils, during which the Heads of State or Governments of the E.C. made increasingly precise political commitments. They took the decision in principle in April 1978 and asked the European institutions to study the machinery for the system. In July of the same year, in Bremen, in the Federal Republic of Germany, they agreed on the broad lines; on December 5, 1978, they adopted the Brussels resolution, the charter of the EMS, on the basis of which were concluded agreements among the central banks who would organize the details of its applica-

tion. Finally, on March 12, 1979, they gave the green light for the system to begin operating.

#### **The purpose of the EMS**

The aim of the system is to "establish closer monetary cooperation leading to a zone of monetary stability in Europe." This desire for stability applies first of all to exchange rates between E.C. currencies. However, it does not end there. The stabilization being carried out is part of a wider strategy that also involves overcoming inflation, as the achievement of both external and internal stability is considered essential for a growth policy.

The EMS is a joint effort to overcome the constraints resulting from the de facto interdependence of European econ-

omies, and is based on the parallel needs for exchange-rate stabilization and for convergence of economic and monetary policies: the one supports the other.

If the EMS is therefore essentially economic in inspiration, it is still linked in some of its aspects to the longer-term aim of European monetary integration. That is what emerges particularly from the intention, expressed in the Brussels resolution, to consider the system being instituted as transitory and to consolidate its various elements two years later: There was to be a European Monetary Fund to take the place of the EMCF, as well as full use of the European Currency Unit (ECU) as a reserve currency.

This objective is made clear in the Single Act modifying the Treaty of Rome,



which was signed in Luxembourg on February 17, 1986. It inserts into the treaty an affirmation of the will to build an economic and monetary union and confirms the aim of the E.C. to make progress in the monetary field, relying mainly on the EMS and the ECU.

### How the EMS works

The EMS is composed of three elements that complement each other: the ECU, the exchange-rate mechanism and the financial solidarity mechanisms.

**The ECU.** This is the central element of the system. It is a monetary unit, the value of which is calculated as a "basket" of set amounts of each E.C. currency (see box). The ECU fulfills four functions, being used:

- for fixing central rates in the exchange-rate mechanism;
- as the unit of reference for the divergence indicator of the same mechanism;
- for denominating creditor and debtor balances resulting from the obligation to intervene in E.C. currencies; and
- as a reserve instrument and means of settlement among central banks in the EMS.

The first three functions will be discussed in the following section on the exchange-rate mechanism. In its role as a reserve instrument, the ECU is issued by the European Monetary Cooperation Fund to the EMS central banks, in exchange for deposits by them of 20 percent of their gold reserves and 20 percent of their dollar reserves. The amount of ECU created as a result is adjusted every three months to take account of changes in the level of gold and dollar reserves and of variations in the ECU price of these assets. In July 1986, total ECU reserves were 43,000 million. These ECU can be used, within agreed limits, for settling the debts incurred by central banks in the operation of the EMS.

### The exchange-rate mechanism.

Each currency participating in the mechanism has a central rate against the ECU. These central rates can be "realigned" if necessary, by mutual agreement of the participating countries. From the ECU central rates are calculated bilateral central rates for each currency against each of the other participants. By allowing a margin of approximately 2.25 percent of these bilateral central rates (about 6 percent for the Italian lira), "floor" and "ceiling" rates are set. These are the limits within which central banks are obliged to maintain the currency by the means at their disposal, primarily by intervening in the money market in E.C. currencies. In practice, this means selling the currency that has reached its ceiling rate and buy-

ing the one that is at its floor. When exchange rates reach the limits, the obligation to intervene is unlimited. That is why support is provided through a mechanism for very short-term financing. A central bank that has to support its money by buying it with another EMS currency has unlimited credit to borrow that currency through the EMCF and are denominated in ECU. ECU reserves can be used for paying off the loans.

Apart from these exchange-rate limits and the binding obligations they imply, the exchange-rate mechanism has another component, known as the "divergence indicator," which acts as an early warning signal. The indicator is calculated for each currency on the basis of the maximum permitted gap between its market rate against the ECU and its central rate. When a currency crosses its divergence threshold, the country in question is supposed to take corrective measures. As it is a matter of action being presumed, the element of constraint is less than in the case of the exchange-rate limits and need not involve intervention in the money market.

**The credit mechanisms.** With the establishment of the EMS, three credit mechanisms created between 1970 and 1972 were strengthened in order to facilitate the operation of the exchange-rate mechanism and help with financing for balance-of-payments deficits:

- Very short-term financing. As already mentioned, its purpose is to finance obligatory intervention in E.C. currencies. Very short-term financing consists of an unlimited credit line that central banks participating in the exchange-rate mechanism open to each other, in their own currencies. The amounts drawn are expressed in ECU and registered with the EMCF and carry interest. This financing is of very short duration (45 days after the end of the month), but it can be extended for three months subject to certain conditions and limits. With the consent of the creditors a second extension of three months may be obtained.
- Short-term monetary support. This is a system of mutual credit for all the central banks of the E.C.; it was increased in volume and in duration on the creation of the EMS. The amounts available under this heading at the moment come to more than 14 billion ECU. The initial loan period is three months, but it can be extended to a total duration of nine months.
- Medium-term financial assistance is a system of mutual credit that E.C. member states can grant each other for two to five years. The credit available was increased when the EMS was set up and now stands at more than 11 billion ECU.

### The record to date

After a difficult beginning, the EMS today constitutes a valuable achievement in the process of building Europe, with positive effects for all to see. Nonetheless, there are a number of shortcomings that cloud the picture.

The establishment of a zone of exchange-rate stability is the most visibly positive effect of the EMS. Although the system began in particularly troubled monetary and economic circumstances (the rise of the dollar, the second oil crisis), so that its economic result varied at first, it has managed to work and to provide for realistic management of exchange rates. Despite seven realignments between March 1979 and March 1983, variations in exchange rates among European currencies have been much less than their fluctuations against other currencies (the difference is more than 50 percent). In addition, a consensus has gradually emerged on the need to aim at stabilization of prices. The result has been a greater convergence of economic policies, which explains why there have been only three monetary alignments since 1983 (July 1985, April and August 1986), of which two concerned only one EMS currency.

Of course, there are still divergences in interest rates among the currencies participating in the exchange-rate mechanism, illustrating the need to continue on the road to convergence. Inflation rates have, however, been greatly reduced, falling on average for the participating countries from 12 percent in 1980 to 5 percent in 1985, with less than 4 percent anticipated in 1986. In the same period, the average divergence from the lowest inflation rate has gone down from 6.2 percent to 2.8 percent. At the same time, major efforts have been made to reduce public spending and government deficits, particularly in Denmark, Belgium and France, making for lower real interest rates and improvements in current balances of payments.

There is hardly any doubt that this favorable development is due in large measure to a deliberate and determined decision to make exchange-rate stability a priority, or that the disciplines of the EMS have contributed to the necessary adjustments in economic policies. The ministerial meetings at which monetary "realignments" are decided, have gradually acquired a special importance: They are occasions for an examination in depth of the general economic situation and of the accompanying measures planned by the country that has taken the initiative in demanding a change in central rates.

However, analysis of the working of



## EUROPEAN CURRENCY UNIT GAINS FAVOR

MYRA MACDONALD

**T**he European Currency Unit (ECU), an exotic currency without coins or banknotes that some people think is a rare bird or a football star, is emerging in these days of shaky markets as a potential economic lifeline for Western Europe. With the dollar crumbling and faith in the U.S. economic leadership shaken by the Wall Street Crash, some bankers are pushing the ECU as the lynchpin of an integrated European economy. Visionaries who believe in a United States of Europe say the ECU, a notional medium of financial transaction, should become the common currency in the European Community, a rival to the dollar and a safeguard against today's volatile foreign-exchange movements.

Senior Japanese bankers have been pushing the ECU as a major currency that could be used instead of the yen as an alternative to the dollar. "Nationalists who balk at the idea of the ECU supplanting their own currencies should realize European banks already have more than \$900 billion on their books," a Member of the European Parliament, Fernand Herman, said. "Substituting ECUs for dollars would be one way of restoring European influence."

But what exactly is the ECU? In a recent survey by a British travel agent, puzzled Britons said it was either a South American bird, a Belgian soccer player or a relative of the flightless Australian bird, the emu. The ECU is an artificial currency created by bundling together 10 E.C. currencies.

Ultimately, the E.C. would need a European central bank, proposed by French President François Mitterrand in October, to issue ECU and take some control over European monetary policies, some bankers say.

Used alongside national currencies, the ECU would be ideal for tourists and business travelers tired of sorting out French francs from German marks as they travel from country to country. And as the E.C. moves to tear down trade barriers by 1992, it could be increasingly used by multinationals and companies with business in more than once E.C. country.

But to become a common European currency, it must overcome fierce resistance from national Governments and central banks which fear any decline in their control over economic policy. "If we are going to abandon part of our monetary policies, we need guarantees that this comes at a time of economic convergence and cooperation," said one senior central banker who declined to be identified.

Outside the financial markets, it is used primarily by institutions like the E.C. and in such items as ECU travelers checks and planned ECU credit cards. With no coins or banknotes, there is little public knowledge of a currency that might one day become the central part of economic policies that decide whether people have a job, a pay raise or a welfare service.

Myra Macdonald reports from Luxembourg for Reuters.

the EMS also highlights some deficiencies. The purpose of the system is to group together all the E.C.'s currencies; the non-participation of sterling in the exchange-rate mechanism affects the functioning of the EMS, particularly by impeding its internal development and reducing its attraction for third countries that might be interested in being associated with it. There is also the lira, which still avails of a 6-percent margin of fluctuation and is thus less subject to the policy constraints that go with EMS membership.

### The improvements of 1985

A number of measures were adopted in June 1985 to improve the working of the EMS. They related to:

- A certain relaxation of the rules for

payment, allowing in certain cases the payment in ECU of more than 50 percent of a settlement under very short-term financing.

- An improvement in the return on the ECU. Previously this had been based on official bank rates. Now it is the weighted average of the money-market rates for the component currencies.
- The introduction of a mobilization mechanism. This allows a central bank in need of currency for intervention to raise ECU temporarily against the dollar or E.C. currencies. These currencies are supplied by other member countries through the EMCF. The mechanism facilitates the financing of interventions when they take place within the fluctuation margins.
- The widening use of the official ECU

beyond the central banks of the Community. Central banks of third countries, as well as international monetary institutions, can ask for "other holders" status with the EMCF. This enables them to acquire ECU on a temporary basis from banks within the EMS.

### Private use of the ECU

There is one more positive and promising phenomenon to be mentioned: the increase in private use the ECU. The existence and success of the EMS have encouraged commercial banks and other private operators to make steadily greater use of the ECU in Europe and elsewhere. As well as being used more for monetary and financial purposes (bond issues, bank deposits and credits, travelers' checks, etc.), the ECU has started to make a breakthrough in commerce as a currency for invoicing and payment. The rapid growth of the various segments of the private market for the ECU has led to a substantial increase in ECU exchange transactions, both spot and forward. The ECU has developed into an instrument that, in its private uses, has the working characteristics of a currency (legal tender, a means of payment and preserving assets)—at least in international transactions. This development is reflected in the recognition of the ECU as a currency by the monetary authorities of the E.C. (with one exception at the moment) and of a growing number of third countries.

### Prospects

Although there was nothing easy about the building of the EMS, its progress report is positive, both in terms of economic results—approximation of price trends, exchange-rate stability—and in terms of its operating efficiency, where experience has made for improvements. Thanks to the EMS, as Commission President Jacques Delors has said, "it has been possible to maintain an open trade system within the European Community."

