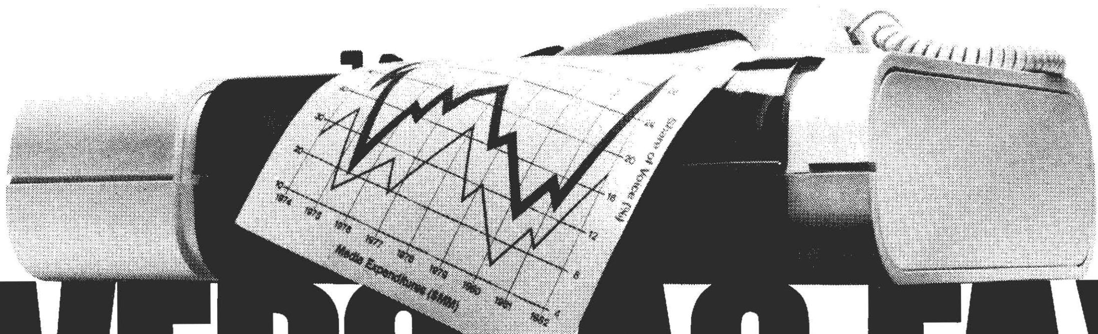
JANUARY-FEBRUARY 1983 No. 235

$1.50

EUROPE

Magazine of the European Community

IBERIA: the challenge of young democracies



OVERSEAS FAX. THE BEST WAY TO GIVE THEM THE PICTURE.

An exact copy. Fax is the only system that sends it most anywhere in the world. Speed. Economy. Confidentiality. Fax puts it together like no other system can.

All you need to send hard copy overseas is a telephone and a facsimile machine. The same machine you may already be using domestically. The price of a Fax transmission is the price of a call. And our 1-minute overseas minimum makes it more economical than ever. See the chart for sample rates.

Send signed documents. Graphs. Pictures. Fax transmits an exact duplicate from your original. Sending them requires no special training or personnel. Send them any time.

Many terminals can receive without an operator. Send them with Fax. It's the only way for hard copy to travel.

For a free brochure, call toll free **1 800 874-8000** or write: Fax Facts, P.O. Box 397, East Brunswick, NJ 08816-0397.

Times and costs to transmit a 400-word page to Europe:*

TRANSMISSION TIMES**	COST		
	Std. Tel Rate (7am-1pm)	Dis. Tel Rate (1pm-6pm)	Econ. Tel Rate (6pm-7am)
1 MINUTE	$2.37	$1.78	$1.42
3 MINUTES	$5.03	$3.78	$3.02
6 MINUTES	$9.02	$6.78	$5.42

*Similar attractive rates to other areas.
**Transmission times vary depending on type of equipment used.

Bell System

Editor-in-Chief Webster Martin
Publisher Denis Corboy
General Manager Sarah Trott
Assistant Editor Susan Rielley
Contributing Editor Beth Eastman
Editorial Assistant Chantal Deynout
Art Director Leckie/Lehmann

EUROPE

Magazine of the European Community

JANUARY-FEBRUARY 1983 No. 235

Cover: Detail from the cover of Toros y Toreros, a collection of Pablo Picasso's bullfighting sketches with a text by Luis Miguel Dominguin. Courtesy Alpine Fine Arts Collection, Ltd.

EUROPE, *Magazine of the European Community,* (ISSN 0279-9790), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 707, Washington, DC 20037. **The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the views of European Community institutions or of the member states.** **EUROPE,** published bimonthly, is available by subscription for $9 per year; $15 per 2 years; $20 per three years.

Editorial, permissions, advertising, and circulation offices: 2100 M Street, NW, Suite 707, Washington, DC 20037; telephone (202) 862-9500; telex 248455 COME UR.

Advertising Sales Representatives:
United States: Grant Webb & Co., Inc., Keene, NY 12942, Tel. (518) 576-2232 and 872 Madison Avenue, New York, NY 10021, Tel. (212) 570-6161.

Paris: Grant Webb International Ltd., 1 les Peupliers, le Parc de Port Royal, 78190 Voisins le Bretonneux, France, Tel. 043-65-30.

Belgium/Luxembourg, Insight Publications SA, 42 bd. de la Cambre, Bte. 3 1050-Brussels, tel: (02) 640 62 80 telex 63 695.

Germany: Nicholas Holroyd, Holroyd GmbH & Co., Information International KG, Epsteinerstrasse 36, 6000 Frankfurt 1, West Germany.

Second class postage paid at Washington DC.

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

Publisher's Letter

We start 1983 in the belief that the U.S.-E.C. climate is getting better. Common sense seems to have become, however temporarily, the order of the day, but the dangers of recession-inspired trade protectionism still loom large on the horizon.

In this issue of Europe we examine agricultural trade disputes between the European Community and the United States and how and why they have evolved into flashpoints in U.S.-E.C. relations. Although these disputes have yet to be resolved, both sides recently manifested their desire to try and settle these bilateral problems rationally and peaceably during Cabinet-level meetings in Brussels. Can the United States and Europe avert a trade war? Only time will tell. However, their decision to begin talks on their farm trade differences looks like a step in the right direction.

Our cover story is on the proposed widening of the European Community to include Spain and Portugal. Most things are cheaper by the dozen, but not in this case. The addition of Spain and Portugal to the present Community of "Ten" will cost both E.C. policymakers and those on the Iberian peninsula a lot of soul-searching to achieve, in the end, a viable political entity of 12 European states. That goal will require sacrifices and concessions on all sides.

In December, the leaders of the Ten, meeting as the European Council, reaffirmed their political commitment to the enlargement of the Community to embrace its Iberian neighbors and agreed that accession negotiations should press ahead as rapidly as possible. That strong political commitment probably will triumph over the economic problems enlargement poses for the Community.

In a report assessing the practical problems involved in enlargement, the E.C. Commission recently proposed that the two applicant countries agree before accession to take measures parallel to those being implemented in the Community to avoid disrupting E.C. efforts to retool certain important industries. By the same token, however, the Commission recognized that the two new candidates cannot be expected to make such a commitment unless they are given—as they have not been—a reasonably certain timetable for E.C. membership.

The accession of Spain and Portugal will shift the Community's center of gravity southward. This will make it more Mediterranean, more Latin, and more vibrant. Many of the problems the Community now faces were not created by the prospect of Spanish and Portugese accession; they already existed. Enlargement has given the added urgency on Mediterranean policy, decision-making, and so on.

The "Twelve" will have more diverse and intractable differences to reconcile than the original "Six" or "Nine" member nations of the E.C. In order to avoid internal paralysis, the majority vote will have to become more the norm than the exception in agreeing Community policies.

Enlargement challenges the Community to adapt its Common Agricultural Policy to accommodate Spain and Portugal in a way that will neither bankrupt producers of such Mediterranean farm products as olive oil, wine and vegetables, nor lead to burdensome and costly surpluses of these products. The integration of the Iberian industries into the Community's fabric also presents its share of difficulties, since some of these industries—chiefly textiles and steel—are the same ones involved in painful modernization and restructuring efforts in the present 10-state Community. Another major political and economic question to be resolved is how to maintain the enlarged Community's relationship with the rest of the Mediterranean region. Delaying accession will not make these problems go away and may in fact make them more difficult to cope with in the future.

Why bother with enlargement at all? Why deal with the substantial economic problems it poses during this time of worldwide recession? Because the political advantages of enlargement far outweigh its economic costs. These political benefits are easy to overlook because they are difficult to quantify and thus difficult to fit into anyone's econometric model of the likely impact of Spanish and Portugese accession. They are, nonetheless, of overriding importance. Enlargement will create a larger, more influential European Community with a broader internal market for goods and services. It will also help to strengthen and consolidate democracy on Europe's southern edge.

In this issue we focus on the Community's prospective new states with articles examining their current political and economic situations. Although Portugal's entry into the Community will not create much of a competitive threat to the E.C.'s present members, it could pose a large problem for Portugal itself in contending with Spanish imports. Karen DeYoung looks at Prime Minister Francisco Balsemao's struggle to cope with Portugese economic problems of falling export income, high food prices, and high energy import costs.

Robert Graham examines the landslide election victory that swept Socialists into power in Spain and thrust that country into the era of two-party politics. In an analysis of the pragmatic mix of ideas that characterizes the policies of Spain's Felipe Gonzâlez, Europe's youngest Prime Minister, Graham reports that while E.C. membership remains a priority for Spain's new Government, that Government is not prepared to sacrifice Spanish interests as a condition of entry into the Community.

While the slogan "Por el cambio"—for change—may have served Spain's Socialists well in their recent election bid, Nil Papa reports that aficionados of one of Spain's oldest and most colorful sports, bullfighting, want not so much a change as a return to the grandeur of the past. Papa examines the frustration of Spain's bullfight fans with mediocre bulls and bullfighters and gives the uninitiated a basic guide to this traditional Spanish sport.

split on farm

BETH EASTMAN

When it comes to U.S.-E.C. relations, 1983's biggest issue could be a battle over agriculture. Rhetoric has been the chief weapon in the dispute so far, but the conflict could escalate if the United States makes good on threats by some of its policy-makers to engage the E.C. in a subsidy battle in world farm-product markets. At issue is the European Community's Common Agriculture Policy (CAP), which the United States charges —and the E.C. vehemently denies—has played havoc with international markets for farm goods. At stake are shares in the multi-billion-dollar business of world food trade.

Between 1971 and 1980 the value of world agricultural trade increased by an astounding 451 per cent. During that same period the value of United States and European Community exports of agricultural goods increased by 536 per cent and 513 per cent, respectively. Since the 1960's the E.C. has gone from a net importer to a net exporter of farm products such as poultry, beef, and sugar. In 1981 alone the United States sold $43 billion worth of its farm products abroad, including sales of $9 billion to the Community, its largest single foreign customer. During that year, the United States registered a $26 billion agricultural trade surplus, making agriculture the brightest spot in the U.S. balance of trade.

Thus far in the 1980's, however, the worldwide recession has reined in the growth rate in international farm product trade. Large world crops and recession-weakened demand in many of the world's food importing countries have led to large agricultural surpluses and low prices for many important, internationally traded farm commodities. As economic factors have helped to make it more difficult for U.S. farmers to sell their bumper crops abroad, U.S. criticism of the European Community's farm policy has intensified, with U.S. officials citing the CAP as partial reason for those difficulties.

The United States says the CAP encourages European farmers to overproduce and then subsidizes the flow of their excess production into world markets at prices below those at which the United States and other exporting nations can afford to compete. "American farmers are the most efficient in the world and they can compete with farmers anywhere, but they should not have to compete with foreign treasuries," U.S. Agriculture Secretary John Block said in a recent attack on CAP export subsidies.

The United States claims it has lost markets for wheat flour, poultry, pasta, sugar, canned fruit, and raisins to the European Community because of CAP export subsidies (or export refunds) and has taken its complaints before the General Agree-

trade

US and EC, at odds over agricultural policies, look for ways to avoid confrontation.

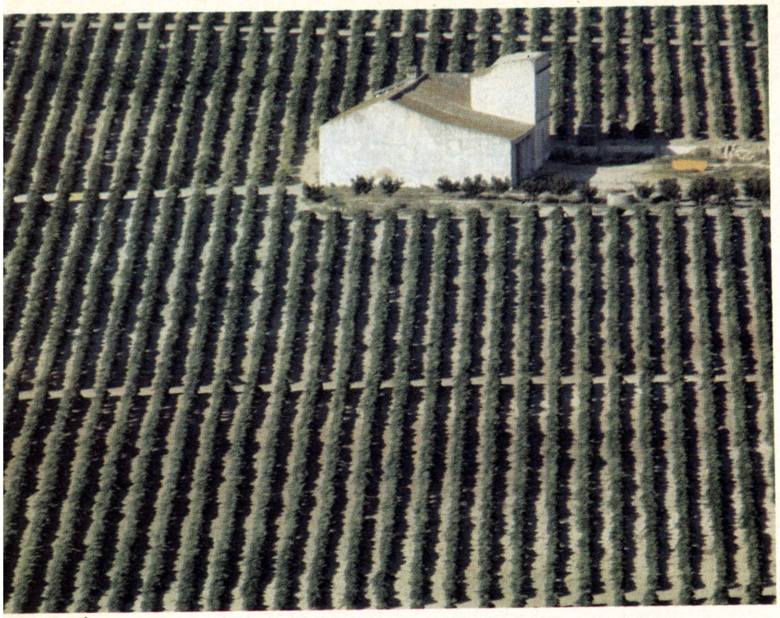
Carlton Photos

ment on Tariffs and Trade (GATT). The GATT has yet to rule in any of these cases. Not only have CAP export refunds cost U.S. farmers valuable markets for their goods, says the United States, they allow E.C. export prices to undercut those of the United States and other nations, putting a general damper on world farm product prices.

The European Community, on the other hand, says CAP export refunds, a vital part of E.C. farm, food, and social policies, do not allow European goods to compete unfairly with those produced by farmers in the United States or anywhere else. These export refunds, it says, are not used to undercut the price of competing goods, but merely to bring relatively high E.C. internal prices down to the world price level. These world prices, says the E.C., are determined primarily by the level of crop production in the United States, the world's leading farm product exporter, and by demand for agricultural goods in food importing countries. The Community says the present difficulties facing the United States in export markets are caused not by the CAP export refunds, but rather by domestic U.S. policies that have lead to a strong dollar and thus made U.S. farm products less of a bargain in world markets.

"We know that the United States does not like [export refunds], but they accepted them in the Tokyo Round [of Multilateral Trade Negotiations]," says E.C. Agriculture Commissioner Poul Dalsager. "The E.C. made concessions in other sectors and intends to stick to what was agreed." The GATT permits the use of export subsidies for agricultural goods so long as such subsidies do not result in any nation obtaining a more than equitable market share. What, then, is a more than equitable share? "It's rather like the old description of the elephant. It's difficult to be precise, but you know one when you see it," says Sir Roy Denman, head of the E.C. Commission's Delegation to Washington.

The E.C., for instance, says that although it doubled its wheat exports, including wheat flour, between 1969-70 and 1980-81 to 14 million tons, its share of world wheat trade actually dropped from 16.6 per cent to 14.9 per cent during that period. The U.S. share of the market, meanwhile, rose from 38.4 per cent to 44.8 per cent. Thirteen years ago the United States exported 40 per cent of its production; now this amounts to between 60 and 70 per cent. U.S. analysts, on the other hand, say the E.C. doubling of its share of the world market with the use of CAP export refunds over this period lowered world prices and cost U.S. farmers about 50 cents per



Extending the common agricultural policy to Spain and Portugal after enlargement could intensify the E.C.-U.S. agricultural controversy. Pictured here are sherry vineyards in Spain. © Tor Eigeland, Black Star

bushel in lower wheat prices. The United States also says E.C. export subsidies have pre-empted U.S. poultry sales in certain world markets. For example, the U.S. share of the market for whole chickens in the Middle East fell from 95 per cent to less than 20 per cent between 1964 and 1980 while the E.C. share increased from 4 per cent to 82 per cent.

The United States charges that CAP export subsidies, in effect, bill other exporting nations for the cost of supporting E.C. farm prices at artificially high levels. The United States says the E.C. spends too much on export subsidies and has asked the Community to cut back. Some U.S. policymakers have expressed deep disappointment that the United States did not obtain a commitment from the E.C. to restrain export subsidies during last November's GATT ministerial meeting. The Community ruled out such a unilateral concession. "How can we go back to our farmers and say that the world market is expanding, but you can't have a share of it because this might displease some people across the Atlantic?" Denman told reporters shortly after the ministerial; "The idea that we are the only people in the world who subsidize agriculture is lunatic," he added.

The United States, argues the E.C., will spend a healthy $11 billion or more on commodity price supports alone this year—out of a total agricultural budget of some $30 billion—and spends more on a per-farmer basis than does the E.C. In addition, the United States, according to the E.C., uses subsidies and other tools to promote its agricultural exports. These, it says, include government-backed credit guarantees, the concessional sales program the United States operates under Public Law 480, and a new "blended credit program" under which the United States plans to subsidize interest rates on selected private credit sales of farm goods. In addition, the E.C. points to the fact that the United States last year subsidized the sale of 100,000 tons of butter to New Zealand to reduce the large U.S. dairy product surplus. Also, U.S. import restriction on beef and sugar help support U.S. farm prices without necessitating any public expenditure.

At the same time, the E.C. maintains that the CAP's present price support structure has benefited U.S. agriculture by encouraging E.C. farmers to use cheaper imported grain substitutes—such as corn gluten, most of which comes from the United States—instead of E.C.-produced feed grains for livestock feed. Indeed, the Community says, the enormous popularity of these substitutes has helped displace Community grains and has contributed to higher E.C. exports of grains and poultry. This has led the E.C. Commission to propose a 3-million-ton quota on the quantity of corn gluten permitted to enter the Community at zero duty, a proposal which the United States strongly opposes. "The reason for the increase in U.S. exports of corn gluten to the E.C. is simply market price," says U.S. Agriculture Undersecretary Lodwick, explaining the U.S. position. "Corn gluten prices in the United States are about 25 per cent higher than those of domestic corn, while the price of corn gluten is as much as 20 per cent below E.C. corn prices due to the Community's high price supports. . . . The United States would be forced to move decisively to defend its trade interests if the E.C. were to act to restrict our market opportunities."

Last November the E.C. and other GATT nations agreed to a two-year study of the impact of agricultural subsidy schemes on world trade, but the E.C. made clear to its trading partners that this endorsement did not constitute any commitment to undertake new agricultural negotiations.

Some U.S. lawmakers adamantly opposed to CAP export subsidies, say however, that the GATT's decision merely to study the subsidy issue did not go far enough and have claimed that the U.S. Congress is ready to "fight fire with fire." "Unless the problem is confronted, it will be difficult to stop congressional pressure. As you know, I would not be fond of congressional mandates in the area of export subsidies," U.S. Secretary Block told a meeting of his fellow Agricultural Ministers from Organization for Economic Cooperation and Development countries last month in Paris.

Both the United States and the E.C. signaled their desire to avert a major confrontation over agriculture by agreeing at bilateral cabinet-level meetings in Brussels last month to begin intensive discussions on agricultural trade issues in early 1983. The two sides pledged to avoid actions which would disrupt international trade and to bear that pledge in mind when making decisions on their respective farm-price support programs. However, neither side acknowledged making any commitments to do more than discuss their agricultural trade disputes.