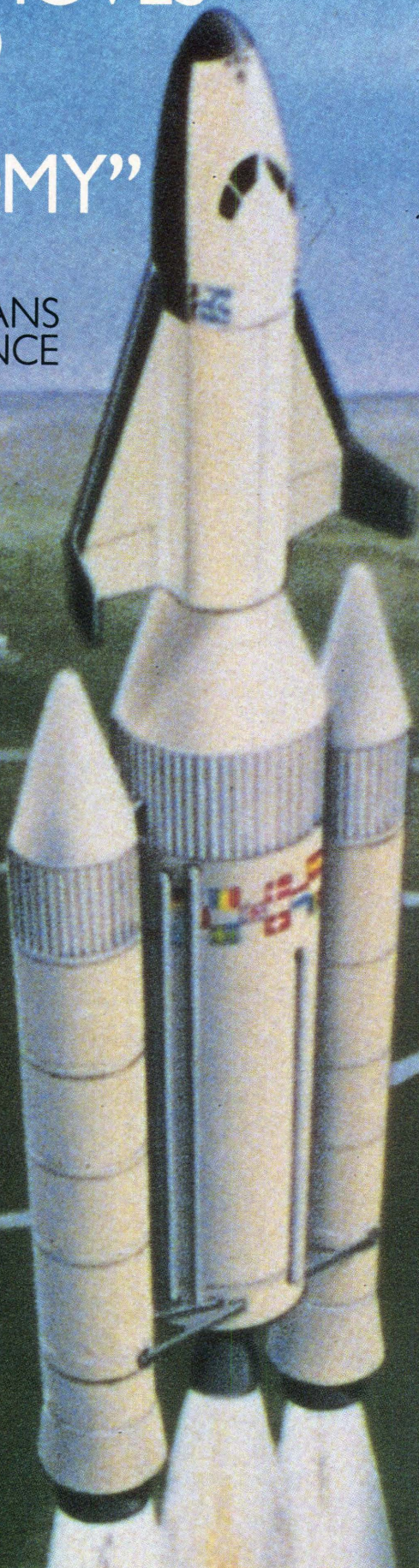
There is still a long way to go to economic and monetary union in Europe, the long-term objective confirmed by the revised treaty. Progress toward that end will depend particularly on the completion of the big internal market, envisaged for 1992, in which goods, services and capital will circulate freely. The Commission has made proposals in this regard and will continue to do so.

At the same time, as the EMS has become, in President Delors' words, the principal "operational route for convergence," it is clear that its reinforcement will be essential for pressing forward with the building of Europe.



# EUROPE MOVES TOWARD "FULL AUTONOMY" IN SPACE

LONG-RANGE PLANS  
SEEK INDEPENDENCE  
FROM U.S.



The Hermès space plane on the Ariane V launcher. Columbus, Hermès and Ariane V will form Europe's space transport system for the year 2000 and beyond.

**B**oosted by the commercial success of the rocket Ariane and the technical success of the space-based laboratory Spacelab, officials of the European Space Agency (ESA) adopted a long-range plan in early November that they said would lead to "full autonomy in space" by the end of the century.

Meeting in The Hague on November 9 and 10, Government ministers from the 13 member states of ESA (plus Canada and Finland, with the E.C. Commission observing) adopted plans to proceed with three key projects which have been under discussion for over two years. Some \$3.7 billion was allocated to the Columbus space module project (part of the planned U.S.-led international space station project), about \$4.4 billion for the Hermès space shuttle and \$3.5 billion for the new Ariane V rocket, designed to launch the Hermès shuttle.

Europe's space officials have spent more than two years working out detailed plans for providing Europe with a space program that would give it independence from the United States. Planning exercises were given a green light in January 1985, but two factors have since then made a number of ESA member states reluctant to commit themselves to financing all three development programs. One is the fact that the cost estimates for each have increased considerably since the Rome meeting. The second is that continued economic problems have made the countries wary of significantly increasing their financial commitments to the development of new technologies that the future space plans, even without the larger cost estimates, would have required.

Despite the rise in spending, however, Europe will still be lagging behind in both overall and per capita spending on space by both the United States and Japan, ESA officials noted after the meeting. Europe will be spending only 40 percent of the American per capita level, and about 66 percent of what Japan spends.

Despite the success of the meeting at The Hague, there had been ample warning that it was not going to be an easy one. In October, British Prime Minister Margaret Thatcher had announced that the United Kingdom was not prepared, for the time being, to make any increase in the \$190 million a year that it currently allocates to space research (a decision that prompted the resignation of the director of the British National Space Center, former ESA director-general Roy Gibson).

David Dickson is European correspondent for *Science*.



The German Government had also been blowing cool. Two weeks before the meeting, a spokesman for the German Research Minister, Heinz Riesenhuber, had said that his Government—despite intensive wooing by French President François Mitterrand—was not yet prepared to commit itself to providing the 30 percent of the Hermes budget that France had been hoping for (and which it finally agreed to).

The outcome of the ministerial meeting, therefore, was a source of gratification to the ESA officials, who felt they received a clear political endorsement of a program that would eventually allow Europe to compete with the two superpowers in all areas of space activity. It was also welcomed by the European aerospace industry, which had been vigorously pushing for a major expansion in the European space program and eagerly producing preliminary designs for each of the major three items in it.

Of the three programs, Ariane V is now most firmly on the rails. Confidence in the basic Ariane design, developed under the leadership of France's National Center for Space Studies (CNES), was restored in September when two satellites were successfully launched after a 16-month hiatus. The delay had been required to diagnose and cure a fault in the third-stage ignition system, which had led to the failure of the previous launch in May 1986.

So far, four models of Ariane have been developed, the latest—Ariane IV—being capable of lifting loads up to 4,200 kilograms and now due for its first launch toward the end of this year. According to Arianespace, the company responsible for supervising the launchers' commercial operations, Europe can boast of launching one-half of the free world's commercial satellites.

Ariane V, for which a special new engine using liquid hydrogen and oxygen fuel is being developed, will almost double the launch capability, with a maximum load of 10,000 kilograms. This capability will be necessary, it is argued, to place in orbit the Hermes reusable space shuttle as well as a new generation of telecommunications satellites expected to come into operation in the mid-1990s. France will be providing 45 percent of the development costs for Ariane V, Germany 22 percent, Italy 15 percent, and varying amounts from the other member countries.

Technical plans for Columbus are also well advanced. According to current thinking, this will eventually incorporate several separate components: a laboratory module permanently attached to the

space station being planned by the National Aeronautics and Space Administration (NASA); an autonomous "man-tended free flyer" based on the same laboratory module; a polar-orbiting platform, to be operated from the space station; and a co-orbiting polar platform designed primarily for earth observation.

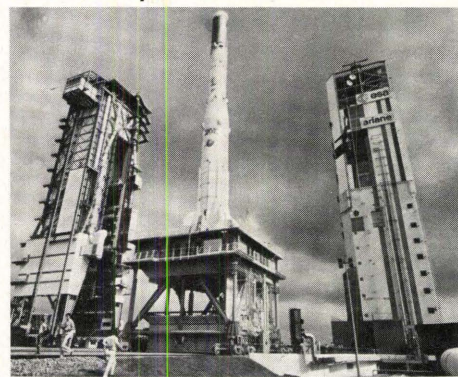
Several uncertainties, however, still remain. ESA and NASA, for example, have not yet been able to reach agreement on the terms under which European scientists would be given access to the space station, and concerns have grown in Europe that this access may be restricted if the Department of Defense retains the right (as it is currently demanding) to use the space station for military research.

There is also continued uncertainty in Washington over the status and timing of the space station within NASA's budget, with both Congress and the Office of Management and Budget asking probing questions about the agency's plans. Before these issues are resolved, it is difficult for European Governments to know

what they are committing themselves to in joining the project.

Finally, Britain's decision not to increase its space budget could also have a significant impact on Columbus. Previously, Britain had been expected to contribute about 15 percent of the provisional \$3.7 billion

The Ariane rockets are launched from from the Guiana Space Center at Kourou.



COURTESY EUROPEAN SPACE AGENCY

## OFFICIALS APPROVE FUNDING FOR THE COLUMBUS SPACE MODULE PROJECT, THE HERMÈS SPACE SHUTTLE AND THE NEW ARIANE V LAUNCHER.

budget for Columbus (the same proportion as it has already provided to the initial planning stages); in return British Aerospace was tipped as the most likely contractor for the polar platform.

Both decisions have now been put back on the drawing board by Thatcher's refusal to contribute to the increased budget being demanded. The meeting at The Hague agreed that the ESA member states would make a definite commitment to the attached laboratory module as part of the U.S. space station. But before this issue can be resolved, the final shape of the entire Columbus package remains unresolved.

The future of Hermes, however, looks brighter than it did several weeks ago. The mini-shuttle has been eagerly pro-

moted by France's space community as a way of developing Europe's capability for manned space flight. As such, France claims that Hermes is an essential step toward giving Europe its autonomy in space. "It is clear to everyone that Hermes and Columbus must be thought of as a single package," says Frédéric d'Allest, director of CNES, who argues that preliminary technical designs for the mini-shuttle "have already proved that it will be able to service unmanned space stations."

A total of \$30 million has already been raised from several countries for preliminary design work on Hermes, and contracts have been signed with a number of major aerospace companies. Two French manufacturers—Avions Dassault-Breguet and Aerospatiale—will share the leadership of the Hermes project, the former being responsible for the aeronautical engineering and the latter for overall project coordination. France will be providing about 45 percent of the funding.

Although Britain has long expressed its

reservations about making a major commitment to manned space flight, continuing to maintain that most tasks in space can be equally well carried out by automated robots, the project should go ahead without problems. It is, in fact, oversubscribed, according to the ESA, with over 100 per-

cent of its needed funding.

Germany, which is more enthusiastic than Britain about the principle of Hermes, is concerned about the predicted balance between costs and performance. Modifications to the original design resulting from the Challenger accident, for example, have reduced the crew that can be carried from six to three, and have also increased the weight (so that Hermes will no longer be able to enter a polar orbit). A German recommendation that the target launch date be moved back from 1995 to 1996-1997 was accepted at the meeting at The Hague.

Part of France's concern over Hermes has been its awareness that both the United Kingdom and the Federal Republic

Continued on page 46.



# EUROPE PLANS NEW PROGRAM TO ATTRACT AMERICAN TOURISTS

CARLO RIPA DI MEANA

Last year, with 137 million tourist arrivals, the 12 member states of the European Community were host to 60 percent of Europe's total visitors, or twice the number of visitors welcomed in both American continents. The magnitude of this flow of visitors led the E.C. to recognize clearly the emergence of tourism as the first and foremost industry in Europe today and the need to give it all the attention it deserves. In other terms, as far as tourism is concerned, the E.C. means business.

It should be clear, however, that a substantial part of this business is of direct concern to Americans: One-third of foreign destinations visited by Americans are within the Community. Expenditure by American visitors last year accounted for 8 percent of the E.C.'s outstanding tourist receipts of \$55 billion from extra- and intra-E.C. foreign visitors, a sizeable figure when compared with the United States' \$13 billion in receipts from foreign visitors.

It is not surprising, therefore, that the Community decided last year to join the European Travel Commission (ETC) in its 39-year-old crusade to bring to the American public specifically a continued reminder of our common heritage, common interests and the unique environment that Europe provides to culture-conscious, travel-oriented Americans. This new collaboration with the ETC began last winter with a specific E.C. advertising campaign to promote 12 European destinations in major U.S. daily newspapers. It will be continued next spring with inserts in some of the leading magazines, where further information and free litera-

ture will be offered to American readers, such as the booklet, "Traveling in Europe," which will soon be made available to American travel agents.

Since the 12 countries' appeal relies on the same basic arguments and historical ties as the whole of Western Europe, similar layouts and contents help to broaden the base for the "Welcome to Europe" campaigns and image-building that the ETC has been steadily developing for four decades in the complex North American market. Continuously growing exchanges with Europe should not hide the fact, however, that in spite of its tremendous potential, as far as we are concerned, this market is still in the early stages of development, since only 2.5 percent of U.S. citizens cross the Atlantic each year at the present record level.

We in the E.C. feel very concerned with this growth potential of trans-Atlantic travel, as it is bound to have a substantial impact on our economic situation in the future. Six percent of our overall gross national product in the E.C. comes from tourism—a percentage very similar to the U.S. figure—with half of it being the result of domestic tourism within E.C. member states, and the other half produced by international travel. As much as 8 percent of private consumption in the E.C. goes to tourism, making it the leading industry in our part of the world, and calls no doubt for further development. Tourism also affects employment to a large extent: the 7.4 million persons employed in connection with tourism account for 6 percent of the total work force, a similar percentage to the United States' 7 percent.

The E.C. attaches great value to the continued development of trans-Atlantic travel and intends to take all the necessary measures to provide adequate guidelines for development within the harmonized internal market scheduled for completion by 1992. As a result of progress made so far toward that objec-

tive, we already know for certain that within five years the E.C. will have practically cancelled all forms of international barriers, all types of controls within the 12 nations' boundaries, thus opening the way to easier travel for visiting Americans, within harmonized, liberalized and internationalized surroundings.

For hundreds of thousands of entrepreneurs of the sector the E.C. provides freedom of establishment, freedom to provide services and freedom to move capital in all member countries. By 1992, the few remaining problems will have been eliminated and these freedoms will be complete. Unhindered competition in a market of 320 million people will certainly be a challenge, and an opportunity for growth for thousands of small- and medium-sized enterprises of the sector. All this is, of course, not automatic, and many efforts lie ahead for public and private operators in this sector. But we are sure of one thing: We have no choice but to succeed, since the date of January 1, 1993, is imperative for the opening of the unified European market.

In the meantime, this gives Americans the certainty that the E.C. will be doing all in its power to ease and to increase the privileged relationship that already has made us the foremost partners in world tourism.

Carlo Ripa di Meana is the E.C. Commissioner responsible for institutional questions, problems concerning a Citizen's Europe, information and communication policy, cultural affairs and tourism.

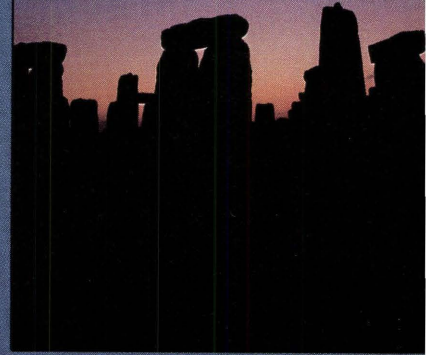




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Only 2.5 percent of U.S. citizens cross the Atlantic each year. Clockwise, from left: Courchevel in France, Venice and Stonehenge.

ONE-THIRD OF DESTINATIONS VISITED BY AMERICANS ARE WITHIN THE E.C.



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MEMBER STATE REPORT/OVERVIEW

# ITALY



THE ECONOMY IS  
HEALTHY AND THE  
POLITICAL  
SITUATION LIVELY.

Background:  
The Pantheon  
in Rome.  
Insets: Milan,  
Rome's Appian  
Way and a silk  
factory.



## MARINO DE MEDICI

**S**tereotypes notwithstanding, the Italian economy is healthy and expanding at a rate of 3 percent in 1987, which is better than any of its European partners. However, not unlike many healthy Italians who claim to be suffering from all sorts of "liver ailments," it does have a subtle affliction—the so-called *finanza pubblica*. This is the Italian version of that devastating American disease known as the "federal deficit."

Italy is a nation that defies economic laws: It offers a host of ambiguities, contradictions and "subterranean" deals, while at the same time producing real wealth in terms of economic well-being for its citizens. In fact, Italy is a country with a modern system of production, with satisfying income levels and a debt ratio that is one of the lowest among the industrialized countries. The nation's index of savings, by families as well as corporations, puts the country at the top of the international scale. And, finally, of no small import are its qualified—and creative—work force and a great gift for enterprise.

This description of the healthy economics of Italy is by a man who should know—the Governor of the Bank of Italy, Azeglio Ciampi. Ironically, this is the same man who spends a great deal of time complaining, publicly and privately, about the massive public debt, which is anything but manageable at its current level of close to 100 percent of gross national product (GNP). As to the causes of this persistent affliction, the head of the central bank pointed an accusing finger to "prevailing parochial interests." The battle against such interests, however, is fought on political grounds where conflicting forces do not give up their turf and particularly their areas of influence, patronage and privileges.

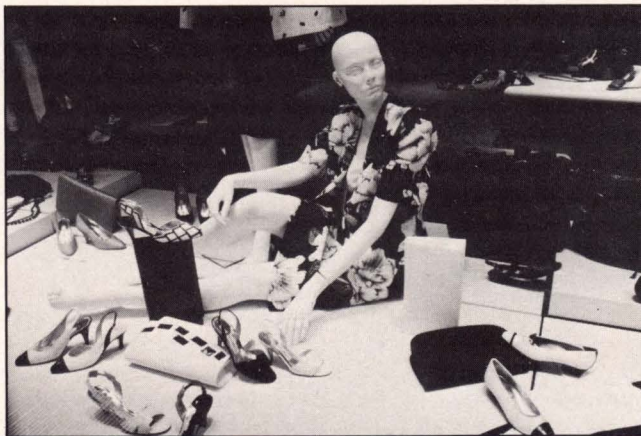
The increasing tug-of-war between the two senior partners of the governmental coalition—the Christian Democrats and the Socialists—reached such a point in 1987 that it was impossible for Socialist Prime Minister Bettino Craxi to continue governing. The new *crisi* came early in the year, with bitter recriminations over whether or not the two parties had reached a firm agreement on a change at the top. The leader of the Christian Democrats, Ciriaco De Mita, called for the

Marino de Medici, the former Washington correspondent of Rome's *Il Tempo*, is now a columnist for the financial daily *Il Sole-24 Ore* of Milan.

Socialist Prime Minister to "pass the baton" to a Christian Democrat, claiming that the two parties had reached an agreement for a transfer of power in

## THE ITALIAN ECONOMY IS EXPANDING AT A RATE OF 3 PERCENT IN 1987, WHICH IS BETTER THAN ANY OF ITS EUROPEAN PARTNERS.

Italian fashions are world famous.



© LEE SNIDER/PHOTO IMAGES

early 1987 in order to prepare for the 1988 election.

Craxi conceded that there was such an agreement, but denied that it was a binding one, and he stressed the advantages for the country at large to continue with a Government that had brought about an unprecedented measure of stability. The confrontation had reached a stalemate and the parties were left with no other option but to call for new elections. On March 2, Bettino Craxi resigned and Amintore Fanfani, the last of the Christian Democrat "thoroughbreds," took over the responsibility of his sixth Government. On June 14 and 15, the Italians voted and confounded the pollsters.

An amazing 88.7 percent of the registered voters showed up, representing the highest percentage of any country in the European Community. The Christian Democrats, who were widely rumored to be on a slippery slope, received 34.3 percent of the vote, up from 32.9 in 1983. The Socialists did much better, rising to 14.3 from 11.4 percent in 1983. The Italian Communist Party turned out to be the real loser, plummeting from 29.9 percent in 1983 to 26.6 percent.

The other member parties of the *pentapartito* also lost ground. The Re-

publicans (PRI) got 3.7 percent, compared to 4.1 percent in 1983; the Social Democrats (PSDI), who registered 3 percent, were down from 4.1 percent; and the Liberals (PLI) held on to a slim share of 2.1 percent, down from 2.9 percent. These three lay parties paid the price of their association in the Government. The feud between the Christian Democrats and the Socialists polarized the election, weakening the junior members of the Government. One unforeseen development was the emergence in Italy of the Green Party, which garnered 2.5 percent of the vote—giving them one senator and 13 deputies.

But the "big news" of this election was the sharp decline of the Italian Communist Party. Their march of progress had been slow but steady for 30 years. After receiving 18.9 percent in 1946, the PCI soared to the sensational level of 33.4 percent in 1976. The Italians, who love automobiles, said that the PCI had "filled up." The Communists, who were somewhat shocked themselves by their electoral advance, could boast that finally Italians were beginning to understand the leading role of the Communist ideology in modern Italian society. It was heady wine, but the "morning after" was closer than many

people thought possible at the time. In 1979, the PCI began its long march backward by slipping from 34.4 percent to 30.4 percent of the vote. And again in 1983, in spite of its confusion with a proletarian left splinter group, the PCI dropped below 30 percent to 29.9 percent. The local elections gave testimony to the fact that the Italian Communist Party was beginning to lose its grip on the Italian electorate. For a moment, in June 1984, it seemed as though the PCI had managed to halt this reversal. The death of its Party Secretary, the suave but cunning Enrico Berlinguer, brought not only bouquets of flowers for the fallen leader, but basketfuls of votes to the party as well.

After the mourning period, however, the decline of the PCI resumed. The local elections of 1985 and the lost battle of the referendum on automatic indexation of wages gave the PCI another push downward. Finally, in June 1987, the PCI reached 26.6 percent, with a total loss of nine percentage points in 10 years. Thus, 1987 is the year when the long march of the PCI bogged down in a way that opens up the Italian political landscape to challenging, but risky, predictions. The decline of the PCI would appear unstoppable,



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and the somewhat stupefying changes in the Soviet and Chinese systems seemed to show that only change, and radical change at that, could reverse the pattern for the once trendy and Eurocommunist-minded PCI.

And yet, in spite of the skillful political maneuvering of the Socialist leader Bettino Craxi, the Communists are still the dominating force in the Italian left, and they will continue to play that role until a solid majority emerges on the left side of the Italian parliamentary spectrum. Only then would Italy be in a position to test a governing alternative to the present five-party coalition—a formula that binds the parties, for lack of another choice, to the point that they appear to be “sentenced to stick together.”

The June elections upheld that sentence, a verdict that does not change much, but can be construed, in a positive vein, to be a sign of stability.

The outcome of the June votes has set in motion a new phase in the confrontation between Christian Democrats and Socialists, as well as a painful reappraisal among all losers, and not only the Communists. Even the MSI, the right-wing party of neo-Fascist origins, came out on the short end of the stick, at 5.9 percent, down from 6.8 percent in 1983. As it tried to reach new voters by stressing programs contrary to its traditional role of protest on the ultra-conservative side of the political spectrum, it lost part of its appeal.

Pondering the curious analogy of losses both on the left and the right, the Italian commentator Alberto Ronchey asked the question: “Is the PCI now on the decline, or just growing old like the MSI?” Still others, like Indro Montanelli, mused on the fact that although everything possible was done to discredit the political formula of the *pentapartito*, the Italians gave it their stamp of approval. One might add that in their infinite wisdom, the Italians did just that, and that their vote was indeed a ballot for stability.

The troubling thing is that the June elections have made it impossible for both the Socialists and the Christian Democrats to reach their original goals. The voting round of a series of referenda—those on nuclear energy and the civil responsibility of judges were the most divisive—that had been postponed because of the elections brought about new charges and countercharges among the main partners, and, curiously, a common threat of “political consequences.”

The strenuous negotiating toward the

formation of a new Government brought to the forefront a relatively new and certainly young face, that of Giovanni Gorla, a Piedmontese Christian Democrat who had run the Treasury in the Craxi Government. The surprise choice of Gorla by President Cossiga came about when the two archrivals, Craxi and De Mita, eliminated each other.

The new Prime Minister was immediately confronted with tough decisions that ranged from the *finanza pubblica* to Italy's role in the Persian Gulf. The Iranian attack against an Italian container ship finally forced the country to flex its reluctant muscle and to send a naval task force to those troubled waters to protect

**The Duomo in Florence.**



Italian merchant marines. The decision was a victory for the new Defense Minister, the Liberal Valerio Zanone, but fears and doubts, not only on the part of the Communists, but of some Christian Democrats, accompanied the Italian frigates and minesweepers to the Gulf. Once again, the determining factor behind the decision to send the warships was Craxi's support for the operation. It was a gesture of alignment with Western interests from a man who, as Prime Minister, had succeeded in establishing a good working relationship with the United States.

The same Craxi who was able to hold together an effective and viable Government with only 11 percent of the popular vote in the past three years was destined to become even more the man who holds the balance in the tenth legislature of the Italian Republic. If there was any doubt that Craxi was the real winner of the electoral test in June, the bandwagon effect in his favor was enough to dispel any doubt as to Craxi's increased leverage in the Italian political wrestling match. Allies and foes must now reckon with a man whom the Republican Undersecretary for Foreign Affairs, Susanna Agnelli, has described as “the leader of a great reformist left,” in the mold of French President François Mitterrand,

the leader who has cut the French Communists down to size.

As the “federating” force of the Italian Democratic left, Bettino Craxi has forced the Christian Democrats to think of that all-purpose idea of *alternativa* not so much in terms of entente with the Communists, but rather of a meeting of the minds with that clever strategist of the Socialist Party. In the political battlefield of Italy, tactics and strategy are often mingled, but if there is a strategy that the Socialists now follow, and the Communists do not, it is to ride the mainstream of social transformations that are brought about not by the parties, but by the individuals. Italians are motivated by a degree of freedom and well-being that a mere generation ago was unthinkable. After embracing the idea of the E.C. and seeing it thrive against great odds, Italians consider themselves an integral part of the web of Western relationship. Poll after poll confirms that the new generation is internationalist and pragmatic, and less and less inclined to be captive of party ideologies.