For the present, at least, the decision to hold discussions on agricultural trade looks more like the basis for a truce than for a durable peace pact. "There will not be an agricultural trade war (between the United States and the E.C.)," said Secretary Block at the conclusion of meetings with his Brussels counterparts. Block pointedly left open, however, the possibility that the United States might dump some of its surplus dairy production in world markets or take other, unspecified actions against the E.C. if the two parties failed to hammer out some sort of understanding on the question of agricultural trade. €

Beth Eastman is a contributing editor of Europe *magazine.*

GATT: WHAT IS NEXT?

GATT structure is essential to world trade and must be preserved.

SIR ROY DENMAN

At 4:50 on the morning of November 29 in Geneva, the first General Agreement on Tariffs and Trade (GATT) ministerial meeting in nine years adjourned. What did it achieve? In the view of the E.C. Commission, the meeting represented a substantial, though not sensational, step forward. In fact, the results corresponded pretty well exactly to what the E.C. envisaged when the possibility of such a meeting first began to be discussed in the spring of 1981. It was clear then that a meeting of GATT ministers in the second half of 1982 would not be in a position to launch a new round of GATT negotiations. And this for two quite simple reasons.

The first was that in the traditional field of tariffs and non-tariff barriers the results of the Tokyo Round—concluded only three years ago—were still being digested. The tariff cuts then agreed in fact will take several years more to be fully implemented. In the new field of services, where a number of voices on this side of the Atlantic have suggested negotiations, a great deal of careful charting of the ground needs to be done in these very separate and complicated sectors—for example banking, insurance, shipping, and aviation—before any decision could sensibly be taken on the practicality and the modality of a possible negotiation.

So what seemed possible were two things. First, a meaningful and realistic commitment against protectionism endorsed by the ministers of the trading nations of the world. The second was an agreement to launch various studies. These could include the field of services; agricultural export subsidies and their effect on world trade, together with other relevant elements of agricultural support; safeguards where some progress has been made, but where some further work needs to be done; and a number of other areas such as counterfeit goods, the effect of exchange rate fluctuations on trade, and dual pricing principles and rules of origin.

These objectives were achieved. There was a good deal of argument about how ambitious the commitment against protectionism should be. We argued for a commitment which would be firm, but plausible, and which would not be laughed out of court by observers intelligent enough to see that here and there voluntary restraint arrangements and other measures were being taken at the margin. In the end our view prevailed and the result is a realistic commitment. Moreover the studies discussed above were agreed and are now being launched.

There were, it is true, some exaggerated expectations about the meeting. Some hoped for more, in particular, on agriculture. We, as the Community, had to make it clear that we saw no reason for reopening one heavily fought sector of the Tokyo Round settlement only three years later, when there was a reluctance to reopen other areas such as textile tariffs, where our exports are subjected in certain major markets to uncomfortably high rates.

What happens now? The answer is partly that a solid program of work is being put in hand in Geneva following on the results summarized above. On safeguards, for example, a preliminary report has been asked for by July of next year. And it is the general intention in Geneva to push ahead with these studies and to make some solid progress in the first half of next year. This prospect and the fact that, in the biggest recession in 50 years, the trading nations of the world were able to recommit themselves to withstand the forces of protectionism, are hopeful signs in stormy times.

Tensions still remain, however. Quite apart from the differences both the E.C. and the United States have with Japan, tensions between the United States and the Community concern agriculture in particular. And here the meeting in Brussels last December 10 between U.S. Secretary of State George Shultz and four of his most senior Cabinet colleagues—Treasury Secretary Donald Regan, Commerce Secretary Malcolm Baldrige, Special Trade Representative William Brock, and Agriculture Secretary John Block—together with Gaston Thorn, President of the E.C. Commission, and a number of his colleagues marked a significant step forward in improving the atmosphere. The mood was one of rational discussion; those present had looked over the abyss and did not like what they had seen. There was agreement to explore the margins of maneuver which exist within present systems so as to defuse the conflicts between the United States and the Community on the use of agricultural export subsidies in third markets. Expert discussions are being put in train for January. And a report will need to be made to ministers on both sides by the end of March.

How far these efforts can go in 1983 to solve our problems we cannot yet foretell. Nevertheless, while we have made it clear that the principles of the E.C.'s Common Agricultural Policy are not negotiable—any more than are the fundamental policies of the United States—there is a will on both sides to sit down calmly together and see whether pragmatic solutions in terms of particular difficulties can be found.

Thus 1983 opens on a more hopeful note, in terms of U.S.-E.C. trading relations, than in summer of this year—before the steel settlement, before the lifting of the Reagan Administration's sanctions aimed at the Siberian pipeline, before the beginnings of an attempt to find a joint approach to the problems of our economic relations with the Soviet bloc, and before the outcome of the GATT ministerial meeting. This should encourage all of us concerned, on both sides of the Atlantic, to use this momentum so as to improve understanding and relations over the next year. €

Sir Roy Denman is head of the E.C. Commission's Delegation in Washington.

US-EC RELATIONS

THE VIEW FROM THE HILL

THE US CONGRESS AND EUROPE

JOHN STARRELS

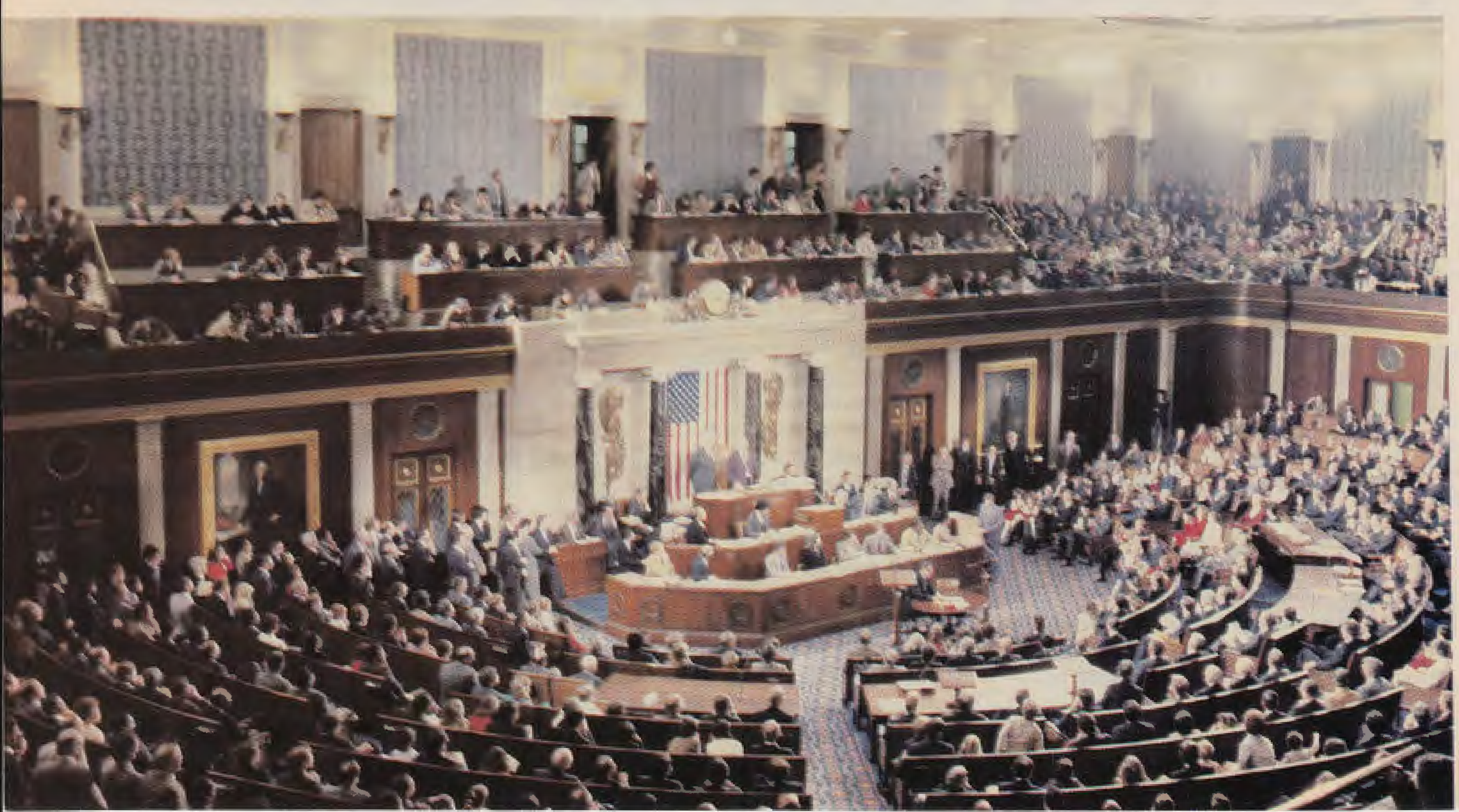
"Congress pays a great deal of attention to Europe and it ought to," exclaims Indiana Republican Senator Richard Lugar. Lugar ought to know. As chairman of the Senate Foreign Relations Committee's European Affairs subcommittee, he's acknowledged to be one of Capitol Hill's most active supporters of close ties between the United States and its European allies. Lugar and his colleagues are worried, however, about the direction of Congressional thinking on Europe. And they have reason to be.

The resolution of the pipeline and steel crises should have served to cool the tempers of Americans and Europeans. Unfortunately, however, these tensions have merely been replaced by others. Fresh from a Foreign Relations Committee hearing devoted to the question of whether 23,000 U.S. troops should be withdrawn from Europe, Lugar maintains that such a step, "... would be very unfortunate for the United States to take." Indeed, he recently debated the author of this proposal, Sen. Ted Stevens (R-Alaska) on television. Nevertheless, he acknowledges that there is some Congressional support for such a measure.

Three major issues defined the Congress' European agenda in late 1982. Each one should give rise to concern for advocates of strong trans-Atlantic ties:

Agriculture: So far, there is more smoke than fire in Congressional rhetoric about the European Community's alleged "unfair" trade practices in the agricultural sector, but the portents are nevertheless threatening. The recent General Agreement on Tariffs and Trade (GATT) ministerial meeting, if anything, heightened Congressional concerns in this arena.

Mack Mattingly, Republican Senator from Georgia, was a delegate to the GATT meeting. "The United States was discouraged by its results," he claims. Within days of his return to Washington, Mattingly expressed his specific disappointment with E.C. agricultural export practices by introducing a new



bill to partially combat them. Titled the "Poultry and Egg Export Equalization Plan," S. 3049 would authorize the U.S. Department of Agriculture to release corn surpluses to domestic egg and poultry producers. "Their costs of production would then be lowered," Mattingly said. Pointing to the loss of market share suffered by poultry producers in the Middle East, largely to European exports, such a measure "would lower the costs of competition for our people" the Georgia Senator maintains. This may just be the tip of the Congressional iceberg, however.

"The European Economic Community might as well understand, now, that Congress won't stand idly by in the face of predatory trade practices by the E.C.—or anybody else—that undermine the American farmer," bristles Jesse Helms. Helm's views command attention, on Capitol Hill and within the Reagan Administration. He is chairman of the Senate Agriculture Committee, and is considered to be a tough political negotiator. In practical terms, Helms is now urging the Administration to get tough with the Community on the agricultural issue. Among the ideas he is urging upon the U.S. Government, two of the more important ones are to use the remaining $90 million earmarked to promote American agricultural exports this fiscal year (1983) and, more ambitiously, to prod the Agriculture Department into releasing surplus dairy products into the international market.

Moreover, Congress has already demonstrated its readiness to take action against the Community on agricultural matters. In December, 1981, for example, Congress passed a restrictive sugar support program and, adds U.S. Agriculture Secretary John Block, "the subsequent import quota program [is] the result of the price depressing effect of E.C. sugar export subsidies." And Block suggests that similar actions might also be taken by the Congress on beef imports from the European Community into the United States.

Defense: Are the Europeans carrying their share of the alliance burden? "That's been a basic question all along," maintains Lugar. He insists that they are, but the question will not go away. In October, those suspicions came to a head when the Senate Defense Appropriations subcommittee voted 12 to 1 for an amendment to the fiscal 1983 Pentagon budget that would cut U.S. troop strength in Europe by more than 6 per cent.

Introduced by Senator Ted Stevens, Republican from Alaska, S. 2951 (the companion House bill is H.R. 7355), this initiative has awakened the concern of many alliance supporters that Capitol Hill is about to resurrect the more radical amendment proposed by then Sen. Michael Mansfield (D-Montana) in the mid-1960's. Mansfield's measure, however, would have reduced by 50 per cent the number of American troops assigned to the North Atlantic Treaty Organization (NATO). An aide to Stevens insists that the new bill is designed simply to control unauthorized increases in U.S. troop strength in Europe. Stevens maintains that the Reagan Administration has been silent on the issue—despite the fact that, according to his calculations, there are somewhere close to 20,000 more U.S. troops in NATO than there should be.

"Burden sharing" are the new code words for Congressional dissatisfaction with Europe's defense contribution to the alliance and most experts believe that the Stevens bill reflects those sentiments. Nor is Stevens alone. Democratic Senator Sam Nunn (Georgia) also has called for a freeze on current U.S. troop levels in NATO. "A third of a million men just cannot stay in Europe forever," insists Nunn's Armed Services Committee colleague, Gary Hart (D-Colorado), and a potential presidential candidate.

Automobile Imports: Sagging economic conditions in both the Community and the United States have encouraged a rash of protectionist sentiment. The Congress, uncannily sensitive to constituent worries, has initiated a number of legislative efforts to control foreign imports as of late. And no effort has been more anxiously reported on in the foreign press than "local content." Introduced in the Senate and House last winter, these companion bills would require that, by 1986, most automobiles sold in the United States would contain up to 90 percent American parts and labor. On the surface, the local content bills (H.R. 5133 and S. 2300) are directed against Japan, which sells huge volumes of cars in the United States. Nevertheless, the E.C. should not be sanguine on that account.

Free trade advocates in the Congress are concerned that local content legislation would badly violate GATT rules which flatly outlaw devices subverting fair competition in international trade. Less obvious is the precedent-setting effect if the bill passes one, or both, chambers. Maintains a Congressional specialist on Europe: "Trade restrictive measures of this nature easily get translated into very damaging precedents."

Congress, to be sure, does not make foreign policy, but the executive branch, which does, must nevertheless pay special attention to Congressional sentiment. Capitol Hill controls the funds upon which the government depends. Negative trends in Congressional thinking about Europe could eventually be translated into official policies.

Despite recent strains in U.S.-European relations, however, there remains a powerful reservoir of support for close ties with Europe in the Congress. At the most recent meeting of the North Atlantic Assembly, held in London in late November, there was a huge Congressional delegation in attendance. And according to observers, a number of Senatorial heavyweights openly debated with Alaska's Stevens about the advisability of his troop reduction measure. Comments Tom Lantos (D-California), who is chairman of the U.S. delegation to the twice-yearly meetings with the European Parliament, "we want to prevent the exacerbation of the U.S.-European relationship."

Lantos believes that these meticulously prepared meetings have proven to be an "excellent mechanism for making our views known to our European counterparts." According to the California Congressman, the forthcoming gathering—to be held in Athens, Greece—will boast a number of House luminaries, including Ways and Means Trade subcommitee chairman Sam Gibbons (D-Florida), and Budget Committee chairman, James Jones (D-Oklahoma). Yet Lantos is also voicing his disquiet about the "unequal" nature of America's relationship with Europe. "Many of my constituents believe that the Europeans are not carrying their share of the economic and military burden." And in the end, what matters most in Congress is what the constituents think. €

John Starrels is a writer for the Los Angeles Times *syndicate.*

WIDENING THE COMMUNITY

LORENZO NATALI

The question of Spanish and Portuguese membership in the European Community is turning into an acid test for the E.C., which is being accused by some people—often somewhat exaggeratedly—of virtual paralysis. The enlargement of the Community to include the countries of the Iberian peninsula is regarded as a stimulating challenge, not so much—or not only—because it will open up a market of 47 million people, providing enormous opportunities for the more efficient producer countries once the high tariff walls are down, but because, testing the entire machinery of the Community at crucial points, it could have a revitalizing effect.

First of all, consider the budget and the decision-making machinery. As far as the budget is concerned, the present level of the E.C.'s own resources, subject to a ceiling of 1 per cent of value-added taxes from the E.C. member states, is already too low to allow new common policies to be launched or existing ones to be strengthened. Thus, it can hardly be expected to cope with the increase in expenditure (from 4 per cent to 6 per cent by reference to the 1981 budget) which the entry of two new member states will entail and which will be needed to prepare the agriculture, industry, and service sectors of the Mediterranean regions of the Community to withstand the thrust of competition from Spain and Portugal in various sectors.

Even in the 10-member Community, the decision-making machinery is showing clear signs of stalling, owing principally to the wholesale use of the unanimous voting procedure, which used to be an exception, but is now the rule for E.C. Council decisions. What will happen in a 12-member Community if nothing is done to improve the working of the institutions?

A third important dimension of the enlargement challenge is the test of Europe's capacity for political responsiveness and initiative. As the world's leading trading power, Europe is rightly seen as an economic giant, but on the international scene it must be recognized that it lacks political authority because of its imperfect integration and failure to make the quantum jump to European union, with all that that entails in terms of political integration and, of course, defense. If the Community cannot respond positively to the six-year old Spanish and Portuguese membership applications, it brands itself as politically and economically incompetent. Obviously the expansion of the Common Market from 270 million to 317 million people is a huge potential gain in terms of consumption and production, but it is equally important not to lose sight of the deeper political significance of enlargement.

The two young democracies are anchoring themselves to a Community whose fundamental cohesive force comes from the values of freedom, democracy, and personal and social advance associated with Western civilization. Long important actors in our continent's history, sequestered more recently for decades in the grip of dictatorship, they are turning to the European mainstream once again.