The other side of the coin, however, is that the larger freedom of groups, besides that of individuals, brings about disregard for the interests of the community at large, as a new wave of strikes in the fall amply demonstrated. The root of the problem is easy to identify in two articles of the Italian Constitution—39 and 40—that pertain to unionizing and the right to strike. The debate centers on the need to “regulate” the right to strike, and especially the calling of strikes that are most damaging to the general interests of the country. In the meantime, Italians and foreign visitors alike were greatly inconvenienced by the strikes of an independent union of train conductors and of a similar independent union of pilots and flight attendants. The reaction to the painful dislocation brought about by those strikes gave another push to a new discipline.

In November, the five-party coalition went through another of those gyrations designed to vent steam for reasons more related to politics than to government policy. The small Liberal Party brought about the collapse of Gorla's first Government on a dispute concerning the budget. The Liberals charged that the budget proposal failed to cut spending and reduce taxes. After a round of perfunctory re-cremations and hasty consultations, the five parties closed ranks, proving once again that they are “sentenced to govern together.” €



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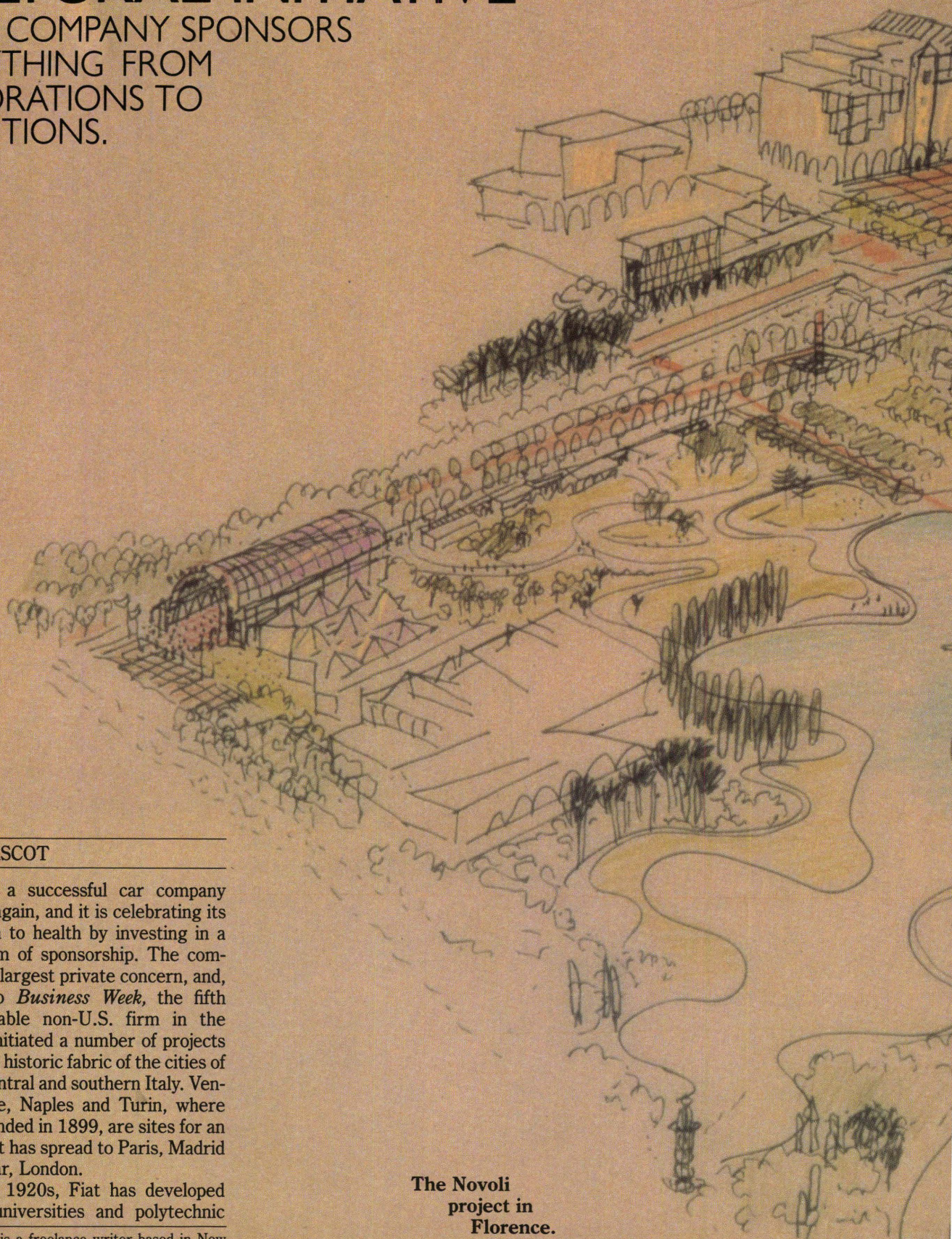
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# FIAT LAUNCHES CULTURAL INITIATIVE

AUTO COMPANY SPONSORS EVERYTHING FROM RESTORATIONS TO EXHIBITIONS.



THOMAS ASCOT

**F**iat is a successful car company once again, and it is celebrating its return to health by investing in a singular form of sponsorship. The company, Italy's largest private concern, and, according to *Business Week*, the fifth most profitable non-U.S. firm in the world, has initiated a number of projects to renew the historic fabric of the cities of northern, central and southern Italy. Venice, Florence, Naples and Turin, where Fiat was founded in 1899, are sites for an initiative that has spread to Paris, Madrid and next year, London.

Since the 1920s, Fiat has developed links with universities and polytechnic

Thomas Ascot is a freelance writer based in New York.

The Novoli project in Florence.



institutions, especially those located in Turin, but, in 1984, it turned its attention to architecture, urban planning and fine arts. In 1984, Fiat developed its cultural policy with the Lingotto factory in Turin, a landmark in 20th-century industrial architecture. Next, it moved to Florence and Tuscany, where, in 1985, eight exhibitions devoted to Etruscan art took place in different towns. The following year, Fiat acquired one of the most famous palaces on the Grand Canal in Venice, the Palazzo Grassi, and, in Turin, Fiat restored a wing of the Royal Palace.

This year has brought new initiatives. The royal hunting lodge of Stupinigi, six miles southeast of the city of Turin is being restored. In Paris, Fiat set up a foundation with the Institute of France, which comprises the five French academies. In Madrid, the Museum of Modern Art is hosting an exhibition on "the designs of an industry." The exhibition will travel to London, to the Science Museum, in the spring of 1988. Fiat and IBM are implementing a plan to catalogue information on the environmental, artistic and archaeological resources in the Naples area.

Perhaps Fiat's most ambitious cultural undertaking to date is aimed at transforming the dreary Novoli area in the northeast of Florence—where Fiat owns

an automotive components factory employing 1,000 people—into a vibrant satellite town. Though the plan would cost the company \$450 million, it should eventually make money. Lawrence Halprin, the American architect renowned for his environmental projects, has been commissioned to produce framework designs for the area. Halprin's concept envisions half of the available area of 320,000 square meters being landscaped, with a lake as centerpiece. Parking and other facilities would be underground. Law courts and other administrative offices, at present located in Florence's congested center, would be built on the site, none more than 100 feet high.

The Novoli project follows a major investment in 1985, when Fiat restored seven museums in Tuscany that eventually hosted a number of shows devoted to Etruscan art. Once more a lasting investment, since most of the museums prior to Fiat's intervention were either closed to the public, or only partially operational.

Fiat's cultural policy embraces a peculiar and perhaps unique leit motif—to restore and to maintain buildings and historical works of art; in other words, durable investments designed to last. In 1982, Turin's Lingotto plant closed after 60 years of producing cars, commercial vehicles, airplane engines and compo-

nents. It is half a kilometer long and five stories high, with a test track on the roof where a memorable scene from the film "The Italian Job" featuring Michael Caine was shot a few years back. Le Corbusier, the master architect, once commented on the building, designed in 1914-16 by Giacomo Matte-Trucco: "The cornice is like a tightly curved battleship, raised at both ends with bridges, smokestacks, yards and gang ways. . . . Certainly one of industry's most exciting spectacles."

Twenty architects and town planners were invited by Fiat to devise uses for Lingotto's 1.7 million cubic meters of space. Their projects, unveiled in 1984, attracted over 150,000 visitors. It was not a competition, but an international consultation. Some architects thought the factory should be converted into residential accommodation; others suggested that it be used for museum and study facilities. The plan eventually adopted was put forward by the Genoese architect Renzo Piano. It is a flexible concept, envisaging apartments on the top floor; the inner courtyards would become gardens enclosed by glass canopies. Two areas of the building are already in use: The former press shop is now Turin's foremost exhibition center, and a portion

Continued on page 45.

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# OSKAR KOKOSCHKA

A DISTINCTLY EUROPEAN MASTER.



A portrait of Martha Hirsch.

## STANISLAW FRENKIEL

**T**he 20th century has brought about many changes in European art, one of these being an increased mobility of artists who move from country to country and join various international art movements; any at-

tempts to classify them under particular ethnic or geographical terms would be futile and pointless.

During the 1930s, European art began to integrate, artists understood each other across linguistic and political boundaries and their work was understood by the informed public. Unfortunately at that time boundaries became

barbed-wire barriers and Europe was soon plunged into war.

It is this hindsight that provided the perspective of Oskar Kokoschka's exhibition at the Tate Gallery in London last year, a formidable *oeuvre* of paintings, prints and writings that presented Kokoschka as a distinctly European master. The exhibition looked like a genuine at-



tempt to atone for the cool reception accorded to Kokoschka during World War II, when he stayed in Britain as a refugee.

Kokoschka's art grew on the rich soil and ferment of the disintegrating Austro-Hungarian Empire and its capital, the almost legendary Vienna of hereditary nobility, impoverished intelligentsia, oporetta and cheap wine. It was during this century that the young painter and designer (he was born a century ago, in 1886) came into prominence as an expressive draughtsman, a sardonic observer and a painter of swift line and rough brush strokes.

### Idiosyncratic Vision

An Austrian of Czech origin, Kokoschka was a European when Europe was still torn into shreds by conflicting forces of nationalism. He was never attached to one place for long and traversed the Continent many times, depicting vistas of Vienna, Dresden, Prague and London with a painterly curiosity. At the same time he kept his own idiosyncratic vision.

From the Vienna decorative linear style of Gustav Klimt, Kokoschka passed into the Workshop of Adolf Loos, the architect who became his patron and friend. It was the dawn of the New Art and Design of this century and it was a paradox of history that it shone on the moribund empire. The air of decline and fall can be seen in the portraits of stiff, monocled noblemen with pale sleepless faces, actresses with gaslit, diaphanous skin and feverish eyes. Contemporary photographs of sitters betray the robust and sprightly physiques of officers while the women are plump and well-nourished. We must attribute the difference to the convention of the time, which saw in illness signs of noble refinement and spiritual birth. There are drawings and portraits of pubescent girls who seem to be worried by bad dreams. Kokoschka understood and admired the beauty of children and his drawings suggest chaste eroticism and fascination with the unripe, slim human form.

He met at that time Alma Mahler, widow of the composer Gustav Mahler, who introduced him to modern music and symbolist art. The romance lasted a few years. Alma Mahler appears in drawings and in allegorical compositions in high color with undulating linear patterns.

She persuaded the artist to volunteer into the Austrian cavalry after the outbreak of World War I. Seriously wounded at the Russian front, Kokoschka stayed in hospital and was released from the army. The breach with Alma Mahler was a serious blow and he reacted by ordering a life-size doll to be made in her likeness.

### The "Companion"

The doll became Kokoschka's companion and a model for innumerable paintings. The cult of mannequin has been for some time part of the Romantic tradition; in Kokoschka's painting it acquires a bitter and angry expression.

The postwar years brought Kokoschka to Dresden where he taught at the Art School and met contemporary German painters and writers. He exhibited and traveled a good deal, and the paintings of that period abandon the descriptive and narrative themes and move into the realm of poetic moods, imprecise space and brilliant, sometimes brutal color. But however dreamlike and remote his work, he never abandoned representation and resisted any temptation to be drawn into non-figurative style.

His stay in Berlin and renewed travels through Europe during the 1930s resulted in a series of townscapes of European capitals, all windswept and airy; also in portraits of cardinals, writers, actors and well-known figures of European nobility, to whom Kokoschka had always been strongly attracted and with whom he got on remarkably well.

The paintings of that period are almost traditional in thematic preference and in

mor with fleshy colors and baroque panache. From this period comes the portrait of Ivan Maysky, the Soviet Ambassador to London, now in the Tate collection, which contains a subtle warning against Soviet imperialism.

Unfortunately, Kokoschka's art found little response in Britain. It was at war, and Kokoschka was after all born in Austria and came automatically under the category of an alien. But perhaps the most important cause of the cool reception accorded to Kokoschka was his expressive style—and expression has been anathema in Britain. It was criticized for its self-indulgence and lack of restraint; and, although Expressionism has been an international movement embracing art from all European countries, including Spain, Norway, Sweden and Russia, the British critics at the time erroneously identified Expressionism with Germanic art and found it at variance with middle-class aesthetics of detachment.

He did not stay in Britain after the war and moved to Austria and Switzerland. For a while, he ran a school that he called the "School of Seeing," emphasizing the process of perception as the most important source of inspiration. His paintings entered the last phase of robust baroque.

## Kokoschka was a European when Europe was still torn apart by nationalism.

compositional schemata and it is with a great deal of surprise that he learned of his work being included in the 1937 Munich Exhibition of Degenerate Art, launched by Adolf Hitler and Joseph Goebbels as part of the Nazi cultural policy. It confirmed Kokoschka in his lifelong detestation of all forms of despotism: He moved to Prague in 1934 and became a Czech citizen. He painted there an allegorical portrait of Thomas Masaryk standing against the bust of Comenius, both men well known for their staunch support of freedom and tolerance.

### New Mood

When Czechoslovakia was occupied by the Germans, Kokoschka, with his wife, Olda, moved to England and stayed there throughout the duration of World War II. His mood changed: He painted lyrical and melancholy views of Cornwall, the rocky pastures with stray sheep against the grey horizon, portraits of friends and, unexpectedly, a number of "political" paintings, visual metaphors and allegories ranging from the duplicity of the Vichy regime to the enslavement of Europe by Benito Mussolini and Hitler. They are painted with a deliberately pedestrian hu-

He painted landscapes, portraits and occasionally group compositions on a personal theme, such as, for example, "Time, Gentlemen, please"—an obvious allusion to the pub-closing time, the presentiment of the near end of his long life.

Kokoschka wrote extensively—poems, plays and critical articles—but his greatness lies in his paintings. One hundred years since his birth and four after his death he stands out as a painter, a survivor of great winds that swept through art and politics. His work has become a source of inspiration for young artists.

But his importance lies also in the fact that his work defied successfully the boundaries of national prejudices and cultural parochialism and has been an instrument of cultural integration of Europe. Like Chagall, Kandinsky and Ernst, the other great wanderers, Kokoschka and his art helped to forge links between disparate traditions by pointing to the common denominator of European art and culture. €

Stanislaw Frenkiel is a painter, writer and broadcaster. He teaches at the University of London.

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# NEWS OF THE E.C.

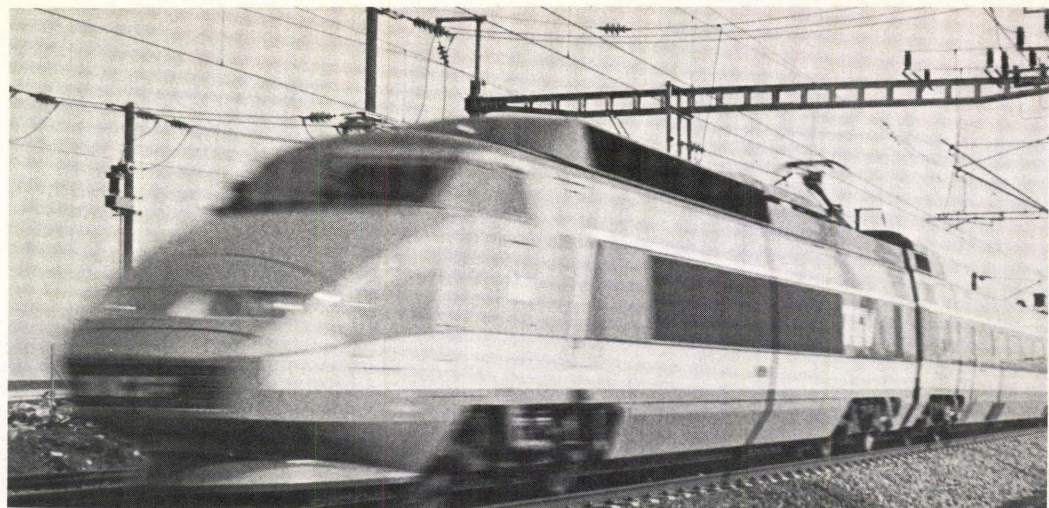
## BUSINESS & ECONOMICS

### HIGH-SPEED TRAIN STUDY TO BE LAUNCHED

European transport ministers gave new impetus to plans for an international high-speed train network in late October by ordering their rail companies to undertake detailed studies of how the project could be carried out. The proposed network, enabling average journey speeds of around 125 miles per hour, would link Paris, Brussels, Cologne, Amsterdam and, through the proposed Channel Tunnel, London. It could also provide a major boost to the railways in their struggle against road and airline competition.

Belgian Transport Minister Herman de Croo told a news conference that an expert study had shown that track work and the purchase of new trains for the project would cost 4.43 billion European Currency Units [ECU] (about \$5 billion) at 1984 prices. He said 110,000 passengers a day would use the new system which would, for instance, cut the journey time between Cologne and Paris to three hours from five.

De Croo said the railway companies would be asked to examine the problems of laying new track, improving existing lines, building new trains, and raising up to 5 billion ECU in outside financing. They would



Studies are now underway toward developing a Europe-wide network of high-speed trains. Above: France's Train à Grande Vitesse.

be asked to report early next year, and the Ministers would hold a further meeting on the project before the end of March.

Senior officials attending the meeting said the Ministers' decision did not necessarily mean the project would go ahead. One British official said, "This is not the big breakthrough, but it keeps the momentum going—which is important for projects such as this."

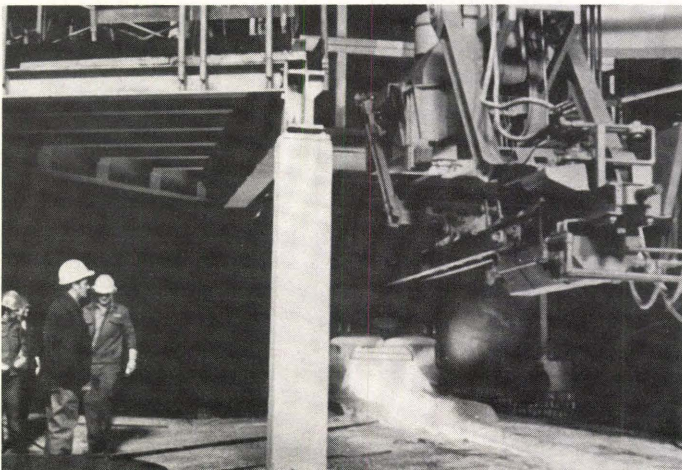
The Ministers had originally hoped for detailed decisions on the TGV (*Train à Grande Vitesse*, or high-speed train) system, despite objections from environmentalists who fear it could disfigure the countryside. But the fact that Belgium—a country central to the scheme because of its geographical position—currently has a caretaker government ahead of elections expected in December, it may be impossible to

reach such decisions, Belgian sources said. De Croo could not give approval to undertakings which could bind a future government in Brussels, especially as the exact route through Belgium is a source of political controversy there.

Stanley Clinton Davis, the E.C. Commissioner for transport, welcomed the agreement, noting that the high-speed train "will make an important contribution to the economy of the regions, and improve their communications in a spectacular manner." —Reuters

### PRODUCTION UP, EXPORTS DOWN IN FIRST HALF

Industrial production in the European Community rose by 1.2 percent in the first half of 1987 compared with the year before,



Industrial production is up in the Community this year, although exports are declining and Europe is running a trade deficit.

according to figures recently released by Eurostat, the E.C. statistics office. European exports, however, are estimated to have been 2 percent lower in volume terms and 3 percent lower in value terms than the first half of 1986. Eurostat noted that the large changes in the value of the yen and the dollar "seem at last to be having some corrective effect on exports." Exports to the United States were down 8 percent (in European Currency Unit [ECU] terms), and exports to Japan were down by about 9 percent.

Imports from third countries rose 9 percent in volume terms over the period, but dropped about 4 percent in value terms due to the decline in import prices in 1986. Imports of manufactures, which now constitute 56 percent of the total, rose 8 percent in volume and 3 percent in value terms. In recent months, imports of primary products have also been rising. Imports from the United States were 11 percent lower in ECU terms in the first half, with import volume remaining high. Japanese imports were 13 percent lower.

The E.C.'s trade deficit, which temporarily disappeared in the second half of 1986, returned in the first half of 1987 at a level of 4.8 billion ECU (about \$5.2 billion). The Community's cover ratio (exports as a percentage of imports) was 97 percent. The American cover ratio, by contrast, remains at 59 percent, while Ja-



pan's was 159 percent.

The Community's current account balance for 1986 showed a marked improvement over 1985, rising from 23 billion ECU to 50 billion ECU, chiefly due to a substantial improvement in the trade balance surplus. There has been an improvement in 1987 due to the strong performance of Germany, whose current account is increasingly in surplus, and to the improvement in Italy's current account balance. France, however, suffered a setback, with a considerable current account deficit of 1.5 billion ECU.

## E.C. TO PROBE RENAULT AID

The E.C. Commission said on November 3 that it had decided to examine French Government aid to the financially troubled car firm Renault to see whether it contravened Community competition rules. It will be looking into a plan by Paris to write off \$2.1 billion of the company's debts as part of a process of transforming it into a normal commercial company. Renault has previously ranked as a state agency.

The Commission, which has the power to order the repayment of aid that breaches Community rules, said that it considered that the write-off gave Renault an unfair advantage over other Community carmakers, and might distort competition within the group. It has asked France to submit its views within a month.

The French Government has said the write-off is needed to reduce Renault's current debt to manageable proportions before it loses the right to seek state support. The Commission is already examining a previous government injection of equity capital into Renault as well as a number of loans from the state innovation and modernization fund. Community sources said these investigations, which concern a total of around \$1.7 billion, would now be grouped with the one announced in November into a single inquiry. — *Reuters*

## SCHOOL-LEAVERS PUSH UNEMPLOYMENT UP

Young people who left school without a job pushed the European Community's total unemployed up to 15.9 million in September, one percent higher than in August, according to the E.C. statistics office Eurostat.

Eurostat said the rise was normal for this time of year, and reflected the flood of young people onto the job market in the summer months. Unemployment among people under 25 was 2.7 percent higher in September than August, mainly due to sharp rises in France, Spain and Britain, although youth unemployment was five

percent lower than in September 1986. Total unemployment was down 0.7 percent, said Eurostat.

September unemployment rates were as follows: Belgium, 12.5 percent; Denmark, 7.0 percent; Germany, 7.7 percent; France, 11.4 percent; Ireland, 18.7 percent; Italy, 14.3 percent; Luxembourg, 1.7 percent; Netherlands, 12.0 percent; Britain, 10.5 percent. Eurostat did not give figures for Greece, Spain and Portugal, which calculate unemployment rates on a different basis from other countries. — *Reuters*

which went to small and medium-sized companies. In addition to creating new activities and allowing existing firms to expand, the Commission noted, this type of lending encourages the introduction of new technologies, energy savings and environmental protection.

The energy sector accounted for some 36 percent of the total loans, which helped finance the construction of nuclear, hydroelectric, geothermal and coal-fired power stations and the exploitation of deposits of oil and natural gas. The loans also helped set up plants for the treatment and storage of nuclear fuels as well as energy transportation and distribution.

Just over 30 percent of Com-



Some 60,000 jobs should be created through Community loans this year. Left: developing telecommunications infrastructure in Germany.

## COMMISSION SEES LOANS LINKED TO TRAINING, JOB CREATION

Loans amounting to 8.5 billion ECU (about \$9.4 billion) in 1986 should lead to the creation of roughly 60,000 jobs, most of which will be concentrated in the areas of Europe worst-hit by unemployment, the E.C. Commission estimated in a recent report on the Community's borrowing and lending activities. The sums lent last year by the European Investment Bank, the Community's bank

for long-term finance, accounted for about one-third of the total investments, and should lead to the creation of nearly 30,000 permanent jobs, including some 23,000 in industry. More than 80 percent of these would be created by small and medium-sized firms.

Other loans granted by the European Coal and Steel Community should lead to about 31,000 more jobs, the Commission claims, through retraining programs for miners and steelworkers who have been made redundant.