There is no acceptable alternative to having Spain and Portugal in the Community. If Spain and Portugal are rejected by their neighbors and denied acceptance by a model of the very types of society and political values they chose to reaffirm, as soon as they had thrown off dictatorship, the dangers are obvious: isolation, with the inevitable repercussions in terms of domestic politics and international stance implicit in the nature of the forces opposing integration. In Spain, there is the far right, with its nostalgia for former leader General Francisco Franco; in Portugal, there is a Communist Party which still sees the Soviet Union as a model. There can be no doubt that the failure of enlargement would have a destabilizing effect.

We should bear in mind that after such a fiasco, the E.C.'s relations with Spain and Portugal would be unlikely to remain as open and cooperative as they are today. They would be bound to suffer from the resentment and frustration which would be felt by public and politicians alike. On the other hand, one of the main effects of a smooth accession by Portugal and Spain—apart from the impetus which, as already stated, this would give the structural reorganization of the Community—would, as regards external relations, open a window to Latin America and southern Africa and also enhance Europe's presence in the Mediterranean region. This would be the immediate consequence of the southward shift of the center of gravity of the Community, which at present obviously leans too heavily to the north.

Just as the Community has undertaken to ensure that its own Mediterranean regions will not suffer from the effects of enlargement, there is agreement on the need to make sure that the accession of Portugal and Spain does not weaken the links between the Community and other non-member Mediterranean countries, in particular the Maghreb and Mashreq countries. This is the essence of what is known as the overall Mediterranean policy. This policy is aimed at countries linked to the Community by technical, economic, social, and financial cooperation agreements, but above all by intensive trading relations with a balance in the E.C.'s favor: The Mediterranean region takes 10.4 per cent of the Community's exports and the Commu-

SPAIN IN FIGURES

Area	194,885 sq. miles
Population	37.68 million
Gross Domestic Product (1981)	$116.2 billion
Unemployment rate (1981)	14.4%
Inflation rate (1981)	14.2%
First half 1982	7%
Trade (1981)	
Total Exports	$20.34 billion
Total Imports	$32.15 billion
Exports to U.S.	$ 1.36 billion
Imports from U.S.	$ 4.46 billion
Exports to E.C.	$ 8.77 billion
Imports from E.C.	$ 9.34 billion

Sources: Eurostat, OECD, IMF

nity represents by far the main market for that region's sales.

Many of these countries depend crucially on exports to the Community of products—whether such as agricultural, citrus fruit and olive oil, or textiles, to give only a few examples—which are among Spain's and Portugal's most competitive. With the prospect of enlargement, new forms are being examined for relations with these countries and these include long-term solutions modeled on those introduced via the Lomé Convention associating the E.C. with 62 African, Caribbean, and Pacific countries. Consideration is also being given to possible ways of fostering the creation of a regional market among these counties, so that they could do what is required to make their products complementary and diversify their trade. This, too, is a challenge, but one which is essential if the Community is to be impelled to revitalize a system of relations which, for some time, has been proving less and less satisfactory.

PORTUGAL IN FIGURES

Area	35,553 sq. miles
Population	9.9 million
Gross Domestic Product (1981)	$19.3 billion
Unemployment rate (1981)	8.8%
Inflation rate (1981)	23.7%
First half 1982	8.4%
Trade (1981)	
Total Exports	$4.15 billion
Total Imports	$9.8 billion
Exports to U.S.	$0.2 billion
Imports from U.S.	$1.17 billion
Exports to E.C.	$2.23 billion
Imports to E.C.	$3.72 billion

Sources: Eurostat, OECD, IMF

The price of failure would be very high, as it would greatly undermine the stability of our Mediterranean partners. To close the door to exports which are vital for their economies would have immediate consequences in the form of internal social and political tensions. It would ultimately involve the serious risk of a fundamental change in their international stance, since the only real alternative outlet for their products would be the state-trading countries, and this would probably entail political trade-offs.

The accession negotiations are now about to enter on the decisive stage, when the vital chapters are tackled, with provision being made for joint efforts by the Community and the applicant countries to prevent difficulties from arising, or existing difficulties from being aggravated, in the more fragile sectors of the economies of the Ten and of Spain and Portugal. The European Parliament has on several occasions pointed out the dangers of continuing delay in the negotiations, and has more than once shown itself to be in favor of accession. The Commission recently presented to the Council precise proposals for tackling the decisive phase of the discussions. It will shortly propose a detailed plan for integrated programs to help the Mediterranean areas of the Community. It is elaborating a cohesive plan for a Mediterranean policy and has already presented the broad lines of it to the Council.

The European summit in Copenhagen once again stressed the political validity of the enlargement process. It is likely that this will provide a decisive impulse which will enable the member states to attain this great objective in the very near future. At a moment when the negotiations have reached a crucial stage, it seems to me particularly important that the Community partners should have a clear perception of the advantages and also, of course, of any disadvantages—if there are any—which enlargement may involve for them directly or indirectly.

We are living through a time when, because of the world recession, certain aspects of relations between the Community and the United States have become critical. The crisis is uncovering the weak points which are concealed in times of sustained economic expansion by the margins created by prosperity.

The steel dispute was resolved in a spirit of goodwill and, although the solution to the dispute over the Siberian gas pipeline was possibly less clear-cut, it had the merit of initiating a useful dialogue on the real nature of the difficulty which had been the immediate cause—namely, the question of relations between industrialized countries and the countries of the Eastern trading area in the sphere of technology and export credits. Proof was given recently—when five U.S. Cabinet-level officials met the Commission of the European Communities in Brussels on December 10—that this awareness exists on both sides and that on neither side of the Atlantic is there a willingness to allow a dispute that, while not insignificant, is nevertheless still a sectoral issue, to degenerate into a trade war.

There is no doubt that compromise solutions are possible, though on one strict condition: It is necessary to rise above the purely sectoral nature of the dispute and show evidence of constructiveness and goodwill. Furthermore, solutions such as that of the common management of farm surpluses, which personally I find to be an entirely reasonable solution, can develop only if account is taken of the extent of common interests by comparison with the limited nature of the causes of disagreement. I am convinced that this formula, which calls for the maintenance of a sense of proportion, can be applied without difficulty to certain problems which have arisen in connection with the prospective entry of Portugal and Spain and Community policy toward the other non-member Mediterranean countries.

If it is conceded—and it has never been denied—that the enlargement of the Community to include the two fledgling democracies of the Iberian peninsula is in line with the logic of political stabilization in the Mediterranean region (a key region in which the avoidance of tensions and imbalances represents a specific and acknowledged interest of the Western world as a whole), it would indeed by surprising if an undertaking of such political scope should arouse misgivings on account of certain modest difficulties in connection with a few tons of dried fruit and nuts or oilseeds which the enlarged Community would no longer need to import.

It would be all the more surprising as, even at the purely commercial level, enlargement will mark the opening-up, to the whole world and not merely to the other European countries, of a market of 47 million consumers, this is because Portugal and Spain will have to reduce their customs tariffs from the present very high levels to the much more reasonable ones adopted by the Community.

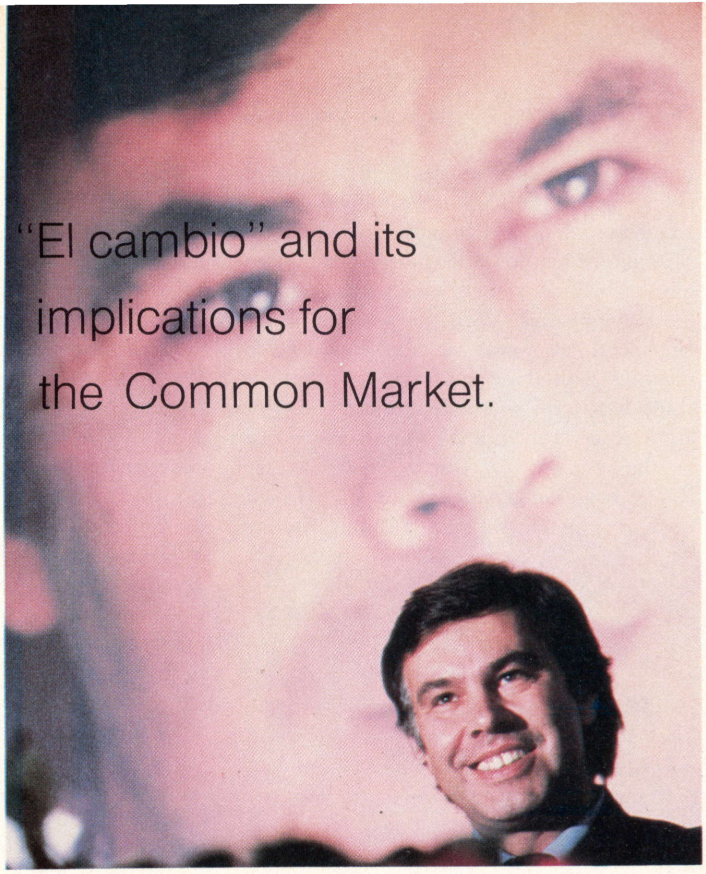
Similarly, certain misgivings on the American side with regard to trade relations between the Community and the Mediterranean countries in particular seem difficult to understand if one looks at the other side of the coin—namely, the vital importance of trade outlets in Europe for the economic, and hence political, stability of many of the countries concerned, from Morocco to Turkey, all of them belonging to a crucial region courted by both East and West. Is it not possibly in the interestes of the whole Western camp—and not only for the benefit of European trade interests—to ensure that friendly countries in the area in question remain such and do not find themselves exposed through our fault to the devastating effects of serious internal tensions?

I am sure that this question will be understood to be a rhetorical one, and not only on this side of the Atlantic. The United States has shown that it recognizes the validity of this approach, and indeed the American Administration's initiative in the Caribbean has been inspired to a considerable extent by the Community's Mediterranean policy. It would be difficult to imagine—despite any specific points of dispute there may be—a better, even if implicit, understanding on essentials. €

Lorenzo Natali is the E.C. Commission vice president responsible for enlargement of the Common Market to include Spain and Portugal.

ENLARGEMENT

SPAIN



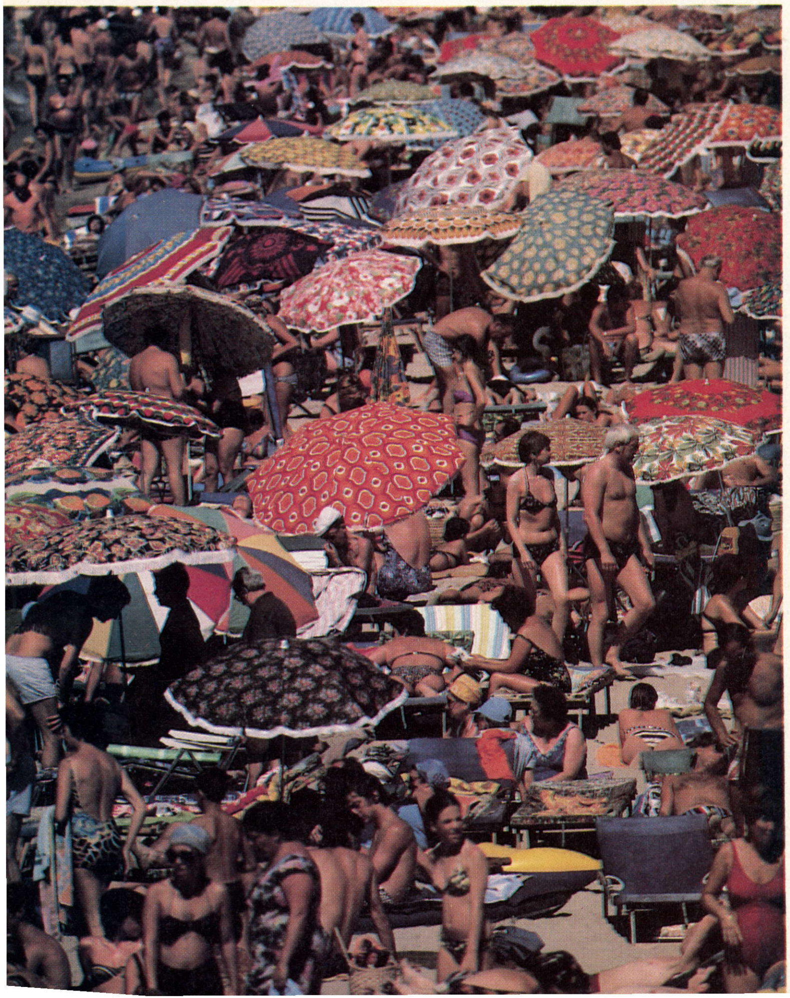
Recently elected Prime Minister Felipe González during the campaign. © Sipa-Press/Black Star

ROBERT GRAHAM

In Spain's recent history socialism is a word surrounded by controversy. For some it means the failed dream of an egalitarian republic swept aside by a brutal civil war in the 1930's; for others it evokes memories of the persecution of the Church, violent disorder, and the division of society which provoked the civil war. Yet this is the memory of 40 years ago and now the Socialist Party, headed by its youthful leader, Felipe González, has convincingly displayed in elections at the end of October that these memories no longer count in a country which ranks among the world's 12 most industrialized nations.

The Socialists were swept to power in a landslide electoral victory, capturing 202 of the 350 seats in parliament on a massive voter turnout. Since the death of General Franco in 1975, and the restoration of democracy, neither of the two previous polls produced such a clear-cut victory. The Socialists now dominate parliament. The party which has ruled Spain for the past six years—the centrist alliance, Union de Centro Democrático (UCD)—has collapsed, not so much because of policy failures, but because of damaging internal strife. Voters deserted to the Socialists on the left and to what has now become the main opposition party, the right-wing Popular Alliance, Alianza Popular (AP). The swing to the Socialists was country-wide, also picking up many disgruntled former members of the Communist Party, whose fortunes have now touched an all time low.

Tourists crowd this Spanish beach. © David Alan Harvey, Woodfin Camp



In broad terms, the election result has moved Spain into an era of two-party politics. The Socialist majority is sufficiently ample to permit them to consider not just one four-year term of office but two. Thus Felipe González, or plain "Felipe" has he is popularly known, has the prospect of eight years in office if he manages to handle the affairs of state with aplomb. Forty years old, he is Europe's youngest Prime Minister.

His campaign message was to vote for "The Change." What he meant by this was that since the death of Franco in 1975, power had remained fundamentally in the hands of the heirs of the former regime—albeit in democratic clothing. To consolidate democracy required a hand-over of power to an alternate system of government, he argued. The reforms which many ordinary Spaniards expected—in education, in health, in the legal system, and in the giant civil service—had not been forthcoming. It was this message and González's persuasive manner that captured voters, rather than the socialist label of the party. As a result the new Socialist Government is not promising large-scale nationalizations, so often associated with European socialism and now being carried out in France.

González's program is a pragmatic mix of continuation and

Continued on page 14

Portugal

Eight years after the revolution, things are bogging down.

KAREN DEYOUNG

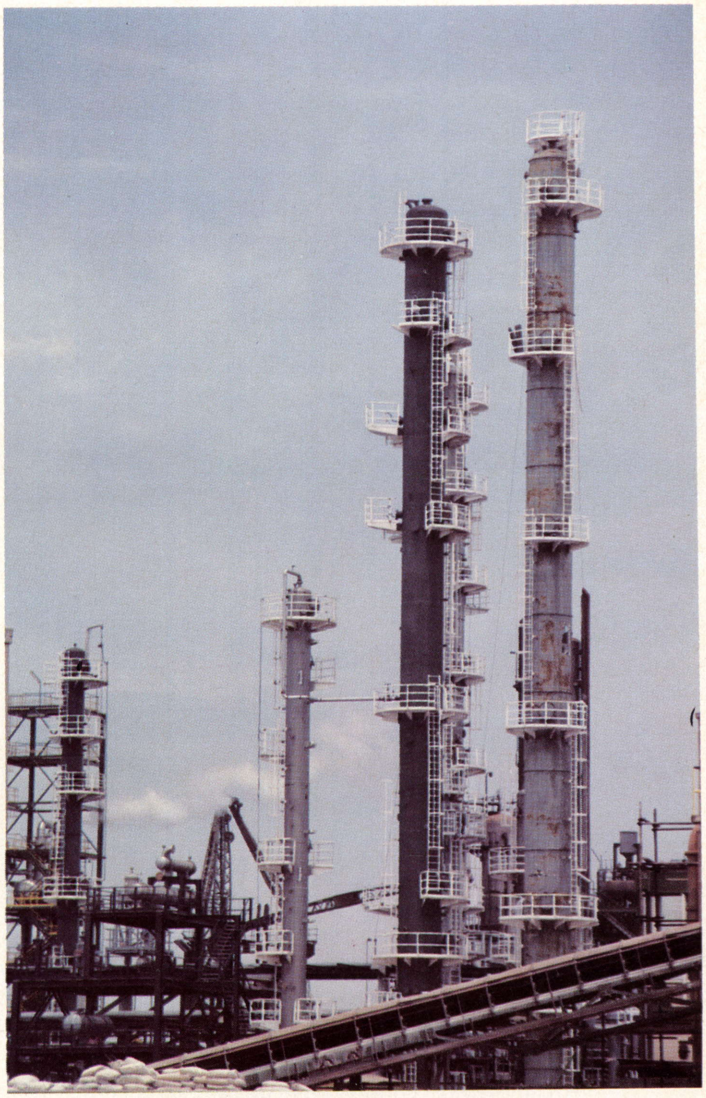
Eight years after revolution threw this country's politics up for grabs, opening the door to ideological upheaval and experimentation, the Portuguese are tired. By most accounts, they are ready for the kind of placid governance that promises little, accomplishes half of that, and allows itself to be regularly replaced through elections with a minimum of fuss. However, through a combination of circumstances—the long involvement of the military in post-revolutionary politics, the world economic collapse that has taken Portugal's delicate finances down with it, and the very newness of political structures and parties that are still finding their way—there still are some glitches in the democratic machine here.

"Portugal has an identity crisis," President Antonio Eanes said in an interview. "People find that the revolution has not fulfilled their needs, has not ended the anxiety. There is a feeling of frustration. I would say the crisis will become even deeper than it is now." A Cabinet Minister of Prime Minister Francisco Pinto Balsemao's center-right Government puts it another way. "It's not really a crisis, it's something worse. It's a sort of marsh, where nothing moves."

There is matter-of-fact talk here of Government collapse by next spring, as the economy worsens and Balsemao's coalition, following a relatively poor showing in early December elections, turns on itself with ever-more enmity and opposition parties sacrifice compromise for self-preservation and political gain. Others see more serious doom ahead. "By the end of 1983," the Minister said, "people will be starting to react . . . not with strikes, but with a general depression and a sense that there is no way out." A military officer, once a high-level figure in the revolutionary Administration, said ominously "within three years, we could have a Polish situation here."

The most immediate problems are economic. Some—the international financial slump, high food and energy import prices, falling export income—are common to much of the world. Others are more particular to Portugal. Many of the estimated one-fourth of the country's 5 million labor force who traditionally have worked abroad and send home harder currencies from the restaurants and hotels of France and Germany are now out of jobs as those countries suffer their own high rates of unemployment. Tourism, another large source of national income, also has decreased sharply.

During the first six months of 1982, the balance-of-payments deficit nearly equalled the 1981 total of $2.7 billion and may go as high as $3.5 billion this year. Although the Government still maintains a relatively good credit rating due to $8 billion in gold reserves, its foreign debt is approaching $12 billion, with payments on principle due to shoot up next year. Inflation is close to 24 percent, and the Portuguese still have the lowest per capita incomes in Western Europe at about $2,000 a year.



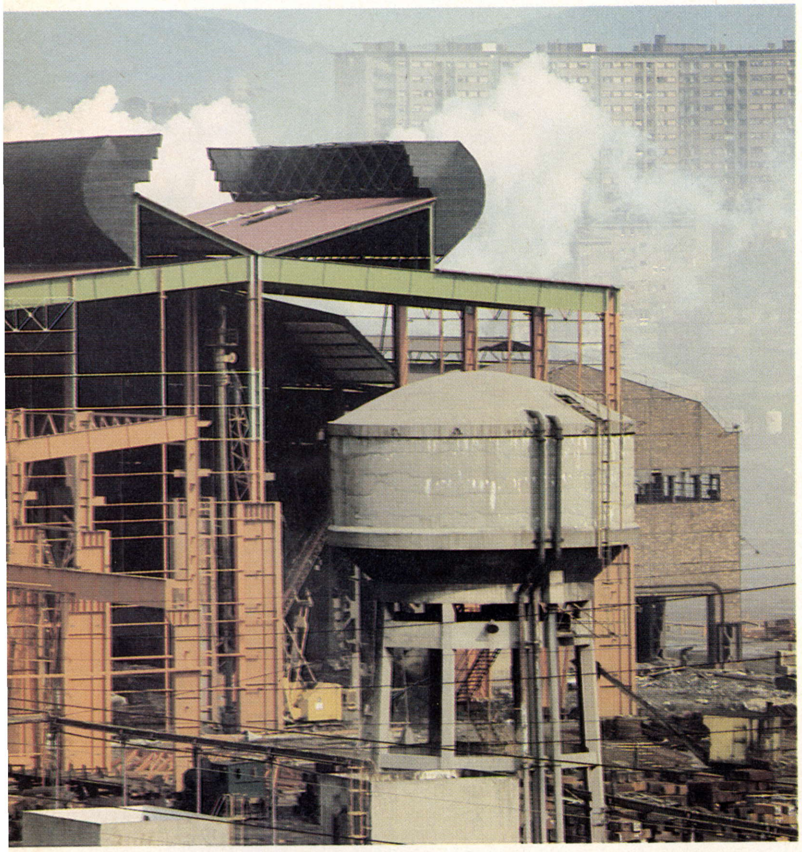
Industrial stacks rise above Lisbon. © Jeanne Marklin, Alexandria, Va.

Nearly all of the Government's predicted economic indicators for this year have turned out to be optimistically wrong. Next year, Balsemao has promised to get tough, solving the

Continued on page 16

Continued from page 12
innovation, laced with an ethical mood. Government, he says, should work better and more in the interests of the people who voted for it. Above all else, he wants clean government, without "old-boy" networks or conflicts of interest between the public and private jobs of officials. Beyond this he has set out a nationalist vision of Spain, almost in the manner of France's ex-President Charles de Gaulle. Spain can, and should, be more active in the international field, more actively defending its interests, whether in the context of future membership in the European Community or in renegotiating its recent membership of the Atlantic alliance.

The great asset of the new Government is its popular support and powerful parliamentary majority. However, the problems ahead are formidable and cannot be minimized. The Socialists' parliamentary strength will help resove a problem that historically has deviled Spain—the demands by the regions for autonomy. Although Spain has been a country of centralized authority, there have been strong destabilizing regional forces,



Like the rest of Europe, Spanish industry has been hard hit by the recession. Pictured here is a plant in Bilbao. © H. Gloaguen/VIVA, Woodfin Camp

especially in the Basque country and in Catalonia. For a time in the early stages of restoration of democracy, it looked as though Spain might be moving toward a form of *de facto* federalism. This was checked in the wake of the abortive military coup in February 1981 and now González appears to have the necessary muscle to settle this problem, to the satisfaction of the regions and the needs of central government.

This does not mean that the new Government will solve, in the near future, the serious phenomenon of terrorism, resulting from the violent separatist demands of a group of Basque nationalists. It does mean that this terrorism, which has claimed the lives of more than three hundred people, mostly military and police, in the past five year, can be further isolated. The impact of this continued terrorism on the military will be one of the Government's principal preoccupations. A major factor behind military disgruntlement since Franco's death has been what the officers regard as the Government's failure to curb terrorism and fears that the centralized state might break up. More generally, the Socialists will have to work hard both to gain and to maintain the confidence of the military establishment, which was raised on Franco's propaganda that the Socialists were the enemies of the state. For González to have already largely dispelled this belief is a major achievement. Nevertheless, González will have to keep a wary eye on the military. A minority within the armed forces, perhaps 5 per cent of the officer corps, has made no bones about its mistrust of the new democratic order and will not cease to try and put the clock back.

More pressing is the plight of Spain's economy. Unlike Spain's neighbors in northern Europe, the country ignored the first crisis produced by the oil price rises of 1973. The economy was booming, and throughout industry ambitious expansion plans were drawn up at the very moment when the rest of Europe had begun to tighten its belt. Recession set in in 1978, but only a year later did the authorities begin to adjust to energy costs, which by then were going through a second round of major rises.

As a result Spain has been in a recession for five long years. Demand of such key items as steel and cars is back to levels of the early 1970's. Companies have been hit by a combination of increased raw material costs, higher wage bills, and heavy financial charges from high interest rates. With tough laws governing personnel layoffs, many of these companies are facing a serious cash flow crisis, with production at less than two thirds of capacity. The largest private industrial group, the chemicals conglomerate ERI, recently had to seek a moratorium on the principal of debts of over $1 billion.

The banking system has also seen more than 20 banks collapse in the past five years. The latest is the Catalana group of banks, with potential losses of $1.5 billion. This automatically forces on the Government difficult decisions on the extent to which the state should prop up ailing businesses and it puts pressure on scarce resources. The previous Government began to liberalize what was a highly protected economy. The aim was to gear Spain for entry into the E.C. The Socialists, anxious to gain the confidence of a private sector that has held back on investment for more than six years, may be forced to be interventionist and halt the process of liberalization—albeit temporarily.

The other dilemma concerns unemployment and public spending. Spain now has 2 million people unemployed, equivalent to almost 16 per cent of the active population. This is the highest level in Europe and is even higher if the low level of female participation in the active workforce is also considered. Spain's economy needs to grow a minimum of 3 per cent a year to hold unemployment steady. The average for the past four years has been closer to 2 per cent. This level of growth would be considered reasonable by E.C. standards, but Spain's level of development is well below the Community norm and needs to grow correspondingly faster. The Socialists would like to stimulate growth by greater public expenditure, but the public sector deficit is already over 4 per cent of gross domestic product and this risks worsening inflation. Spain's inflation, fueled by high wage settlements, has averaged 15 per cent for the past three years and is well out of step with its international competitors. In turn, exports are losing their competitive edge and reserves have declined through support operations for the peseta. One of the first moves of the new Government was to devalue the peseta by about 8 per cent against the dollar.

The margin of maneuver of the Spanish Government is very limited. Spain's economic difficulties are sufficiently grave to raise question marks about the timing and content of negotiations for Spain to join the E.C. The previous UCD Government made integration with Europe, coupled with North Atlantic Treaty Organization (NATO) membership, the main planks of foreign policy. This was done both to consolidate Spain's infant democracy and to wed Spain to the mainstream of Western decision-making. Regarding the E.C., the previous Government laid great emphasis on a timetable of negotiation that put a premium on early entry (originally it was to be 1983) with the details of membership in second place. This tactic foundered on the sheer complexity of dealing with the Spanish application and the Community's own problems.

Agreement has been reached so far on non-controversial items like regional policy, harmonizing legislation, transport, and the right of establishment. However, there is still much progress to be made on those matters which most affect both Spain and the European Communities—agriculture, fisheries, the customs union and the free movement of labor. Agriculture is particularly difficult, since any discussion of Spanish agriculture—with its huge olive oil production, major wine business, and substantial citrus and early vegetable industry—automatically involves the whole of the E.C.'s approach to "Mediterranean" agricultural produce. The French, and to a lesser extent the Italians, have their own interests to defend and they are doing so vigorously. Faced with this situation, the new Socialist Government does not have the same headstrong attitude to the Community. E.C. membership is a priority, but not at the expense of Spanish interests. The Socialists may prefer to operate within the terms of the existing 1970 preferential agreement than rush into arrangements which would prejudice large sectors of Spanish industry.

The Socialists also want to place E.C. membership in a broader context of international relations. González and his Ministers want to freeze Spain's integration into the military structure of NATO. They also wish to renegotiate the recently agreed renewal of the bilateral defense treaty with the United States. This is part of a more neutralist stance in internationalist affairs. The Socialists say they do not wish to weaken the Western camp, but equally that they do not want to be a party to power-bloc politics. By so distancing themselves, they believe Spain can pay more attention to historic ties with the Middle East and Latin America—ties which, if properly developed, in turn could benefit the Western camp. How much this conflicts with the realities of Spain's true interests—the most important part of Spanish trade is with the E.C.—remains to be seen. However, it does mean that the new Government will be viewing the E.C. with new and more critical eyes. The time will be less important than the content of the E.C. offer.

The quiet allure of Spain survives current economic woes. © Ned Haines, Photo Researchers

---

Robert Graham is the Madrid correspondent for the Financial Times.

Continued from page 13

problems by increasing foreign investment, making Portugal's exports more competetive, getting rid of the heavy budgetary drain of money-losing state industries, keeping 1983 spending levels to 1982 figures and limiting wage increases to about 8 percent less than inflation. It would be a tough job for any Government, and the general assumption is that it is practically impossible here. Whether Balsemao succeeds depends on something more than good will and good arithmetic. It is Portugal's political crisis, noted former revolutionary leader and presidential adviser Vitor Alves, "that is responsible for the economic crisis."

Portuguese leaders questioned during a recent tour of the country stressed their belief, however, that Portugal's fragile democracy will survive. All acknowledged, however, that a crossroads has been reached, when the country must finally break out of the "marsh" of competing interests and interpretations of what the Portuguese revolution was, is, and should be, and who should run it.

Eight years ago, when Portugal's young army officers revolted against a half century of rightist dictatorship, their first goal was to end a decade of debilitating colonial wars in Africa. On the home front, they promised to launch Portugal on the road to a classless socialism in which the workers would reign supreme. The vehicle for the transformation was to be democracy, conducted by newly legal civilian political parties that would be buttressed by a committee of the young officers to keep them on the right path until they could stand alone.

It took nearly two years of political chaos, and a narrowly averted Communist takeover, to develop the institutions that would guide the revolutions. When the dust settled in 1976, the African colonies had been liberated. Nearly all of Portugal's private enterprise had been nationalized in a move the newly written constitution declared "irreversible." A new labor code guaranteed employment security, effectively prohibiting firings and layoffs, and the Communist Party had found its place in the Portuguese spectrum as watchdog for the workers.

The revolution stumbled through a series of Governments, first under the Socialists and, after that party fell to economic and factional problems, under a series of interim leaders appointed by Eanes. First elected in 1976, and again in 1980, the stern, taciturn President, an army general, had no party of his own, but cultivated an image of being above the fray and dedicated to the principles of the revolution. To oversee the transformation to full democracy, the Armed Forces Movement of young coup-makers had formed a 19-member Council of the Revolution, including its own representatives along with the President, and the chiefs of the three service branches. The Council was to run the armed forces, and to be a sort of unappealable Supreme Court to pass judgement on the conformance of all laws with the new constitution.

The soldiers said they had no desire to stay in Government forever. The council would exist, the movement said, until the civilians were sufficiently on their feet to make democracy work and to revise the constitution to do away with the military's governmental role. It was several years before that prospect was seriously considered. In December, 1980, the center-right Democratic Alliance coalition won elections on a platform of constitutional change, arguing that a modern democracy, hoping for membership in the European Community, could not survive with a constitution that read like a Third World manifesto and prohibited a mixed economy, and whose elected Government was forced to function under the

Fishing is one of Portugal's biggest industries. Shown here is a fish drying operation. © John Launois, Black Star

Formerly a royal hunting retreat, the Palace of Buçaco is now a Portuguese luxury hotel. © George Holton, Photo Researchers

thumb of a non-elected military council.

The next 18 months were a many-sided tug of war. When the Government proposed the development of private-sector industries and banks, the Council of the Revolution, with supreme veto power, said no. When wage and price freezes were proposed, the Communist-dominated labor unions, business, and even the public sector, said it was impossible. Plagued by internal rivalries in his Social Democratic-Christian Democratic coalition, Balsemao at one point last year simply resigned, leaving no head of Government at all, before he was persuaded to resume his duties.

Last October, the constitutional revisions finally were approved. Although they addressed the institutional problems of the revolution by doing away with the council and taking away much of the powers of the President to dissolve the Government at will, most of the economic reforms Balsemao proposed has to be dropped in order to gain the votes from the Socialist opposition to win a necessary two-thirds parliamentary majority.

Arguing that recovery cannot begin until Portugal's economy conforms more closely to the rest of the West, Balsemao has begun a series of end runs around continuing prohibitions on denationalizing money-losing industries that include everything from TAP, the national airline, to the steel industry and firms that produce beer and cement. The plan appears to be to drastically reduce budgeted government payments to at least some of the nationalized companies and to hire private management firms to run them, while giving permission to other, similar private enterprises to start up in competition.

The government warns that much needed foreign investment, such as a hoped for new Ford Motor Co. assembly plant that would bring an initial $250 million investment and new jobs, could be scared off by the no-layoff provision in the labor code, and that Portugal's exports will become increasingly non-competetive. But changes in the code that do not violate the constitution nor provoke a Socialist backlash or a presidential veto, will not be so easy. The Socialists have their own constituency to protect, and President Eanes increasingly hints he may have to form his own political party to protect the principles of the revolution from the ravages of conservative capitalism.

The Balsemao Government also has problems from outside the country. Although negotiations for Portugal's entry into the Common Market were scheduled for completion by the end of this year, with entry due in January, 1984, both events are likely to be postponed. At the same time, despite Portuguese objections, its application continues under joint consideration with that of Spain—whose entry is considered a much more complex problem than that of Portugal.

The next several months are likely to be difficult ones, for both Balsemao and for Portugal. In a recent visit to Washington, the Prime Minister appealed for help and understanding from Portugal's Western allies, and for the world to pay as much attention to the problems of Portuguese democracy as it did to the excitement of revolt. "We were in fashion in 1975," Balsemao said. "There was a revolution, the threat of a Communist takeover. Now, we're out of the news." Lately, he said, "we ask ourselves if it's worthwhile to be a reliable friend." €

Karen DeYoung is the foreign editor of The Washington Post

OLÉ

NIL PAPA

"*Por el cambio*"—For change—was the slogan the Socialists chose to claim power in Spain during the October elections. And *cambio* is what Spain will get, even in the country's venerable art-*cum*-sport of bullfighting. Miguel Cid Cebrian, a Socialist Senator, has already made his position known. "I think there are a number of things which should be changed," says Cebrian, "to promote once again the historical and cultural values of *fiesta*." The increasing sameness of *fiesta*, bullfighters with no real inspiration or art, mediocre bulls as opposed to the real *casta*, and declining public interest seem to have contributed to what may be described as decadence. The devoted *aficionados* have watched with alarm this decline in the quality of Spain's world-famous cultural heritage.

"The bulls are perhaps the most troublesome aspect of this degeneration" says a bullfight addict. The aesthetics of rigorous bullfighting demand a special type of bull. In the 18th century, when the art was developed, the bull was a monster compared to modern standards. It had to be at least five years old and could weigh up to 1,550 pounds. More important than its weight, however, was the bull's "caste." The look of the animal—lustrous hair, dark erect horns, deep chest, flat stomach, narrow haunches, and slender legs, which were so important in distinguishing the animal's pure blood and breeding—now seems to have lost its value.

The fighting bull which breeders have been trying to produce for years is known as the *pastueño*, a noble animal to be sure, but somewhat docile and lacking a very determined charge. As a consequence of the extinction of most *ganaderías*—bull ranches—during Spain's Civil War, the minimum age and weight of the bulls were lowered in the post-war years. This served as a pretext for fighting small bulls, too *pastueno* to be brave. Artificial feeding makes them so weak that they fall continuously during the *lidia*. In addition it has become common practice to have their horns blunted and shaved. This very painful process cuts the animal's horns down three to four inches and is undertaken to reduce the risks of bloody gorings.

These changes have made the *corrida* less of a contest for the bull. The brave animal has given way to the "collaborator" bull, an opponent devoid of real *casta*, which sort of roams past the matador—allowing the closer, more artistic style of fighting now in demand, but ultimately devaluating it. The Socialists want to put an end to this "non-contest" through a series of new regulations. Miguel Cid Cebrian would give priority to recreating the brave bull, with real *casta*. To this end the Socialists are thinking of investing in state *ganaderias*.