Community loans in 1986 for companies amounted to around one-third of the total, much of

munity loans went to infrastructure development, with more than 2.6 billion European Currency Units [ECU] (about \$2.9 billion) shared out between transport, water treatment plants, telecommunications equipment and low-cost housing for coal miners and steelworkers.

## PLANS LAID FOR CAPITAL LIBERALIZATION

The E.C. Commission took a key step toward creating a "European financial area" on October 28, when it adopted propos-



als for the final stage of a plan to liberalize capital movements within the Community. As it argued when first presenting the plan in May 1986, this kind of liberalization is a precondition for the creation of a European integrated financial market—a key part of the completion of the internal market in Europe, scheduled for 1992.

The Commission's proposals consist of three legal texts aimed at establishing the principle that capital movements within the Community are totally free. The proposals contain, however, safeguard clauses designed to deal with serious short-term disturbances that may occur, and allow for transition periods for the application of the new law to certain member states.

The first text is a directive to extend liberalization to all capital movements. Given the present Community liberalization obligations in this area, the proposed extension will cover mainly investments in short-term securities, current and deposit account operations, and financial loans and credits. As the directive will also stipulate that transfers made for the purposes of capital movements must be affected on the same exchange rate conditions as those for current payments, a dual exchange market could not be maintained or introduced except under a safeguard clause.

The new directive will also contain a safeguard clause which would permit the reintroduction of controls on short-term capital movements if they

were seriously endangering a member state's monetary or exchange rate policy. Exercise of the safeguard clause would be subject to Community procedures.

Four member states—Spain, Portugal, Greece and Ireland—are not in a position to proceed to the final stage of the liberalization of capital movements at the same pace as the rest of the Community due to precarious balance of payments positions, high external indebtedness, less developed domestic financial systems and other problems. The new directive will provide for a longer timetable over which these countries would remove controls on the transactions covered. This would not affect the special provisions which already apply in these countries on other transactions covered by previous legislation. For Spain and Ireland, it is proposed that the transitional period would run through 1990, and for Portugal and Greece through 1992.

The second legal text is an amendment of the 1972 directive on regulating international capital flows, to make sure that member states have at their disposal the instruments necessary to the possible implementation of the safeguard clause contained in the new liberalization directive.

The third text, which takes the form of a regulation, is designed to establish a single instrument to provide medium-term financial assistance mechanisms, and make the conditions under which such assis-

tance can be granted to cover needs associated with the liberalization of capital movements as well as general balance of payments difficulties.

## EXTERNAL TRADE

### E.C., AUSTRIA EYE CLOSER RELATIONS

Austria's Foreign Minister Alois Mock met in mid-October with Willy De Clercq, the E.C.'s Commissioner in charge of foreign policy, for talks on the state of Austrian-E.C. relations. Austria—like some of its fellow members of the European Free Trade Association (EFTA)—has been voicing increasing interest in closer ties with the Community as E.C. internal trade barriers are dismantled. The Community is aiming at a



completely free internal market by 1992, a move which is expected to give a broad boost to the European economy.

The meeting, which was the first in a projected annual series of high-level talks, began with a *tour d'horizon* of Community-Austrian relations before examining more specifically the issues of cross-border traffic, relations with Eastern European countries and the establishment of a Community delegation in Austria.

Relations between the E.C. and Austria are generally considered to be excellent. Trade between the two amounted to over \$35 billion in 1986. Austria took 5.6 percent of the Community's exports last year, and provided 4.2 percent of the E.C.'s imports. Since 1983, trade in industrial goods has been relatively free of tariff duties and quantitative restrictions, and moves to free up agricultural trade have begun.

Austria and the Community also cooperate bilaterally in transport, steelmaking, science and technology, environment and other areas.

## CYPRUS, COMMUNITY SIGN CUSTOMS ACCORD

Cyprus and the European Community signed on October 19 a customs union agreement to abolish all trade obstacles between them. Cyprus is already linked to the E.C. by a 1973 cooperation agreement which gave the island preferential trade terms. Under the new accord, the two sides would dismantle all trade barriers over the next 15 years and Cyprus would apply Community customs tariffs to non-E.C. imports, E.C. officials said.

The E.C. is the island's main trading partner, accounting for 54 percent of its imports and 28 percent of its exports, with the balance largely in the Community's favor. Danish Foreign Minister Uffe Ellemann-Jensen told reporters after signing the accord that the union would benefit all the inhabitants of the island.

Germany, Britain and the Netherlands had asked for this to be stressed out of concern that the division of the island would affect the customs union, according to diplomats. The breakaway Turkish state in Northern Cyprus has been condemned by the Community and is recognized only by Turkey. Ellemann-Jensen reaffirmed that the only government the E.C. recognized on the island was the Greek Cypriot administration. Political sources in Cyprus have said that Turkish Cypriot leader Rauf Dentash has made it clear that he will be watching developments to ensure that the Turkish side will benefit under the union.—Reuters





## SOCIAL ISSUES

### EUROPEANS LACK CANCER INFO, SURVEY SHOWS

Cancer can be avoided in about a third of all cases, research has shown. But six out of ten Europeans are unaware of this, and fear and ignorance about cancer are causing the number of cases to rise—and the number of cures to drop.

This was one of the findings of a study carried out earlier this year in the framework of the Community's "Europe Against Cancer" program. The aim was to find out how aware Europeans were of cancer risks and prevention, and whether they were taking appropriate measures—like quitting smoking. Nearly three out of four of those polled rightly pointed to tobacco as the most frequent cause of cancer; more than half, however, thought radioactivity was the second most frequent cause, despite the fact that it accounts for only a tiny proportion of all cases. Exaggerated importance was also given to pollution, stress, certain occupations and excessive exposure to the sun. Nutritional factors, which are responsible for the largest number of cancers after tobacco, were virtually ignored.

Errors in estimation can occasionally be put down to vague information, but the awareness of the dangers which tobacco represents is a testimony to the effectiveness of national and Community campaigns. The survey also indicated that Europeans are very interested in health issues: eight out of ten said they were "often" or "sometimes" interested in information on health.

## PROBLEM



## FOREIGN AFFAIRS

### E.C. CALLS FOR DEMOCRACY IN CHILE

The European Community called in early October for a return to democracy in Chile, saying the move was essential if peace and human rights were to be restored in that country. In a joint statement, the E.C. Governments said: "The 12 countries of the European Community firmly believe it is essential for Chile to return to truly democratic government if peace and respect for human rights are to be restored there.

"Accordingly, they consider that the Chilean people should have complete freedom of information and opinion, and

should be able to elect their President and members of their Parliament in a ballot guaranteeing the free expression of their will."

Two days prior to the E.C. statement, a two-year-old boy was shot dead, 11 people were injured in shooting incidents and some 500 detained around Chile in protests against its military government. Under Chile's Constitution, the armed forces will nominate one candidate as President for the next eight years, who must be confirmed or rejected in a plebiscite expected next year or early in 1989.

President Augusto Pinochet, who overthrew the elected Marxist government of Salvador Allende in 1973, is widely believed to be preparing to stand as the sole candidate.—*Reuters*

## ENERGY

### RENEWABLE ENERGY SOURCES WAITING TO BE EXPLOITED

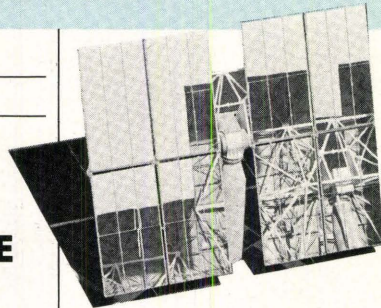
By the end of the century renewable energy sources such as wind, sun, water and waste could meet between 5 and 6 percent of the European Community's total energy requirements. But this is unlikely to happen, the European Commission said recently, if the Governments of the 12 E.C. member states do not lend a helping hand—which is why it recently indicated to them some of the measures which need to be taken.

Renewable energy sources have a twofold advantage: they are inexhaustible (unlike coal, oil and natural gas), and they are readily available in the Community. Exploiting these new sources, however, requires expensive research and massive investments from the start.

According to the Commission, biomass and waste are the most promising sources of renewable energy. The Community could one day meet over 8

percent of its requirements from vegetation and forest waste, the wood-based industries, agriculture and the food industry, as well as household waste. As from now, biomass and waste could profitably meet about 3 percent of the Community's needs.

Power from the sun could meet up to 1 percent of European energy needs by the turn of the century, and is already producing hot water for domestic use economically in the Community's southern regions. But architects, government departments and banks are not yet well-informed enough about the possibilities of solar energy, the Commission believes. Geothermal energy, which makes use of underground heat, could supply 0.4 percent of E.C. energy, and about 40 exploitable sites have been located within the Community. Another 1 percent of the Community's needs could be met by windmills by



the end of the century.

The E.C. Commission is asking the Governments of the member states to modify national regulations which hamper the development of renewable forms of energy, to draw up a complete inventory of existing resources and to support research in this sector. According to the Commission, the national authorities should also avoid setting standards which are incompatible with each other.

## ENVIRONMENT

### ENVIRONMENT CONFERENCE AGREES ON CLOSER COOPERATION

European Environment Ministers agreed at a conference in late October to cooperate more closely on reducing air, soil and water pollution. The conference brought together Ministers from the 12 countries in the European Community and six in the European Free Trade Area.

Dutch Environmental Minister Ed Nijpels said Ministers had agreed on the pressing need for joint research to reduce damage to the earth's ozone layer. Swedish Environment Minister Birgitta Dahl noted that new research showed that damage to the ozone layer was much worse than previously thought and needed urgent consideration. "We are in an extraordinary situation, needing extraordinary measures," she said.

Nijpels said the conference also agreed to encourage the wider use of lead-free gasoline in Europe, and to curb exhaust fumes from heavy trucks. The Ministers recognized the need for international agreements on limiting sulphur dioxide emission levels and decided to research the possibility of creating an alarm system to give advance warning of environmental accidents. Dahl said Sweden was very anxious to see an end to the dumping of waste in the North Sea by the end of 1989.—*Reuters* €



## 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.

**Czechoslovakia: Charter 77's Decades of Dissent.** By Janusz Bugajski. Praeger Publishers, New York, 1987. 118 pp. \$29.95 (hard) and \$9.95 (soft).

This text discusses the human rights movement, Charter 77's, which emerged following the "Prague Spring" of 1968 which was a period of liberalization in Czechoslovakia and was forcibly quashed by Soviet and other Soviet-backed regimes. Human rights issues, abuses and general opposition in communist states are discussed.

**Myths and Reality of External Constraints on Development.** By James Riedel. Gower Publishing, Hampshire, U.K., 1987. 111 pp. \$8.95.

Professor Riedel examines what he believes to be the reasons for why many developing countries have tried to free themselves from "external constraints" imposed by developed countries who are said to be able to determine the growth and availability of capital to the lesser-developed states. The author examines whether past theories are still relevant, and ways in which developing countries can displace production in developed countries as well as securing access to capital markets. Professor Riedel believes that the developing countries, through domestic policies, can tip the scale in their favor in promoting economic development.

**Intellectual Property Rights and U.S. Competitiveness in Trade.** By Helena Stalson. National Planning Association, Washington, D.C., 1987. 106 pp. \$15.00.

The author discusses in detail what has been done to protect intellectual property rights, which includes such protective measures as copyrights and trademarks. Ms. Stalson looks at U.S. legislation, international agreements as well as the GATT approach to the problem of the illegal uses of protected intellectual property.

**Clothing-Industry Adjustment in Developed Countries.** By José de la Torre. Macmillan Press, London, 1986. 259 pp.

The author assesses the validity of the belief that the clothing industries of the developed countries would disappear without protection against textile exporters of developing nations. Included are private and public responses to the changes in the clothing industries of the U.S., E.C. and Japan where it has been determined that successful companies in developed countries have demonstrated a route to survival by serving an increasingly fashion-oriented international segment of the market.

**Centres & Bureaus: A Directory of Concentrations of Effort, Information and Expertise.** Edited by Lindsay Sellar. CBD Research Publications, Kent, U.K., 1987. 214 pp. \$110.00.

This directory is a reference source concerning centers and bureaus in any particular area of interest, from law to accounting, for the United Kingdom.

**Doing Business in Belgium: A Practical Information Guide for the Foreign Businessman.** By the American Chamber of Commerce in Belgium. Brussels, 1987. 96 pp. BF 570-BF 1050.