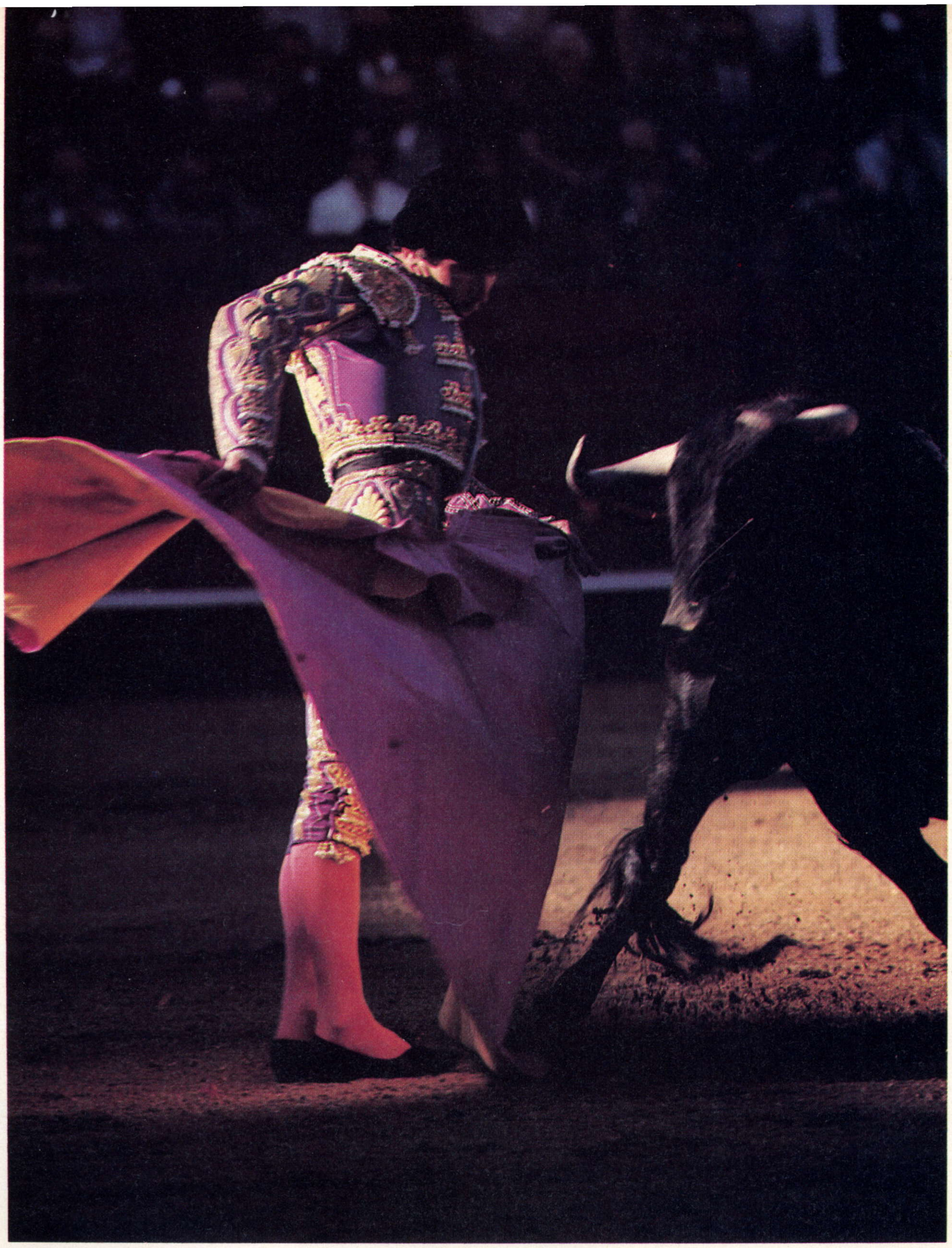
There is also a lack of star *toreros*, no one to replace celebrities like Luís Miguel Dominguín, Antonio Ordóñez or El Cordobés, who in Ernest Hemingway's words, was the perfect example of "grace under pressure." Even in retirement, though, not all have dropped completely out of sight, El Cordobés made a comeback several years ago and still fights a bull now and then. Until recently, Ordóñez would sweat himself into shape each September to kill two bulls in Ronda's annual "Goya" *corrida*, where the performers dress in the costumes of the famous painter's time.

Three or four big businessmen now control most of the major rings and manage almost all the leading *toreros*. The bullfighters, in turn, now know in March—the beginning of the season—exactly how much they will be working and earning throughout the busy months (instead of earning their contracts as the season goes along, the way they used to). As a result, says a critic in Madrid, "They just go through the movements. It is not a 'fight' anymore."

Another reason for the disappearance of the stars is the loss of glamour and attraction of the profession. In the last century and during the first half of this century, when Spain was predominately a rural country, many youngsters saw bullfighting as a way out of poverty and a road to fame and fortune. The money, however, is not what it used to be. Ordóñez, when he was a great star in the 1960's, could easily make today's equivalent of $1 million for 50 *corridas* in the season. The *toreros* of our day can barely make a fourth of this. Increased social mobility and the availability of safer, higher-paying jobs have done away with the lure of this profession.

This doesn't mean you can't see a decent *corrida* on your next trip to Spain. With proper guidance you can still enjoy a good bullfight. It is a question of choosing the right fight and the right *torero*. The best recognized artist of our day is Antoñete. He fights the bull with ease, natural elegance, and art—and with a common sense which

"Bullfight" by Pablo Picasso (1934). Courtesy of Phillips Collection, Washington



© David Alan Harvey, Woodfin Camp

most others lack. He has reached his 50's, however, and can't be expected to continue forever. After Antoñete, "the" *matador* is Francisco Rivera—"Paquirri." The man is brave and athletic; he dominates his animal and is considered a good killer. A newcomer who has gained respect is Luis Francisco Espla. Then come a number of interesting bullfighters who are not quite stars: Niño de la Capea, Angel Teruel, Palomo Linares Dámaso, Gónzalez, and Ruiz Meguel.

The next big question is where to see the fights? A bullfight lover's paradise is definitely Pamplona, the small city in northern Spain. During the festival of San Fermin, the bulls due to be fought in the afternoon are let out in the morning and run through the streets to the bullring. During the entire second week of July, the enthusiasm never dies. There is always a band marching in the streets, local people dancing to a *jota*, and fireworks at night, with the reedy airs of oboes and drums in the background. If you go to Pamplona, keep in mind that it may be safer to take pictures of the locals running with the bulls, than to have one taken of yourself.

If you are more interested in professional bullfighting than folklore, there is the San Isidro fair of Madrid. The celebrations are centered around May 15, the feast day of San Isidro, the patron saint of the Spanish capital. The bullfighting portion of the fair, which made its first appearance in 1947, has come to be the most characteristic feature of the celebrations and offers the best *corrida* in Spain. Countless bullfight enthusiasts attend the fair, which is held in what's considered to be one of the world's best bullrings. In addition, the San Isidro fair is sometimes the setting for what is known as *la confirmacíon de la alternativa* which in taurine terms refers to a bullfighter's certification, when he kills his first bull in an official fight. One well known fighter to take this step during the celebrations of the San Isidro fair was Cayetano Ordóñez, elder son of "*el niño de la palma*" and brother of the celebrity Antonio Ordóñez. All fighters, once they have passed the *alternativa* in any one of the world's bullrings, must then come to "confirm" it in the Plaza de las Ventas in Madrid.

If you want a more complete picture of Spain, not just a bullfight *fiesta*, Seville may be the city to visit. The most exuberant of all the festivals in Spain is the Feria de Sevilla and the Holy Week festival beginning on Palm Sunday. Cathedral services and magnificent Easter processions are organized every night. Holy Week is followed by the April Fair, when the entire city becomes a fairground. In the mornings there are parades of carriages carrying beautiful women in rich flamenco outfits. During the day there are bullfights and at night there is flamenco everywhere. It is highly recommended that hotel reservations be made well in advance, for there will not be a single bed in town for the traveler who decides to come at the last minute.

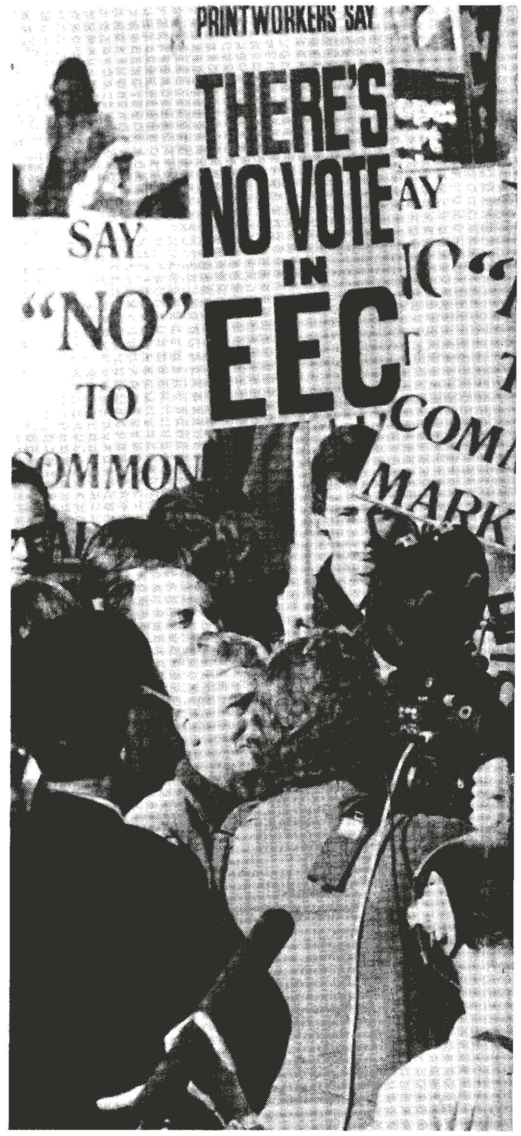
If you are a dedicated *aficionado de toros*, you can see nearly a hundred *corridas* in the course of a season, traveling all over Spain. You can start in March, with the festival of La Magdelena in Castellon; move on to Seville in April, Madrid in May, Pamplona and back to Valencia in July; then go to Malaga in early August, Vitoria and Bilbao in September, and on to the fairs of Castille —Salamanca, Valladolid, and Logroño. The season ends in October with the festival of El Pilar, Zaragoza. This "route of festivals" is an excellent way to get to know all of Spain—its different customs, dialects, people, and regional cuisine.

If you want to see bullfighting, but can't endure the blood and the gore, then go to Portugal. Portugese bullfighting has two unique features: The bull is not killed and the *torero* fights on horseback. Although this version is also known in Spain (as *rejoneo*), it is much more popular in Portugal. It can be spectacular to watch as five or six different horses participate in each fight and their movements are extraordinary. There are also *salteadores*, men who pole vault over the charging bulls. For *aficionados*, however, Portugese bullfighting is not as serious, precisely because the bull is not killed. Nevertheless, it is an exibition of superb horsemanship. The bullfight season of Portugal generally starts in June and ends in August with the main festivals in Evora, Montijo, Villa Franca de Xira, Setúbal, Santerém. In the Algarve, where the weather is warmer, there are bullfights in winter.

Nil Papa is a free lance writer living in Madrid.

BEYOND THE EEC

Ten years after the first enlargement of the Community, H. Peter Dreyer looks at the progress of European Political Cooperation.



Since the first enlargement of the Community a decade ag
accession to the Community in 1973.

Last October the Foreign Ministers of the 10 European Community member countries convened informally in Nyborg on the Danish island of Fyn. Technically this meeting within the framework of European Political Cooperation (EPC), held away from the hustle and bustle of national capitals, was a routine affair. Yet the scope of the ministers' discussions—which ranged from U.S.-E.C. relations to the problems of Poland and the Near East—was clear proof of how significant the European Political Cooperation concept has become in the course of the past decade.

European Political Cooperation did not start with the first enlargement of the E.C., now 10 years ago when the United Kingdom, Ireland, and Denmark became members. But it is undoubtedly fair to say that, while in many respects this event did not measure up to the previously held optimistic expectations, it did give a major impetus to the concept of European Political Cooperation.

Then, also, it is probably more than a coincidence that the theoretical foundations for this concept were created at the same summit meeting at The Hague in December 1969 which, after years of hesitation, finally opened the way for meaningful negotiations with those European nations which were anxious to join. Foreign Ministers were requested, with an eye on the enlargement to come, to study the best manner in which progress in the field of political unification also might be achieved.

The result of this study, known respectively as the Luxembourg report and the Davignon report, evolved in late 1970. Reinforced, as it were, but not materially changed, by the Copenhagen report in 1973, the study made it quite clear that such cooperation as might be desirable as well as feasible would be a cooperation among states which retained their full sovereignty. Equally, while there might exist a moral obligation to abide by the rules of cooperation, there neither was nor would be a legal one: In theory, each member state would be free to pull out from one day to the next.

Within those limitations, as well as the more specific ones to be enumerated subsequently, European Political Cooperation's overriding objectives were and remain 1) the quest for better mutual understanding of the great international policy problems and 2) the harmonization of points of view, the concertation of attitudes and, where this might be possible and desirable, actions in common. The exchange of information and regular consultations are the principal means to attain those objectives.

European Political Cooperation might not have done as well had its first major "test" not been the preparatory work—precisely 10 years ago—for the Conference on Security and Cooperation in Europe (CSCE) in Helsinki. There, with the countries about to formally join the E.C. fully participating in the work, the Community member states surprised both the Soviet Union and other third nations—and themselves, for that matter—by their ability to work together and to evolve common viewpoints. They "discovered" that together they pulled infinitely more weight than they would have done severally.

Since then, it can be said, European Political Cooperation "has been in business." This is not to say that it has gone from success to success. There have been setbacks as well. Thus, for instance, while it has been altogether useful many times to operate as one in the United Nations, there have been plenty of occasions, too, when the Nine were unable to agree on a common attitude in this forum. Since the Nine became Ten when Greece joined the E.C., elaborating a joint approach often has become more difficult still. To take in example the Near East declaration adopted at the European Council in Venice in June 1980, it came to be recognized that the E.C. member countries, even when operating together, did not possess enough influence to really implement the stance for which they had opted. Or, following the invasion of Afghanistan in December 1979, European Political Cooperation turned out—as everyone now will agree—to be too slow and cumbersome an instrument.

There have been many other cases and situations, however, where European Political Cooperation has been a useful and profitable instrument. This has been so in dealings with the Arab countries and with the Association of South East Asian Nations (ASEAN), for example: Political discussions with the ASEAN nations in late 1978 made it possible for the Europeans to play a far more active part than would otherwise have been possible at the Refugee Conference in July 1979. In another instance, it was due to the existence of European Political Cooperation that in 1981 some help for Poland, eventually to take the form of food aid, could be envisaged.

The chief benefit of European Political Cooperation very likely has been that it permits individual E.C. member countries to somewhat modify their policies in any given situation, should they so wish, rather more than they would be able to individually. Thus, vis-a-vis the Arab world, it has become possible for the Netherlands and France, originally at opposing ends of the political scale, to move

ıropean political cooperation has made progress. Shown here are demonstrators both for and against Britain's

somewhat (and without therefore losing credibility) toward the more common middle. Somewhat along the same lines, participation in the European Political Cooperation process has made it easier for the Federal Republic of Germany to adopt a more critical attitude toward Israel than it could ever have done on its own.

The essence of European Political Cooperation is the member countries' foreign policy vis-a-vis third nations. Consequently, the problems involving Northern Ireland, which exist between the United Kingdom and Ireland, are not a subject for European Political Cooperation discussions. There are several other off-limits topics:

- Anything concerning West Berlin is never discussed. This is a matter for quadripartite debates—that is between the three powers with forces stationed in the former German capital (the United States, United Kingdom, and France) and the Federal Republic of Germany.

- Less formally, problems of the Maghreb have not come up in the European Political Cooperation context either.

- Relations with other West European countries, which in practice means primarily those of the European Free Trade Association, appear to be so smooth that there seems never to have been any need for E.C. nations to coordinate their policies where they are concerned.

- Most important of all, European Political Cooperation does not busy itself with security policy questions. European Political Cooperation and the North Atlantic Treaty Organization exist, as it were, in totally separate worlds. This is a distinction to which the French and the Irish Governments in particular attach great importance.

It was at French insistence, incidentally, that in the early years European Political Cooperation meetings were kept strictly separate from those of institutions of the E.C. itself. This led to the bizarre situation in 1973, when Denmark held the Council presidency, where Foreign Ministers convened in Copenhagen one morning to discuss the consequences of the Yom Kippur war, then flew to Brussels in a Danish military aircraft to attend a routine Council of Ministers meeting there the same afternoon. Since then, such artificial "frontiers" between European Political Cooperation and E.C. activities have come to disappear. Similarly, while at the outset there was virtually no link at all between European Political Cooperation and the E.C. Commission, the latter has gradually come to be closely associated (as was laid down in the Copenhagen report) with all European Political Cooperation work.

At the same time, the European Political Cooperation structures, which have developed in the course of the years and which are still distinctly rudimentary compared to those of the E.C., make it quite clear that these are entirely intergovernmental operations. Its chief "institutions" can be said to be:

- The meetings three times per year, alongside the sessions of the European Council, of the Community's heads of state and Government.

- The informal meetings once every six months of Foreign Ministers. There are the so-called Gymnich meetings, named after Schloss Gymnich near Bonn where the first one was held in 1974.

- Get-togethers of ministers every six months in the capital of the member country holding the Council presidency. The way things have developed in practice, ministers meet much more often than that, usually before or after their normal Council sessions in Brussels or Luxembourg.

- The political committee. Composed of the political directors of the member countries' State Departments, it ordinarily convenes once a month and acts as a steering committee for all European Political Cooperation work.

More no doubt could be said about European Political Cooperation's successes and setbacks, advantages and deficiencies. Perhaps, though, its main significance might be sought elsewhere. It provides additional proof that, while the integration process is a slow and cumbersome one where things hardly appear to be moving at all from one year to the next, progress will be unmistakable and manifest when measured over the span of a decade. €

H. Peter Dreyer reports from Brussels for the Journal of Commerce

THE

MICHAEL DONNE

Over the past decade, a new force has swept into the arena of world airliner manufacturing—a field long dominated by the famous U.S. names, such as Boeing, Lockheed and McDonnell Douglas. This comparative newcomer is Airbus Industrie, little more than 10 years old, but already a potent rival to the U.S. industry.

Airbus Industrie is a European-based consortium, comprising Aerospatiale of France, British Aerospace of the United Kingdom, Deutsche Airbus (Messerschmitt-Bolkow-Blohm) of the Federal Republic of Germany, and Casa of Spain as the full members of the group. There are also several "associates," including Fokker of the Netherlands and Belairbus of Belgium, which, while not full members, nevertheless undertake subcontracting work on parts for the Airbus family of aircraft. All of these parts flow in to a central, final assembly line at Toulouse, France.

Airbus Industrie is currently building two principal versions of the Airbus, the big, 250-seat twin-engined wide-bodied short to medium range A300, and the smaller, 200-seat, twin-engined, wide-bodied short-to-medium range A310. Derivatives of both aircraft are also under development, giving improved range and payload performance. The A300 is already in service worldwide, with 192 aircraft delivered to 30 airlines worldwide. The A310 is nearing the end of its flight test program, and is due to enter service (with Swissair, Lufthansa, and Air France) next year. Total orders for all Airbuses to date amount to 350 aircraft (248 A300's and 102 A310's, excluding options, which amount to more than another 150 aircraft). In all, 46 customers have ordered aircraft in the Airbus family.

The Airbus has swept through world markets traditionally regarded as the preserve of the American manufacturers and the spread of Airbus customers is global—an almost clean sweep in Europe, north and west Africa, the Middle East, and southeast Asia in the short-to-medium range wide-bodied twin-engined market.

Of the orders, all except one, for Eastern Airlines, have been outside the United States. Production of the Airbus family is now mounting—from the present level of 4.8 aircraft a month to five a month in 1983 and six a month in 1984—to meet present contractual delivery commitments. Despite the recession, which has severely depressed the world market for all types of aircraft, Airbus Industrie has continued to do reasonably well. During the first 10 months of 1982, Airbus Industrie won orders for 19 aircraft, representing some 65 per cent of world sales of short-to-medium range equipment during the year, although this figure is likely to have been changed substantially as a result of some sales success in the last few weeks of the year by the U.S. manufacturers.

It is significant that all of the Airbus sales in 1982 have been outside the United States. So far, Eastern remains supreme as the only Airbus purchaser in the United States, although a number of other operators in that country have sought detailed information on the aircraft, and several are known to be watching the performance of Airbus with Eastern very closely. While it cannot be considered usual for a foreign aircraft to win major sales in a country so dominated by major competing manufacturers as the United States, Airbus Industrie's lack

CHALLENGER

of success so far is remarkable, especially for an aircraft with such a recognized high standard of in-service performance. One has to look more deeply into the situation, to find the reasons.

One of the most common attitudes inside the United States toward the Airbus is that it is a "foreign" aircraft, and is thus something of a menace to the U.S. aerospace industry, to be beaten off at all costs. If a U.S. airline buys it, that airline is being in some ways "anti-American." In fact, nothing could be further from the truth. No only are the engines in both versions of the Airbus now available—the A300 and the A310—of American manufacture, from either Pratt and Whitney or General Electric, many of the systems used in both aircraft are also of U.S. origin. Thus, in all, it is estimated that about 33 per cent of any Airbus by value is of U.S. design, development, and manufacture. Every time an Airbus is sold anywhere in the world, the U.S. aerospace industry benefits to the extent of perhaps $12 million to $15 million.

At the same time, the value of spares likely to be sold by U.S. industry to the operators concerned—over the 15 years or so of life in service of the aircraft—is also likely to be many times that initial amount. With close to 350 Airbuses sold to date (of which 192 are in service), the U.S. aerospace industry has already benefited to something like more than $5.25 billion of business, and this figure is expected to rise steadily as further Airbuses are sold. Since Airbus Industrie believes that by the end of this century a total of well over 1,000 Airbuses of all types will have been sold worldwide, the benefits to the U.S. aerospace industry will clearly be massive, amounting to between $15 billion and $20 billion, excluding the value of spares. This situation will not change, even if new versions of the Airbus come along, since U.S. manufacturers will continue to find their engines chosen for those aircraft, even if a rival Rolls-Royce powerunit should also be available.

Airbus Industrie is considering several new types of aircraft to add to the Airbus family—the A320, a 150-seat, twin-engined, "semi-" wide-bodied jet; the TA9, which will be a lengthened, twin-engined A300; the TA11, a long-range, four-engined 220-seater; and the TA12, a medium-to-long range twin-jet with 220 seats. In addition to these, however, there will be a long-range version of the A310, called the A310-300, the launching of which is practically decided upon to expand and improve the existing production line.

While Airbus Industrie's current preference, after the A310-300, is to launch the 150-seat A320—for which it sees a market of perhaps over 1,000 aircraft through to the end of this century—and although a considerable amount of detailed design has already been done on that aircraft, there is still no agreement among the Airbus Industrie partners on such matters as cost and work sharing on its development.

Nor has the question of government support costs yet been settled. Since all the major Governments involved—French, German, and British—will be required to invest in their aerospace industries for the A320 venture, no formal launch decision can emerge until their agreement has been secured.

Nor is there yet any engine for the A320. Although Rolls-

Royce, Pratt and Whitney of the United States, and the Japanese Aeroengine Industries, in conjunction with Fiat Aviazione of Italy and Motoren und Turbinen Union of the Federal Republic of Germany, have been discussing the possibility of a major new consortium to build the necessary engine for such an aircraft, there is so far no agreement. Even if such an agreement fails to emerge, however, it seems likely that there will be two competing engines—the RJ500 from the Rolls-Royce and Japanese Aeroengine consortium, and a rival powerplant from Pratt and Whitney, supported by Fiat Aviazione and MTU of the Federal Republic of Germany. Thus, there could still be a substantial U.S. aerospace content in the A320, as and when it emerges.

Many operators round the world, who already use U.S. engines and equipment in their existing airliners, would be bound to want "engine compatibility" if they bought the A320. That would mean selecting U.S. engines. The same applies to other prospective aircraft in the Airbus Industrie long-term strategic plan. No matter which other aircraft is build—TA9, TA11, or TA12, or even some other design as yet unheard of—the world's airlines will have this choice of powerplants between Rolls-Royce/Japanese or American, while they will also be free to choose whatever other sources of equipment (for such items as navigation aids, furnishings, galleys and so on) they desire. The U.S. content of whatever the Airbus family develops in the future will thus remain high.

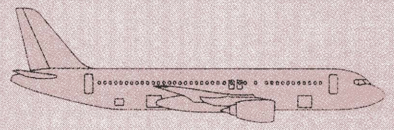
There remains the question of eventual U.S. orders for the total aircraft itself, apart from engines and equipment. So far, only one U.S. airline, Eastern, has ordered the A300—34 aircraft, 26 of which are in service, making that airline the biggest single buyer so far of Airbuses. Eastern likes the aircraft, and is making money with it. The failure of Airbus Industrie to win further orders inside the U.S. market is not for lack of vigorous sales efforts, despite the fierce competition that has been launched against it by the indigenous American manufacturers—Boeing, Lockheed, and McDonnell Douglas, with the 757, 767, and DC9-80 twin-engined jet airliners. Airbus Industrie has been able to offer a good product at just as favorable a price, and in some cases an even better price, than its U.S. rivals. The problem has been that almost psychological one, mentioned earlier, in the minds of the U.S. airlines that to buy Airbus is to "buy foreign," thereby letting down the American side. At a time of increasingly protectionist U.S. attitudes toward overseas trade, this has been an almost insuperable barrier to Airbus sales.

Every effort is now being made to break down this barrier. The Airbus Industrie salesmen are increasingly making it clear that the Airbus is as much American as British, French, German, Spanish or whatever, and that indeed the United States is the biggest single source of supply to the overall Airbus program. Slowly, the message is getting through. When coupled with the fact that undeniably the Airbus is an exceptionally fine airplane, with a consistently high record of on route reliability and punctuality and a clearly good profitability record (which accounts for its equally undeniable sales success in other parts of the world), more and more U.S. airlines are studying it closely. It is not beyond the bounds of possibility that further Airbus sales will materialize in the U.S. market in the years ahead.

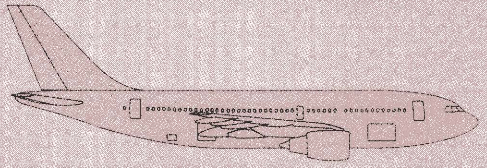
Pierre Pailleret, Airbus Industrie's senior vice president of marketing, said recently that every time an Airbus was sold, it generated as much business in the U.S. community as did the sale of a McDonnell Douglas DC-9. Airbus Industrie has an important relationship with the U.S. capital markets, whereby sales of the Airbus worldwide are financed in part by U.S. capital, with substantial interest earnings spread over many years. "This is an international industry," said Pailleret. "We are all inter-related through a global life-line in good times and in bad. Airbus is determined to remain a strong number two and we are totally convinced that the only way to do this is to offer excellent aircraft and product support, and work hard to keep our customers healthy." €

Michael Donne reports on the airline industry for the Financial Times.

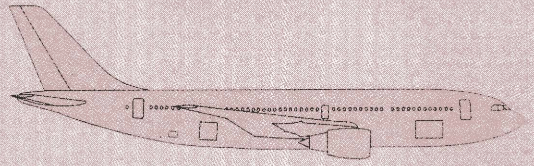
Airbus Industrie products and projects



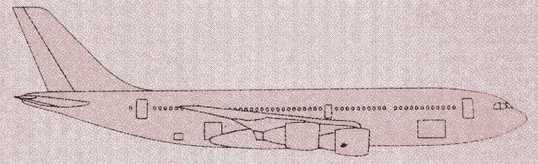
A320: all-new 150-180 seat single-aisle twin



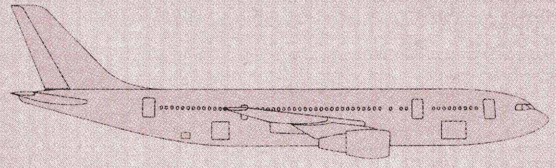
A310: advanced twin-aisle 190-265 seat twin;



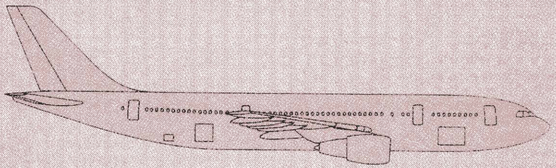
TA 12: twin-aisle 210-235 seat long range twin



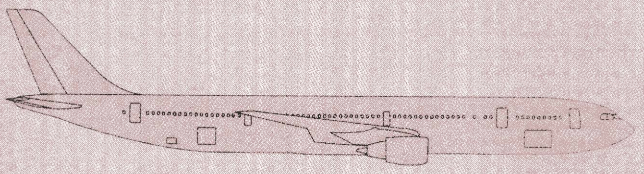
TA 11: 210-235 seat wide-body; four engines



A300: 220-345 seats: the only twin-engined wide-body in service



A300-600: twin-aisle, 235-345 seat



TA 9: long-fuselage development of the A 300

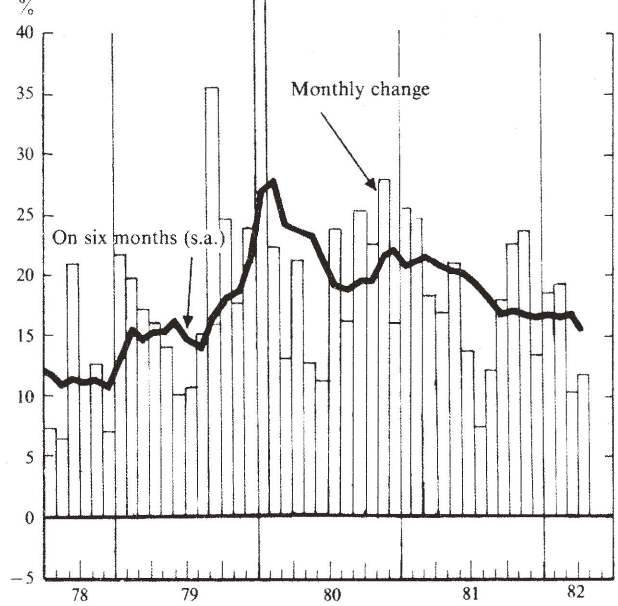
EUROPEAN ECONOMIC REPORT

Three times a year (March, July, and November) the EC Commission publishes a report entitled *European Economy*.

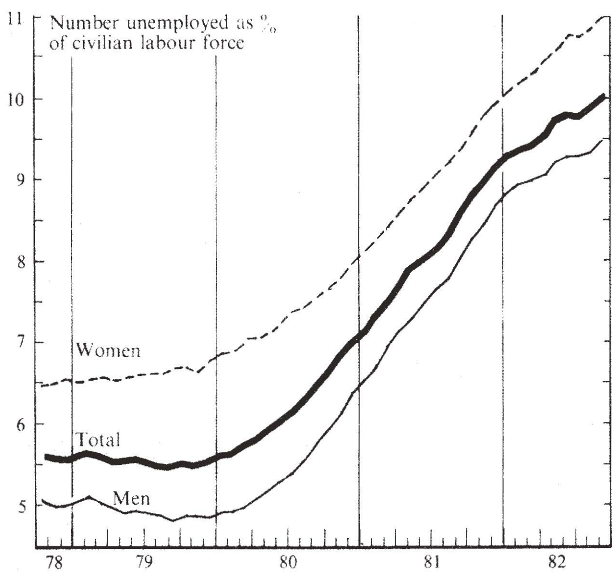
The November issue contains the Commission's proposal for the annual report on the economic situation in the Community. This report, which the Council adopts in the fourth quarter of each year, establishes the economic policy guidelines to be followed by the Member States in the year that follows. The November issue also contains the Commission's annual economic review, the background analysis to the proposed annual report. In March of each year, *European Economy* gives a review of the current economic situation in the Community and, in July, reports and studies on problems of current interest for economic policy.

The reports and series are available to *Europe*'s readers; subscription and information can be found on page 56. Shown here are samples of the kind of graphic information in the reports and series.

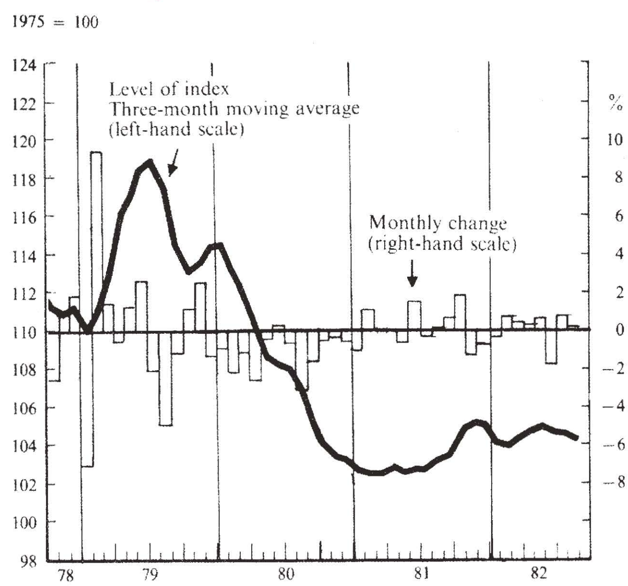
Consumer prices **Italy**



Unemployment (s.a.), EC 9

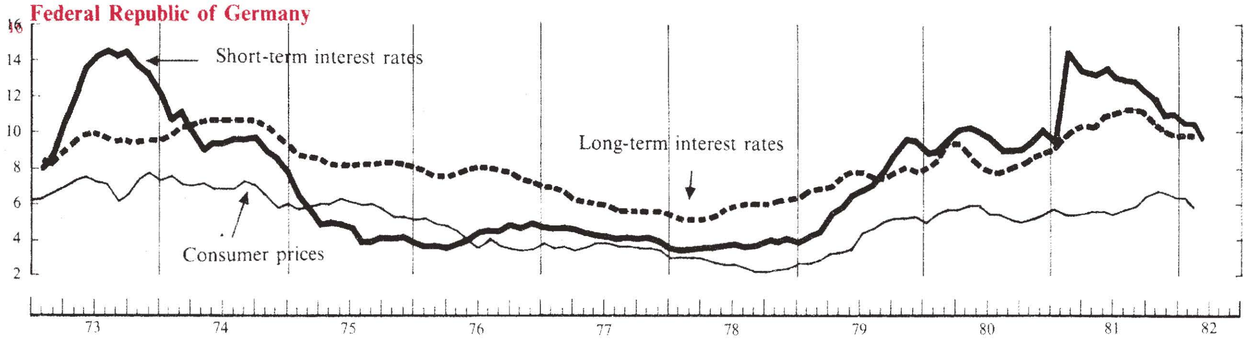


Industrial production (s.a.)
United Kingdom



Relative movements of short-term and long-term interest rates [1] and consumer prices [2]

Federal Republic of Germany



[1] Money-market rates (in principle three-month rates) for short-term and yield on public sector bonds for long-term (monthly averages).
[2] Consumer prices: change on 12 months.

THINKING big ON MICROCHIPS

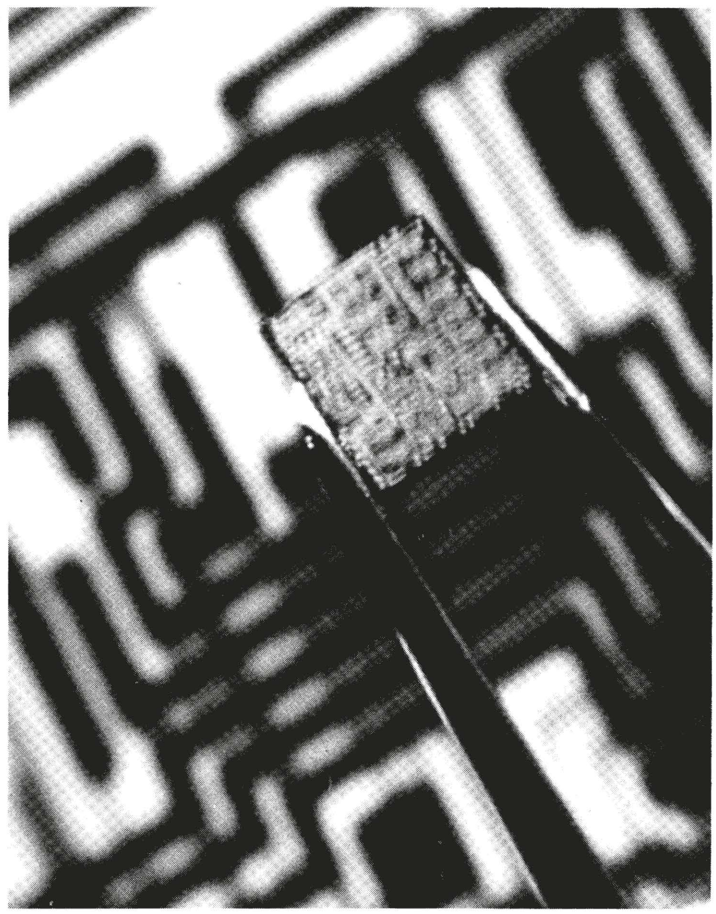
JASPER BECKER

We are used to government intervention when industrial sectors like steel, or shipbuilding, or textiles run into difficulties; it is something new, though, when governments become concerned about an industry growing at a rate of 10 per cent a year worldwide. The information technology industry in Europe is expanding even faster. At 13 per cent a year, it should by 1990 equal the present gross national product of the United Kingdom. The industry is moving so fast that around half the products on the market today did not exist three years ago.