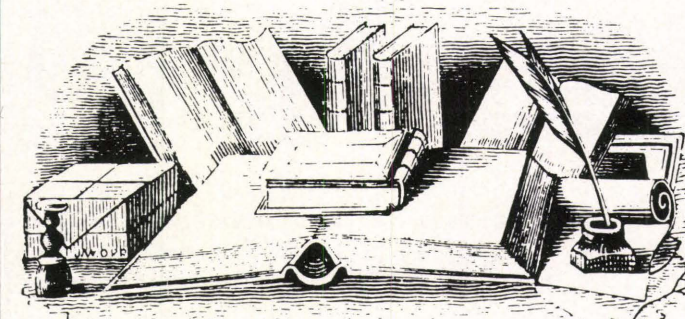
Resource guide for foreign businessmen, including addresses and other pertinent information.

**Yearbook of the European Communities and of Other European Organizations.** Edited by Georges-François Seingry. Editions Delta, Brussels, 1987. 444 pp. BF 2,160.

A trilingual (English, French, German) resource guide to European Organizations.

**Information Technology Atlas - Europe.** Edited by International Organizations Services. Elsevier Science Publisher, New York, 1987. 470 pp. DFL 140.

This text is a handbook for further development of Information Technology partnerships across the European Community. Included is an introduction to the European Scene, research policies and programs, research institutes, trade associations, information technology companies, standards bodies, telecommunications, professional organizations and sources.



**Superpowers Competition and Security in the Third World.** Edited by Robert S. Litwak and Samuel F. Wells, Jr. Ballinger Publishing, Cambridge, MA, 1987. 320 pp. \$29.95.

Prospective policies and regional case studies are discussed in the context of the Superpower conflict vis-à-vis the Third World.

**External Debt, Savings, and Growth in Latin America.** Edited by Ana Maris Martirena-Mantel. International Monetary Fund, Washington, D.C., 1987. 207 pp. \$12.00.

Papers presented at a seminar sponsored by the International Monetary Fund and the Instituto Torcuato di Tella, held in Buenos Aires on October 13-16, 1986 are reprinted along with commentaries on each.

**The New Expatriates: Managing Human Rights Abroad.** By Rosalie L. Tung. Ballinger Publishers, Cambridge, MA, 1988. 200 pp.

This book compares the selection and training procedures of expatriate assignments using a sample of U.S., European and Japanese multinationals. Tung offers empirical data and case studies to demon-

strate the need for immediate changes in the structure of U.S. multinationals.

**The Role of Industrial Policy in Western Europe: A Trade Union Perspective.** European Trade Union, Brussels, 1987. 114 pp.

Part one contains a background report on the subject of industrial and structural policy in Europe. The second part contains important discussions by trade unionists on government representatives, politicians, industrialists and representatives of the European Community.

## PUBLISHED FOR THE COMMISSION

**Reliability Data Bases.** Eur 11155. Edited by Aniello Amendola and Z. Keller. Kluwer Academic Publishers, Boston, 1987. 398 pp. \$74.00.

Proceedings of the ISPra course held at the Joint Research Center, Ispra, Italy, 21-25 October, 1985 in collaboration with Eu Re Dat A. Definitions, statistics, collection procedures, data base organization and examples are used.

**Fusion Technology 1986.** Vols. 1 & 2. EUR 10936. By the Association Euratom/CEA-CEN. Pergamon Press, New York, 1986. 1,895 pp. \$350.00.

Proceedings of the Fourteenth Symposium Congress Center of the Palais des

Papes in Avignon, France, 8-12 September, 1986.

**Regional and Long-range Transport of Air Pollution.** EUR 10832. Edited by S. Sandroni, Elsevier Science Publishers, New York, 1987. \$170.75.

Lectures of a course held at the Joint Research Center, Ispra, Italy, 15-19 September, 1986.

**Clinical Efficacy of Positron Emission Technology.** EUR 10972. Edited by W.D. Heiss, et al. Kluwer Academic Publishers, Boston, 1987. 421 pp. \$118.50.

Proceedings of a workshop held in Cologne, FRG, sponsored by the Commission of the European Communities as advised by the Committee on Medical and Public Health Research. Included are discussions by various experts on cerebral vascular disease, brain movement disorders, brain dementias, schizophrenia, angina pectoris, heart infarction, lungs, soft tissue tumors and brain tumors.

**Electronic Publishing: The New Way to Communicate.** EUR 10978. Edited by Franco Mastroddi. Kogan Page Publishing, London, 1987. 343 pp.

Proceedings of the symposium held in Luxembourg 5-7 November, 1986. Various authors describe the process of electronic publishing and what impact it will have in the future.

**Age-Related Factors in Radionuclide Metabolism and Dosimetry.** EUR 10556. By G.B. Gerber, et al., eds. Martinus Nijhoff Publishers, Boston, 1987. 416 pp. \$90.00.

Proceedings of a workshop held in Angers, France, 26-28 November, 1986. Written in the aftermath of Chernobyl to answer some pertinent questions about radiation risks and protection of the general public.

**Scientific Basis for Soil Protection in the European Community.** EUR 10870. Edited by H. Barth and P. L'Hermitte. Elsevier Science Publishers, New York, 1987. 630 pp. \$126.00.

Written by a number of experts, this text discusses the potential of European soil as well as its ruin. A plan for recovery, protection and strategies for prevention is also discussed.

**Reliability Modelling and Applications.** EUR 11156. Edited by A.G. Colombo and A.Z. Keller. Kluwer Academic Publishers, Boston, 1987. 391 pp. \$72.00.

Proceedings of the ISPra course held at the Joint Research Center, Ispra, Italy, November 25-29, 1985. Topics discussed included systems reliability, availability and maintainability of systems, structural reliability, reliability of computing systems as well as human reliability.

**Monitoring of Gaseous Pollutants by Tunable Diode Lasers.** EUR 11060. Edited by R. Grisar, et al. Reidel Publishing, Boston, 1987. 175 pp. \$47.00.

Proceedings of the International Symposium held in Freiburg, FRG, 13-14 November, 1986, under the auspices of the Bundesministerium für Forschung und Technologies and the Commission of the European Communities. Discussed are: atmospheric trace gas detection, exhaust gas monitoring, as well as special applications.

**Integrated Pest Control in Olive Groves.** EUR 9387. Edited by R. Cavalloro, A.A. Balkema Publishers, Boston, 1985. 512 pp. \$34.00.

Proceedings of the CEC, FAO, IOBC International Joint meeting in Pisa, Italy, on 3-6 April, 1984 are presented. Various pests and pest management are discussed.

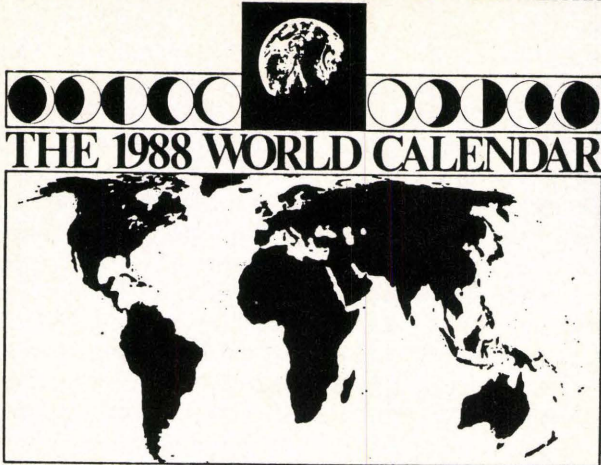
**Soil Compaction and Regeneration.** EUR 1039. Edited by G. Monnier and M.J. Goss. A.A. Balkema Publishers, Boston, 1987. 167 pp. \$33.50.

Proceedings of the workshop on soil compaction: consequences and structural regeneration processes, Avignon, France, 17-18 September, 1985.

**Integrated Tse-Tse Fly Control: Methods and Strategies.** EUR 10530. Edited by R. Cavolloro. A.A. Balkema Publishers, Brookfield, VT, 1987. 203 pp. \$35.00.

Proceedings of the CEC International Symposium. Topics discussed are the safety and efficacy of chemical, biological, biotechnological, and integrated methods, and international cooperation.





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## ITALY

Continued from page 37.

of the second floor houses the National Museum of Italian Radio and Television.

It has been estimated that the Lingotto project has cost over \$2.5 million so far, a figure which might eventually run to \$250 million. Local authorities are now joining Fiat in forming a company aimed at handling part of this huge project.

Apart from Lingotto, Turin has benefited from two further projects: restoration of the former palace of the House of Savoy and of the royal hunting lodge at Stupinigi. Architects Roberto Gabetti and Almaro Isola directed work at the palace, a masterpiece of 17th-century architecture. In 1986, the refurbished building hosted an exhibition of silver and porcelain that belonged to the dukes of Savoy and kings of Sardinia. The silver and china objects were restored thanks to a grant from Fiat. The show attracted over 200,000 visitors.

Looking beyond Turin, in the spring of 1984 the company bought the Palazzo Grassi, a dilapidated neoclassical building by the Grand Canal in Venice for \$6 million. The renovation, in which electronics and engineering subsidiaries of the Fiat Group participated, was largely

completed in 1986, although work is still being done on the small adjacent theater. Costs have totalled about \$12 million. Since the opening, there have been three exhibitions in this palazzo restored by architect Gae Aulenti: one devoted to futurism attracted 350,000 visitors. Pontus Hulten, who used to run the Pompidou Center in Paris and then the Los Angeles Museum, is the artistic director of Palazzo Grassi, which next held a retrospective show of paintings by Giuseppe Arcimboldo, a fascinating and bizarre painter of the 16th century, and a surrealist before his time. Swiss sculptor Jean Tinguely saw his works displayed this year. In March of 1988, Palazzo Grassi will hold an exhibition on the Phoenician civilization, the first major show devoted to this people.

Even abroad Fiat is playing its part in responding to an increasing need for cultural involvement. Early this year, Fiat set up a foundation in France with the Institute of France aimed at "the application of wide ranging disciplines to industry and the opening of industry to culture". In October, the "Patron's Globes" were presented to two French organizations: the Center for the Study of Mathematics and Music Automation, brainchild of composer Iannis Xenakis, and the

Franco-Egyptian Archaeological Center of Karnak. Xenakis' center received recognition for the so-called "Upic," an electronic design table connected to a computer which, assigning a pitch value to each line, transforms drawing into sounds and consequently music. The Karnak Center has received an award for a computerized classification system that examines and chronologically categorizes Egyptian building block segments, shards and hieroglyphic inscriptions from various Egyptian dynasties. Next year, the foundation's activity will fall under the guidance of the Académie Française, oldest of the five academies comprising the Institute of France. The awards will be given for Latin scholarship.

In the meantime, at the Museum of Modern Art in Madrid and next spring at London's Science Museum, products, ideas and salient material of nearly a century of Fiat's history are on display at an exhibition which underscores the link between the industrial world and its need to communicate with its customers. The exhibition, "Designs of an Industry," highlights the ways in which industry can express important aesthetic and cultural values. It is a further example of the approach adopted by Fiat in sponsoring the arts and culture. €



## DEFENSE

Continued from page 19.

can troops from Europe for decades, but his theory was that Europe would never look to its own defense until compelled to do so. In 1984, Sen. Sam Nunn (D-GA) backed a bill to bring 90,000 troops home, and it failed to pass the Senate by only a few votes. This time the argument that attracted most of those votes was simpler: America could not afford to bear that burden.

Most recently and most forcefully, Europeans have been shocked by the rapidly decided proposals of the United States and the Soviet Union aimed at removing intermediate-range nuclear forces from

an agreement, matched by Gorbachev's readiness to accommodate him, leave Europeans little room to act. They know they would not prevail over the joint wishes of the two superpowers.

It is well understood in Europe that the tracks toward an agreement have been greased by both powers. Gorbachev needs an arms-control agreement to buoy him up over opposition to *glasnost*; Reagan needs one to lift his Presidency out of the Iran-Contra debacle and to finish his term on a strong note. Thus Europe feels brought along in a headlong rush toward a December summit, for an agreement must be signed as soon as possible if the Reagan Administration is to have time to secure Senate approval before its term

## THE NORTH ATLANTIC TREATY ORGANIZATION MAY BE TRANSFORMING ITSELF BACK INTO THE ORIGINALLY INTENDED ALLIANCE OF EQUAL PARTNERS.