The recent collapse of AEG Telefunken, the German electronics giant, is just one sign that Europe's electronics industry is being gravely threatened by Japanese and American competition. The European Community is convinced that it is not only in the field of mass-produced electronic goods that European companies such as AEG are in trouble, but also in the research and development that is creating the third industrial revolution. This includes the production of microchips, computers, software, telecommunications, office equipment, computer-aided design and manufacturing, and, in fact, the application of microelectronic technology in virtually every aspect of modern life.

Europe supplies less than 15 per cent of the world microprocessor market. Japan and the United States each supply 40 per cent, although the E.C. as a whole is calculated to have spent \$470 million on development compared to Japan's expenditure of \$240 million. Similarly, Japanese researchers register four times as many patents as those in the E.C. do, although the Community spends twice as much on research than Japan. At the same time, Europe is becoming more and more dependent in high technology fields on licenses from outside the European Community. As it is now, only 40 per cent of the European market in information technologies is held by local companies and Europe is dependent on outside supplies for 65 per cent of its integrated circuits. In mainframe computers along, IBM has a turnover which exceeds that of the 10 largest European companies put together.

The risks of dependence on outside sources of supply for both components and technological know-how were thrown into sharp relief by last year's dispute over the Siberian gas pipeline. On a national level several initiatives have been announced this year. The biggest is the French plan to spend \$20 billion in the next five years in new investments in largely nationalized electronics industry. Several initiatives have also been launched by the E.C. Commission over the past two



years, such as the multiannual program for the data-processing industry. This and other measures are being dwarfed by a new and unprecedented venture: the European Strategic Program for Research and Development in Information Technologies (Esprit).

It differs markedly from other from anything else ever undertaken in the field of research and development by the European Community. It aims to pool the long-range research carried out by Europe's leading electronics companies over the next decade. In this way, the Commission hopes that some of the basic handicaps under which the industry is laboring will disappear. The Europeans suffer from a duplication of research which, divided into too many units, fails to reach the "critical mass" needed to match the coordinated efforts of the Japanese. This lack of cohesion affects public purchasing, standards, and educational qualifications. All of which work against creating the economies of scale necessary to compete successfully.

Esprit will bring together around one table not only national governments, but ICL, GEC, and Plessey from the United Kingdom; Siemens, AEG, and Nixdorf from the Federal Republic of Germany; CII-Honeywell-Bull, Thompson-CSF, and CIT-Alcatel from France; Olivetti and SET from Italy; and Philips from the Netherlands. Thus, the impact will not be restricted to the research work itself, but will create a new awareness of how European industry can work together.

Most research and development programs which the Commission has launched in the past have either linked government-sponsored research institutions working in such areas as nuclear safety or have involved subsidizing research carried out between two or three companies from different member states on selected projects. The Esprit program differs radically from this sort of cooperation. It will last 10 years, involve more and larger companies, and the money involved could total $1 billion. It will also be funded half by the companies themselves and half from the European Community's budget. Instead of being controlled by officials in Brussels, it is proposed to establish an independent committee drawn from industry to manage the program. The Commission feels that it lacks the expertise and the staff.

Quite how this would work is not yet clear. So far the E.C. member states have approved the program in principle and at a meeting of Science Ministers last November, approval for a pilot stage was given. An expenditure of about $22 million is planned for a series of projects in organizing the whole program. Since there is no time to be lost, the Commission hopes the projects will be able to begin early this year. The pilot projects for which tenders can soon be made include advanced micro-electronics, namely very large scale integrated circuits (VLSI), software technology, advanced information processing which will enable computers to respond to spoken commands; office automation such as the development of technologies for multimedia handling of text, picture and voice at the same time; and projects in the field of computer integrated manufacturing.

These and other areas of pre-competitive research will be tackled more fully in the complete Esprit program: the production and development of customized integrated circuits; the development of fourth and fifth generation computers—which means in fact the creation of an artificial intelligence, computers which can solve problems with some measure of independence and which respond to speech instead of inputs of cumberously prepared data entries; the development of software systems which are portable, that is, which can be used for different tasks and on different hardware; and new breakthroughs in office filing and retrieval systems, as well as automation in the factory. Esprit will not replace national programs, nor create a kind of cartel, but will bring a European dimension to many companies which are in danger of loosing the battle to win a major share of the European and world markets for new technologies and of being relegated to the second rank. €

Jasper Becker is a business writer based in Brussels.

Windows

Theodoros Angelopoulos' *Alexander the Great*, Joseph Losey's *The Trout*, Maurizio Nichetti's *Tomorrow We Dance*, Orlow Seunke's *The Taste of Water*, and nearly two dozen other new and recent films from nine European countries will have their Washington premieres at The AFI Theater beginning February 2. For three weeks thereafter the institute will play host to some of Europe's most exciting talents as special guests introduce and discuss their films in a gala tribute to filmmaking in the European Community. Details are still being finalized, so watch for the announcement of Windows: The Second European Community Film Festival, coming soon to The American Film Institute Theater.

The Second European Community Film Festival

This festival was made possible by funding from R. J. Reynolds Industries.

Tangled Capital Markets

THE EC GOAL OF AN INTEGRATED SYSTEM HAS NOT BEEN ACHIEVED. WHY?

TOMMASO PADOA SCHIOPPA

The founding fathers of the European Economic Community placed the abolition of obstacles to the free movement of capital among the main tasks of their new venture, along with such fundamental aims as the elimination of trade restrictions, the establishment of a common customs tariff, the free movement of persons and services, the adoption of a common agricultural policy, and the establishment of a European Investment Bank.

While many of these aims have been broadly attained, the creation of a genuinely integrated European capital market still remains a distant goal. After an initial spate of liberalizing activism in the early 1960's, no further progress has been recorded. On the contrary, national restrictions have been reintroduced in several countries, and there is today a marked divergence in the degree of liberalization prevailing in the E.C. member states. Instead of the development of an integrated European capital market, we have witnessed the remarkable growth of a parallel and unregulated world-wide financial market, the so-called Euromarket. Why has this goal, contrary to others, not been achieved? Is it simply by accident? Or is there a basic economic or other reason explaining it? Has the goal become obsolete, being surpassed by wider developments on a world scale, and/or being undermined by continuing national desires to preserve control over domestic markets? Or was there from the very beginning some inconsistency among the various Community goals?

The Early 1960's

The Treaty of Rome establishing the E.C. provides that "... Member States shall progressively abolish between themselves all restrictions on the movement of capital" ... "to the extent necessary to ensure the proper functioning of the common market ...". The E.C. Council of Ministers adopted a first directive in 1960 and a second in 1962, graduating the freedom of capital movements according to the differing nature of the flows concerned, ranging from direct investments, to financial placements of various maturities, to purely short-term and potentially speculative flows, and so on.

Member states were thus unconditionally obliged to fully liberalize movements of capital directly connected with the flow of goods and services (for example, for direct investments, investments in real estate, commercial credits), of personal capital, and of securities quoted on the stock exchange. The basic philosophy underlying these initial successes on the road to liberalization was clear enough. A European capital market was considered a necessary precondition to economic and monetary union within the Community, contributing to a smooth functioning of an international monetary system based on fixed exchange rates and completely liberalized foreign exchange transactions.

To realize why those initial successes were blocked in the late 1960's and finally reversed in the course of the 1970's, one needs to trace the factual background to those events. The first element relates to the broad historical perspective: The lessons of the Great Depression—when many countries attempted to maintain employment through competitive devaluations and resorted to exchange and trade restrictions—were deeply engraved in the minds of post-war policy makers. There was a deep recognition of the self-defeating nature of "beggar-thy-neighbor" policies and of their contribution to lower global employment and welfare. Secondly, the interpenetration of financial markets and the degree of openness of the industrial economies were much lower than they are today, so that policy makers were less fearful of uncontrollable exogenous developments impinging on their domestic autonomy. Thirdly, and finally, the general economic climate of the late 1950's and early 1960's was also propitious to a process of relatively harmonious and shock-free integration. This was a period of steady, non-inflationary growth, of easy labor supply and mobility, and of low and declining energy and raw material costs.

Open-economy macro-economics prevailing in the early 1960's focused on "insular," or basically independent, national economies and governments. The economic wisdom suggested that, in a fixed exchange rate regime without capital controls, there is in principle no room for an independent national policy mix. In particular, monetary policy is constrained to be used as a tool for external stabilization. This consequence follows from the coexistence of free capital flows and fixed exchange rates. Both these elements were, however, built into the Treaty of Rome as mentioned before. Free capital flows were explicitly considered as an objective. Fixed exchange rates were an implicit pillar of the treaty. It should follow that the use of monetary policy for domestic purposes is ruled out, meaning that national monetary policies are to be constrained by balance of payments considerations. We cannot aim simultaneously at 1) free trade, 2) capital mobility, 3) independent domestic monetary policy, and 4) fixed exchange rates. The incompatibility between fixed exchange rates, free capital movements, and independent national monetary policies has been referred to in economic literature as the "inconsistent trinity." To this trio we have added a fourth element, that of free trade, which is a pillar of the Rome Treaty.

Given the treaty's explicit provision for the free flow of goods, services, and capital, the choices open were to give up either the autonomy of domestic monetary policy or the system of fixed exchange rates. The latter option being hardly conceivable at the time, the Community's founding fathers made a definite choice in favor of the coordination of policies. The analytical foundations of the treaty are sound and conceptually consistent: The subsequent inconsistency and related difficulties have arisen because the principle of economic policy coordination, enunciated in the treaty, has remained precisely only a principle. That is the main short-coming and the root of the problem: The treaty set coordination as a finality and an objective, but failed to provide for implemental norms and concrete instruments to render it a reality.

The Early 1980's

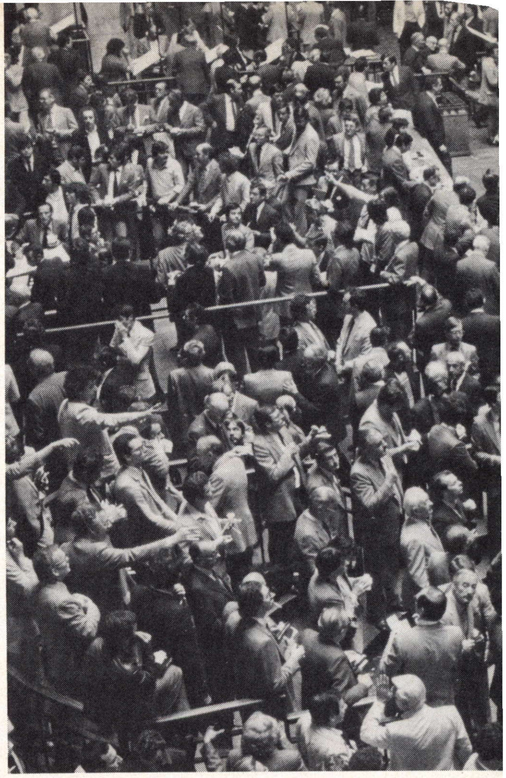
The two Council directives of 1960 and 1962 marked the last progress so far achieved toward the liberalization of capital movements. Since then there has in fact been a retreat. The existing imbalance between E.C. countries in the degree of liberalization may be briefly illustrated as follows. There are no restrictions on international flows of financial capital in the United Kingdom and (apart from marginal heritages from the past) in the Federal Republic of Germany and the Netherlands. The obstacle of additional transaction costs in the form of a two-tier foreign exchange market exists in Belgium, Luxembourg, and in France. Direct restrictions on capital flows, which were formerly liberalized under the first two E.C. directives, have been imposed since 1968 in France, since 1974 in Italy, and since 1978 in Denmark and Ireland. These restrictive measures were authorized by the Commission, under recourse to the "safeguard clauses" laid down in the Treaty of Rome and were originally authorized on a transitory, short-term basis only.

Finally, the legal framework is one which obliges us to continue along the troublesome road of issuing directives, building European capital market integration step by step. Added to this is the serious drawback of very long internal decision lags within the Community itself and the very long implementation delays and/or grace periods granted.

Let me now turn to the factual background to the present situation, looking in turn at the financial, real, and policy phenomena of the early 1980's. Firstly, the E.C. scenario of detailed regulations applied to some national capital markets contrasts sharply with the existence of international financial markets which are global and mobile in scope, not subject to official regulations, and ever growing in volume. Against this background the continued existence of nationally regulated capital markets in the Community appears somewhat anachronistic. The absence of a liberalized and integrated official capital market within the Community constituted a vacuum which was filled by private activities, with the informal construction of a free and integrated capital market outside the Community.

Secondly, the golden period of steady, noninflationary growth which accompanied our first liberalization successes has been followed by one of poor growth, price, and employment performance throughout the industrialized world. The structural imbalances in the balance of payments situation of the major country groupings, and particularly the persistence of a large deficit for the non-oil developing countries, continues to mean a sustained need for financing, for compensating international capital flows. This demonstrates, in general, a savings-investment dissociation at an international (global) level. Again, a large need for international capital mobility is the consequence. Thirdly, in a world of generally floating exchange rates, there exists, since March 1979, the currency areas of the European Monetary System (EMS) with fixed (but adjustable) exchange rates. While the "short end" of financial capital transactions, the money markets, are tied together and integrated by means of the EMS, the longer term end of European capital markets, comprising long-term loans as well as the issue and circulation of securities, is still segmented.

It is now clear that in a world of capital mobility full insulation from external influences is impossible, even with floating exchange rates. This conclusion is supported by the following line of reasoning. The main fundamental determinants of exchange rates, that is relative cost and price developments and balance of payments positions, operate consistently in the long run only. In the short run, exchange rates may be pushed in different directions, away from their fundamental equilibrium level, by rapidly changing expectations influenced by a variety of factors. The deviation of exchange rates from their "normal" level has important real effects on domestic economic activity. National authorities of widely open economies cannot afford a "benign neglect" as regards their exchange rate.



At the Bourse in Paris. © Patrice Habans, Sygma

Their reaction varies according to their possibilities. In very general terms the situation could be described as follows: The smaller open economies, such as the Benelux countries, have sacrificed the independence of their domestic monetary policy on the altar of exchange rate stability and free capital flows. On the other hand, France and Italy have broadly aimed at insulating their domestic monetary policy and at maintaining their currencies' exchange rate via the use of capital controls (and other direct controls, such as credit ceilings). The United Kingdom did not join the EMS because, *inter alia*, it felt that an exchange rate commitment was incompatible with the lifting of exchange controls and the pursuit of quantitative monetary targets, to which it gave priority.

Looking Ahead: Policy Approaches

The comparison of the early 1980's with the early 1960's reveals the persistence of the old problem in a new environment: We still have to reconcile the four elements of free trade, exchange rate discipline, capital mobility, and national policy autonomy. The problem, and the whole question of capital market liberalization in the Community, has to be tackled

on the basis of a consistent, and Community-oriented, organization of all these four elements. We may think of trade, money, control, and policy as constituting the four rings of what must be a coherent and organized chain, and we may distil three policy approaches which could alternatively bring about full consistency between the four rings of the chain. We will describe them briefly, in their pure and conceptual form, meaning that for clarity of exposition, we will intentionally ignore the existence of political difficulties and the constraints of gradualism.

"Policy coordination" looks like the road of wisdom and simplicity, but is, in many ways, the road of simplification and deception. Complete and systematic consistency of macro-policies conducted by a group of sovereign Governments is extremely difficult for a variety of reasons. Each Government ultimately responds to its own electorate. In addition, policy calendars do not coincide. For monetary policy, difficulties are also great, as they concern not only calendar, but also choice of targets, choice of instruments, structures of the banking industry, and financial intermediaries in general. Finally, policy mixes are shaped in very different ways according not only to choice, but also to the institutional relationships between national central banks and treasuries.

Complete and systematic consistency of policies achieved without any institutional infrastructure is a dream. On the other hand, to create an international infrastructure that would force the dream into reality would raise enormous difficulties. To the extent to which coordination does not work, we have different forms of distortions in the other rings of the chain. In other words, if the policy coordination ring in our chain of four elements does not hold, at least one of the other elements is bound to come under tension and perhaps break: trade, money, or controls. To prevent such negative consequences, approaches have to be implemented which tend to strengthen policy coordination either indirectly, via capital market integration, or directly, via the completion of monetary union.

The second policy approach, enforcing capital market integration, conforms closely to a cooperative Community spirit and carries the logic of enforcing policy coordination in an indirect way through the institutionalization, or organization, of a European capital market. Detailed proposals to enact further liberalization directives and to revitalize the legally established supervising functions of the Commission and the Monetary Committee are the idea's basic practical ingredients. The proposal might however meet with the objection that the integration of European capital markets has by now become an obsolete or redundant goal: Financial markets throughout the world are already linked via the Euromarkets, which have repeatedly proved their worth as efficient vehicles for international capital mobility, and have in practice raised the degree of integration between different money centers.