Europe. Last October in Reykjavik, General Secretary Mikhail Gorbachev unexpectedly took up President Ronald Reagan's zero-zero option on missiles of the 1,000- to 5,600-kilometer range. Reagan embraced the deal, then presented it to his European allies essentially as a *fait accompli*. When complaints arose that this left the Soviets with superiority in shorter-range missiles (1,000 kilometers to 2,000 kilometers), Gorbachev quickly offered to zero those out, too. These proposals, which would radically restructure the defenses Europeans rely on but were made largely over their heads, are the direct cause of this year's NATO tremors. Yet Reagan's determined pursuit of

ends.

Europeans are not alone in hesitating. The outgoing NATO commander, General Bernard Rogers, called a farewell news conference to protest: "Somebody ought to stand up out there and say to NATO, 'Time out, damn it!' We have moved too quickly and it is time for us to sit back and think and reorganize ourselves... When the future of Western Europe is at stake, I don't know why it is so necessary... to rush into this, other than the fact that certain Administrations are going out of existence..." If any doubts remained that securing an agreement was indispensable to the Reagan Administration, they were dispelled two days later when

Secretary of State George Shultz told reporters that Rogers' concerns were "ridiculous" and simply "wrong," and then added uncharacteristically, "And he can put that in his pipe and smoke it!"

If there is to be an agreement, as it appears there will be, how will Europe respond? Some leaders, particularly in Britain, will want to compensate for the removal of one aspect of the American military presence by deepening other forms of cooperation. Cooperation is made difficult, however, by differences over a U.S. trade bill, American demands for more burden-sharing in the Persian Gulf and European discontent with a poorly financed deficit and a weak dollar. The European tendency lately has been toward going it alone, as it has, for example, with its "Eureka" program, an answer to the American SDI research drive, which amounts currently to more than 70 pan-European industrial research and development projects.

The ultimate go-it-alone program would be to try to revive the old Western European Union (WEU), this time equipping it with its own independent nuclear deterrent. This would be a true and total return to the original intentions of the alliance, but the difficulties may be insuperable. Europeans show no readiness to spend on such a scale; indeed, there is opposition to any significant increase at all in defense spending. Nor have European Governments and defense industries demonstrated a capacity to coordinate even to the extent of producing a common warplane, much less an integrated and efficient military establishment.

Moreover, would Britain and, particularly, would France be willing to compro-

## SPACE

Continued from page 27.

lic of Germany have already been working on their own projects for reusable launch vehicles, which could make Hermes obsolete soon after it comes into operation. Engineers at British Aerospace have designed an upgraded version of the Concorde. This would be able to take off in a horizontal position, and then use the power provided by unique air-breathing engines (whose design is still being kept secret) to boost itself into a near-vertical trajectory. After placing a satellite in orbit or carrying out other tasks, it would return to earth in a horizontal position (hence the name HOTOL, standing for "horizontal take-off and landing").

German aerospace engineers have developed an alternative concept called

Sanger, in which a small reusable spacecraft would be launched from the back of a much larger aircraft, reaching orbit under its own power and subsequently—like Hermes—gliding back to earth.

Both countries acknowledge that Hermes could be a useful "stepping stone" toward their own, more ambitious, projects, providing detailed information, for example, about the performance of composite materials under re-entry con-

With several thorny issues still to be resolved, the future shape of Europe's activity in space is unlikely to be resolved for several months to come. The last decade has demonstrated that Europe has developed the technical ability to consider itself a major space power; the next few years will reveal whether it has the political maturity—and the political will—to put this ability to the most cost-effective use. €

## AIR SERVICES

Continued from page 21.

game based on the highest common denominator. To obtain the benefits of expanded access to the internal and international markets of the initial signatories, subsequent signatories would be forced to accept the same requirements agreed among the original signatories. Such an agreement would strengthen the pressures for liberalization by setting a high standard for the broader services negotiations and by reducing the ability of protectionist governments to dilute liberalizing measures to the lowest common denominator.

The point is not that negotiations among a smaller group of liberal countries would be easy, only that such negotiations would be simpler than those among a larger, more diverse group of nations.



mise sovereignty over their nuclear forces? Would Germany be willing to go nuclear, and would other powers want this? The obstacles that blocked the European Defense Community in 1954 for the most part are still there and in addition there are formidable new ones. But there is also present today an unprecedented spur of necessity that may render attractive measures that were quickly abandoned before.

If European integration appears too difficult and costly, would separate nations then each look to its own defense? Most particularly, would Germany be inclined to provide for itself? Andreas von Bülow, the West German Social Democratic defense expert, proposes for the Federal Republic a militia-style "defense in depth." This would concede a Soviet invasion, but would aim at absorbing, diffusing and blunting the attack in numerous, localized encounters. He envisions a destructive urban guerilla war, but holds that a rapid overrun and collapse could be ruled out, and that this would be a deterrent to the Soviets. More importantly perhaps, the current, self-detering prospect of tank battles leading to nuclear exchanges in a country where, as Germans say, towns are about a kiloton apart, could be replaced by the expectation of a struggle in which the people's will to resist could play a part in deciding the outcome.

The French, naturally, would not welcome this course. Germany is their buffer zone—if need be, their battlefield—and conversion to militia defense would strike the French as a step toward neutralization. Nor would the British, with their traditionally close ties to the United States, be pleased to see Germany move

Even among relatively like-minded countries, governments will be required to make difficult, sometimes wrenching, changes in longstanding policies. Governments will find it necessary to reduce or eliminate government subsidization (and possibly ownership) of airlines, to give foreigners broad access to domestic and inter-regional markets, and to permit both the acquisition of existing airlines and the establishment of new ones to compete in their markets. They will also have to accept the inevitability of acquisitions, mergers, and the multinationalization of airlines formerly viewed as national flag carriers and, in some cases, as extensions of the state.

The negotiating trades will also be complicated by the need to take account of the accession of the new signatories. The United States, for example, is unlikely to accord British carriers full access

toward extricating itself from the flexible response strategy. The Germans, however, may grow more intrigued with von Bülow's ideas. They feel uniquely on the spot as the front-line state, and their exposed status would be brought home to them if all 500-kilometer to 5,600-kilometer range missiles are withdrawn. At that point, their homeland would be the sole target of all the nuclear weapons left on European soil, and that would include the French land-based Pluton missiles.

Europeans who are not unilateralists or pacifists wonder what any current steps toward the denuclearization of Europe may portend, particularly given the ambivalence and impatience of Americans toward costly commitments overseas.

## IT IS CLEAR THAT THE CURRENT TREND OF EVENTS POINTS TO PLACING A HEAVIER BURDEN ON EUROPE FOR ITS OWN DEFENSE.

Would the removal of nuclear weapons break the bridge of Atlantic partnership? Or would it at last make the partnership an arch crowning two equal pillars, one in Europe and one in America? Would it vitiate or vitalize NATO?

To pose an even more critical question, would a denuclearized Europe simply be a Europe made safe again for conventional war? Or would the denuclearization of Europe, should it actually occur, cause its member states to coalesce in providing themselves with an integrated and substantial conventional deterrent that would keep the peace without the threat of nuclear annihilation?

At this point it is clear that the trend of events is to place a greater burden on Europe for its own defense. It is also clear

to the domestic U.S. market until it is assured that American carriers will have access in Europe via Britain comparable to that enjoyed by British carriers. Since Britain alone cannot ensure such access (the consent of other European states is also required), British rights in an initial agreement would presumably reflect the limited rights assured to the United States (e.g., rights between Britain, the Netherlands and Scandinavia). However, the prospect of additional signatories such as Germany, Belgium and Italy would require some mechanism for increasing the rights of signatories to reflect the increased value of the expanded agreement to the United States.

The economic pressures that now make air services ripe for liberalization will not await the outcome of marathon negotiations. If governments cannot act quickly enough to change the existing

that while negotiations may move quickly from time to time, realignments of alliances occur more slowly and haltingly.

German Chancellor Helmut Kohl and French President François Mitterrand have both endorsed the idea of a French-German brigade, a largely symbolic unit of troops under joint command. This pilot group is supposed to explore the problems of cooperative command and to feel the way toward broader cooperation. In fact, its purpose is as much political as military: To express a readiness to consider greater integration of forces, even if that integration is years away. Conflicts have already arisen, and predictably enough they are centered on Germany's integration into the NATO command struc-

ture and France's self-imposed exclusion from it. This difficulty has been temporarily finessed by making the German contribution from state militia groups rather than from the national army, but the essential conflict remains unaddressed.

Europeans will have to muster more forces than a French-German brigade to meet the challenges they face. The removal of intermediate nuclear forces will require a response, and increasing American reluctance to bear burdens should be anticipated. In short, Europeans will have to look more to their own defense. They will have to learn to behave, as German military specialist Christophe Bertram has said, "as though it depended on us." €

regime, these forces will find the "fault lines" in the existing regime and force a restructuring of the world airline industry along the path of least resistance; such a restructuring is likely to be neither as efficient nor as liberal as a regime negotiated among a group of liberal trading partners.

Thus, the key to building a more liberal regime for air services is to capitalize on the pressures created by deregulation and to press ahead quickly for the creation of a market-based regime in air services. The United States is the logical, if not the only, candidate for the leading role in that effort. It remains to be seen whether the United States is prepared to respond to the casting call. €



# THE COMMUNITY BOOKSHELF

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## November-December

- Publications of the European Communities.** *Office for Official Publications, Luxembourg, 1987, 30 pages.* List of publications issued April-June 1987. **Free**
- New Rights for the Citizens of Europe.** *European File No. 11/87, Commission, Brussels, June-July 1987, 11 pages.* **Free**
- The European Community and Consumers.** *European File No. 12/87, Commission, Brussels, June-July 1987, 11 pages.* **Free**
- Europe, Our Future.** *European File No. 13/87, Commission, Brussels, August-September 1987, 12 pages.* Brief survey of the achievements of the EC. **Free**
- European Regional Policy.** *European File No. 14/87, Commission, Brussels, August-September 1987, 12 pages.* **Free**
- The European Community and Yugoslavia.** *Europe Information, External Relations No. 88/87, Commission, Brussels, February 1987, 10 pages.* **Free**
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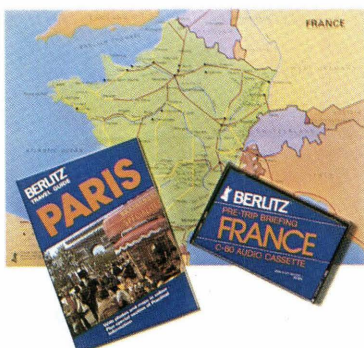
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## World car sales: South Korea gears up. Page 10

## Brazil expected to delay debt payments

## Volcker says currency 'ranges' will fail

## Government clears plan to sell Leyland Trucks

## Poll blow for Haughey

## Gorbachev 'was ready to resign'

### Paris discussions to focus on currencies and economic policies

### G7 nations to meet on Sunday

### By Our Economics and Foreign Staff

**THE GROUP** of seven leading industrial nations will meet in London today, ending weeks of discussion on monetary, currency, exchange rate and other issues. The group is expected to meet in London on Sunday, February 21, to discuss the results of the Paris discussions.

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### DOLLAR

The dollar index has risen from 100 in 1980 to about 130 in 1987. The index shows a general upward trend with some volatility, particularly a sharp rise in 1981 and another in 1987.

### World car sales: South Korea gears up. Page 10

World car sales in South Korea are expected to increase significantly in 1987. The Korean government is planning to invest heavily in the automotive industry to boost exports.

### Brazil expected to delay debt payments

Brazil is expected to delay its debt payments to the International Monetary Fund (IMF) until next month. The country's foreign reserves are low, and the government is struggling to meet its obligations.

### Volcker says currency 'ranges' will fail

Paul Volcker, Chairman of the Federal Reserve, has warned that the current system of currency 'ranges' is unsustainable. He believes that the system will eventually collapse, leading to a new era of floating exchange rates.

### Government clears plan to sell Leyland Trucks

The British Government has approved the sale of Leyland Trucks to a consortium of private investors. The sale is part of a broader strategy to reduce government debt and privatize state-owned enterprises.

### Poll blow for Haughey

Charles Haughey's Fine Gael party has suffered a significant defeat in a recent election. The result is a major setback for the party and its leader, who has been in office for several years.

### Gorbachev 'was ready to resign'

Western officials claim that Mikhail Gorbachev was ready to resign as leader of the Soviet Union in 1985. However, he was persuaded to stay in office by his colleagues and advisors.

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