The third policy approach, complete monetary union, is, of course, a well-known approach and the one most often attempted after the end of the Bretton Woods system had deprived the Common Market of the vital monetary organization required for its proper functioning. It is therefore not necessary to expound on it here. Suffice it to say that the marked attention and many studies devoted to the question of European monetary union derive from the realization that the twin goals of free capital movements and fixed exchange rates (explicit or implicit in the Rome Treaty) imply a single currency area and a single monetary authority. Full-fledged European monteary union is thus the high road to policy coordination and economic convergence, implementing these directly by replacing a number of monetary authorities with a single, central authority.

Solutions

In conclusion, where do we in the Community stand today as between these three approaches of: (1) directly following consistent and coordinated policies; or arriving at such policies through either (2) capital market integration or (3) monetary union? It would seem that on all three fronts we are, to a lesser or greater degree, at a sort of halfway house between, on the one hand, purely national policy formation and, on the other, policy-making that is entirely lodged at Community level. It is a situation in which the Community is still contending with the problem posed by the "inconsistent quartet" of free trade, exchange rate discipline, free capital movements, and autonomous domestic policies. Until a coherent, Community-oriented organization of all these four elements is found, the temptation is to yield a little on each, including even the principle of free trade, thus calling into question the very foundations of the Community. The problem needs to be tackled, and in this regard there would seem to be two broad possibilities.

The first, and certainly preferable, solution would be to realize to the full any one of the three alternatives examined above. If the will to take the important qualitative leap which is involved were to materialize, it would seem that the way of monetary union is still the one likely to offer less "mechanical" resistance and the greater chances of success. The second, less satisfactory but in practice more probable, alternative is that of gradualism. Here the transition from purely national approaches to a Community-oriented organization is seen as a progressive shift in a spectrum, as a gradual but nevertheless on-going process. The European Monetary Systems, for example, may be seen as a strategic catalyst in this process of integration, enhancing the legitimacy of each participant's concern for the others' policies and inducing E.C. member states to discuss fundamental issues sooner in time, in greater depth, and in terms of more concrete policy options than in the past. €

Tommaso Padoa Schioppa was formerly director general in charge of economic and financial affairs at the EC Commission.

what if...?

Credit crisis could destroy Eurodollar market. A worst-case scenario.

HANS BELCSAK and BRIAN ZIMMER

In the recent euphoria over the blossoming U.S. stock market, financial analysts, investors, and economic columnists downplayed the reality of the crumbling financial conditions of many major companies. Regardless of the final determination of winners and losers in the speculative excitement, the total world picture looks more and more dismal.

The world recession may eventually impose severe consequences for banks and major corporations that are regular players in the field of international finance. In particular, the Eurodollar market appears extremely vulnerable to a sudden and violent contraction. This contraction would be brought about by the combined economic consequences of 1) a continued deterioration of less developed country financial positions, 2) a secondary level impact of the U.S. farm economy depression on major corporations and trading companies linked to agriculture, 3) a default of Comecon countries, and 4) a trend toward security on the part of many investors and major banks.

The downgrading of major U.S. corporations by Moody's, Standard and Poor's, and other rating services—as economic statistics pile up to disfavor many multinational corporations straddled over declining markets and shrinking equity positions—offer historical perspective, at best. While these services strive to anticipate trends, a realistic assessment is that they have rarely called accurately the timing or the severity with which numerous financial giants have collapsed in recent years.

"When these difficulties are added to the outstanding balances on defaults . . . the dimensions of the potential for crisis begin to unfold."

This is not to suggest the world is coming to an end, only that there is a greater likelihood today of a financial crisis being generated through the extremely easy access many corporations and second-tier banks have had to borrowed money through the Eurodollar markets. A great deal of money has been loaned, and a very large amount continues to be extended every day to major corporations and banks on a "name" basis. The vulnerability of this willingness to extend credit almost instantaneously through the money transfer mechanisms of the Eurodollar market has been illustrated most recently by the Banco Ambrosiano difficulties.

". . . panic among the money traders might be fully sufficient to unbundle the whole system. . ."

[Banco Ambrosiano, Italy's second largest private bank, had lent out some $1.3 billion to various Latin American subsidiaries of its Luxembourg holding company. Many of these loans turned out to be bad, but neither the Vatican Bank which had backed the financial operations, nor the Italian Central Bank has yet bailed out Ambrosiano's Luxembourg affiliate. The 200 creditor banks of the Luxembourg holding company, which are owed $400 million, include American banks such as Bank of America, Manufacturers Hanover's Trust Co, and First Bank of Boston.]

In fact, it may well be argued that the ability of the Eurodollar market to deal with the Banco Ambrosiano complexities is assurance that the world financial system is sound and able to accommodate "aberrations" such as the Banco Ambrosiano affair. However, Banco Ambrosiano was not a large market aberration in the context of the scale of the Eurodollar market, and its inability to meet scheduled payments was far from a catastrophe. A diverse collection of banks were involved as lenders, nearly all with the capacity to live with their mistakes—so long as some eventual repayment is realized. The plethora of recent bank newsletters assuring the public—or at least the investing public—that the financial systems are sound, point with pride to the temporary resolution of the Banco Ambrosiano crisis, as they did earlier when Herstadt Bank collapsed virtually overnight. In fact, however, the Italian banking authorities have refused responsibility for Banco Ambrosiano's Luxembourg foray, while none of the major European central banks have taken any serious steps to correct the underlying situation that led to the problem.

Thus, we remain somewhat skeptical of the ability of the international banking system to respond effectively, as the scale of economic crises among major corporations (notably those in steel and in agricultural commodities) is quite severe and appears to be continuing. The gigantic credit exposure of numerous major banks to the recently recognized collapse of the commercial real estate market in the United States is much larger. When these difficulties are added to the outstanding balances on defaults by Mexico, Argentina, the Comecon countries, and numerous lesser developed countries, and to the relatively large number of major corporations in the United States, Canada, and in Europe now in default or in some stage of loan work-out, the dimensions of the potential for crisis begin to unfold.

Within the domestic U.S. financial markets, a very large proportion of bank assets are backed by deposits or some form of "tangible" liabilities. In the Eurodollar market, however, the largest proportion of assets is backed by inter-bank liabilities. These tiered inter-bank liabilities involve many banks which have made long-term funds available to other banks when their own source of liabilities has been short-term placements. The speed with which these short-term deposits can be withdrawn from one bank and placed in another was demonstrated by the rapid shift from various eurocurrencies into billions of dollars this past year in response to the high interest rates available for dollar deposits. Now, many of these investors will be tempted to convert their liquidity into fixed and semi-fixed assets denominated in dollars rather than move them from the security of the U.S. environment back to Europe, Japan, or the more secure of the Pacific rim nations. Certainly, few of these short-term deposits will flow back to Latin America or the Middle East.

Adding to this litany of problems will be the deficit financing requirements of most major European Governments and a large number of second tier nations with remaining borrowing capacity. The recession is having the same unpleasant tax-shortfall consequences in these countries as in the United States. In the case of Canada, France, the Federal Republic of Germany, Denmark, and others, continued high unemployment is having disastrous effects on tax revenues, while forcing social-benefit expenses up rapidly. In most cases, these countries will eventually have to come to the world financial markets to raise money to cover the deficits in their domestic budgets.

With most of these same countries committed to campaigns against inflation, they will be reluctant to roll the money presses to finance their own deficits or to create artificial liquidity in their domestic financial markets to absorb their debt issues. If they try to raise money by domestic debt issues, they will create severe crowding of corporate borrowers, further reducing their respective economic growth. This creates a likely scenario where all but the most sound of the major international banks will face severe crowding out effects in the medium and short term, as they already have faced in the long-term debt markets. This set of highly probable circumstances would provide the back-drop against which the Eurodollar market contraction could take place.

There are banking experts who argue that the effect of greater anxiety in the Eurodollar market will lead merely to greater price tiers between competing banks. Price tiers, however, imply funds will be available at some price. By contrast, we foresee a banking crisis leading to a "golden circle" of preferred, strongly capitalized banks, below which a chasm will exist where lesser banks will be unable to raise debt at any price.

If a worldwide liquidity drain begins in the spring of 1983, combined with a worldwide continuing recession (depression), and the U.S. Federal Reserve proves still committed to its "austerity" campaign against inflation, there could be financial collapses by large banks and corporations which are heavy participants in the public-debt markets. If several major financial collapses happen in a narrow time frame—as can happen when large organizations gamble up to the last minute that somehow they'll pull their respective nuggets from the fire—then the inter-bank loans that support the Eurodollar market could come wrenching together in a rush of called obligations.

"If a worldwide liquidity drain begins in the spring of 1983 . . . there could be financial collapses by large banks and corporations. . .

The spark for such a storm could come about with as few as three major banks unable to meet theoretically routine international collections for a period of a few hours. If these three banks were each respectively active in the London, New York, and Swiss markets, the panic among the money traders might be fully sufficient to unbundle the whole system of beliefs in "name" banks. Since some two thirds of Eurodollar deposits are inter-bank deposits, according to Bank of International Settlements estimates, the traders' reaction would set off position eliminations on credits, and in some cases currencies, that would cause a contraction of the total Eurodollar market to perhaps 50 per cent of its current level. This could in turn bring about the failure of many of the largest banks in the world, with the most vulnerable being those with the heaviest reliance on market sourcing of their liabilities.

This is a very grim prognosis, but not quite a doomsday scenario. In such circumstances, one could remain confident that the central banks of Europe and Japan, and especially the U.S. Federal Reserve System, would react calmly and efficiently to pump reserves into the system to keep banks from becoming technically in default for even the shortest period of time. However, in observing the reluctance of European central banks to assume leadership in the resolution of the Banco Ambrosiano imbroglio, the speed with which the central banks of the world could coordinate and reach agreement on the methods to avert a great contraction of the Eurodollar market is a matter for serious speculation. And while the Eurodollar market is not conventionally thought of as a speculators' market, the lack of a real bank of last resort in the Eurodollar market could mean that speculators' risks there are much higher than many perceive.

What can be done by the European central banks to create a security blanket which could provide a "fail-safe" position to protect the Eurocurrency markets? Unfortunately, the range of alternative actions is constrained by conflicting political and economic objectives among E.C. member states. The business philosophies prevailing in those countries harboring the Eurocurrency banking centers, notably Great Britain, Luxembourg, and Switzerland, are such that efforts to impose internationally conceived regulatory notions will be met with spirited resistance.

Not to be disregarded are the tens of thousands of jobs that would be affected if these "offshore" banks were brought under stricter regulation. The Eurocurrency market flourishes through the lack of regulation and especially through the minimal taxation imposed on the banks and banking vehicles that operate in it. Therefore, tougher rules would threaten the *raison d'être* of the Eurocurrency banking centers. Even with acknowledged shortcomings, the Eurocurrency market is too important to the financial fabric of international business for banking authorities to leave it in a state of "benign neglect."

One possible immediate remedy which would have little or no impact on the normal flows of the Eurocurrency centers would be to require the offshore banks to provide a clearer statement of ownership and the liability (or lack thereof) of the owners to guarantee the bank's obligations. The Governments having jurisdiction over the offshore banks could impose this disclosure with the stroke of a pen and without affronting the free market principles that have nurtured the banking centers.

On the broader scale, the forecast improvement in the world economy in 1983 and the forceful steps taken by the Reagan Administration to prop up the financial circumstances of Brazil and Mexico should help to reduce the environmental risk to Eurocurrency lenders. This may create an atmosphere more amenable to shared perspectives by central bankers. The continuing strength of the dollar is also proving to be a stabilizing factor for the Eurocurrency market.

". . . interbank loans that support the Eurodollar market could come wrenching together in a rush of called obligations."

It would be premature to conclude that the worst is over, but there are many hopeful signs that the potential for a global financial crisis is being recognized and that responsible actions to correct the structure will be undertaken within the coming year. €

Dr. Hans Belcsak is president of S.J. Rundt, New York, and Brian Zimmer is a financial consultant.

follow the leader

EUROPE'S STOCK EXCHANGES RESPOND TO NEW YORK RALLY.

TIMOTHY HALLINAN

On August 13, 1982, the New York Stock Exchange gave the European stock markets the first good news that they had heard in many months. On that day the Dow Jones industrial average broke out of its long, low-level sideways movement for its first really substantial rally since the 1970's. By early September, the Dow had risen by 20 percent, and by early November, by 29 percent. Market technicians were freely predicting that the venerable index would soon reach 1200.

Soon after the market started in New York, news dispatches from Europe reported the the bull market had spread to other international centers—London, Paris, Tokyo, Frankfurt, Toronto, and elsewhere—and that the world's major houses were following the lead of Wall Street. A more accurate reading of what has really been happening on the European markets is much more interesting, and also more important. For U.S. investors it raises issues which are worth their most serious attention. The New York rally signaled that the West's economy was coming out of its recession. If some major markets followed New York and others didn't, might not the "laggard" markets provide the serious investor with some good investment opportunities?

In fact, only one of the world's leading stock markets really followed New York, and that was Stockholm, which rose by exactly the same amount as the Dow Jones industrial average (29 percent). During the last three years this market has advanced by 129 percent, which is the best performance of any major market in the world. However, European investors are now becoming increasingly cautious in their approach to it. Much of its advance during 1981 was due to the Government giving new tax breaks to investors—a one-time stimulus which cannot be repeated soon. As the market moves closer to its all-time high, investors worry whether the coming recovery in Europe will be strong enough to sustain its current expectations.

London followed New York much more cautiously than Stockholm. It rose 14 percent during the New York rally—about half the rise of the Dow Jones. But it did so on the basis of some very solid advances in 1980, 1981, and even in the first six months of 1982, when the Dow Jones was retreating. Like Stockholm, however, London is close to its historic high, and many investors believe the market has already discounted the upcoming recovery.

None of the other major European markets has matched the Wall Street rally. In fact, most of them are so depressed that if they move at all, they will almost surely move upward. Four are worth the close attention of all serious investors. The Paris market is a special case. With a Government freeze on both prices and wages, the country is still caught in the grip of a double-digit inflation, corporate profits are shrinking, and organized labor is restless. Last year the Bourse lost a dozen of its leading banking and industrial stocks through nationalization, and another lurch to the left in French politics might send a dozen more in the same direction.

However, this gloomy outlook may change for the better this spring, with the establishment of a new stock market (*le second marché*) for small and medium-sized companies with gross revenues of $10 to $50 million per year. More than a dozen companies have already announced their intention of joining, and the membership roster is expected to grow once the market opens. Some of these smaller companies may turn out to be strong performers, despite the weak economy.

Three other markets may be more appealing. One is Amsterdam, which is still only 10 percent higher than it was three years ago, and some 45 percent below its record high. The country still has one of the highest unemployment rates in Europe, but its inflation is a low 5 percent, its prime lending rate a low 8 percent, and its new Government favors the private sector. Its economy may be well positioned to benefit quickly from a world recovery.

The Frankfurt market remains a very pessimistic market, now standing where it stood three years ago, but the German economy is in better shape in some ways than the economy of the United States: it has a lower rate of inflation (2.5 percent), a lower unemployment rate (8.4 percent), and a slightly lower prime lending rate (11 percent). The feature that most interests investors, though, is that the market is still 30 percent under its record high, and it could quickly decide that its esti-

HOW THE MARKETS HAVE PERFORMED

Percentage change in leading indicator

	1980	1981	1982 Jan.-Aug.	1982 Aug.-Nov.
New York	+11.7	-6.5	-11.0	+29.3
Belgium	-18.6	-4.2	+17.1	+7.0
France	+9.2	-18.9	+4.3	+6.2
Germany	-5.4	+1.6	-2.1	+6.5
Holland	-9.8	+0.8	+8.8	+10.9
Italy	+102.3	+14.5	-15.5	-0.2
Japan	+6.3	+15.4	-8.5	+9.2
Sweden	+16.6	+49.7	+1.3	+29.3
Switzerland	-2.3	-11.7	-7.6	+10.4
United Kingdom	+12.6	+10.1	+5.4	+13.9

EUROPE'S STOCK EXCHANGES

Europe has many more stock markets than most investors realize. Over the last five or six years, some of them have proved to be relatively dull places to invest one's money if one is looking for high rates of return. Other markets, however, have provided a wide variety of important investment opportunities. This series will report on those markets which, over time, are likely to be the most rewarding for serious investors to follow.

These are the European countries which have major exchanges: Austria, Belgium, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom.

ygma

ıre earnings were unduly pessi-

ıarket is extremely sanguine. It
.980, 1981, and in 1982 until
rally prompted it to climb by 10
w stands roughly 43 percent be-
ıe high, despite the fact that the
one of the world's lowest prime
(6–7 percent), a low rate of in-
ercent), and virtually no unem-
3 percent). Investors are waiting
nes of Zurich" to wake up and
t the world is changing for the

ıan writes on international investing.

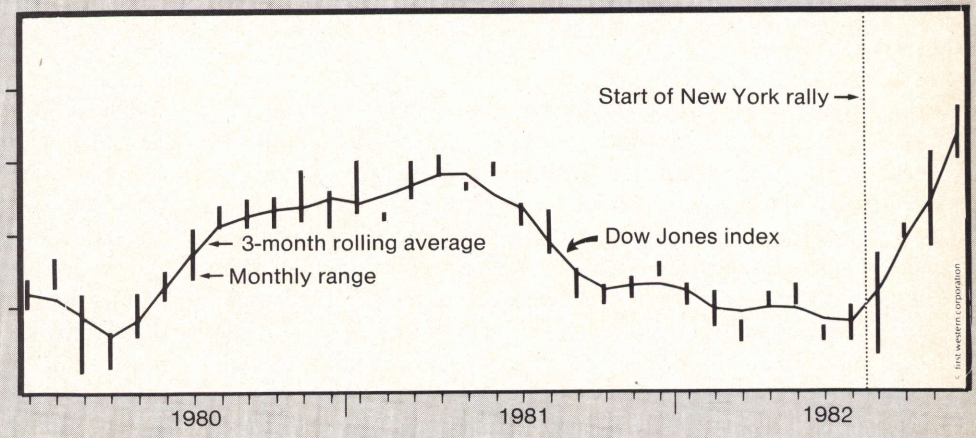
Leading Indicators (January 1, 1980=100)

These charts show the movements of each market's leading index of share prices. For New York, they show the Dow Jones Industrial Average; for London, the Financial Times Industrial Ordinary Share Index; for Frankfurt, the Commerzbank Index; for Paris, the CAC General Index; and for Tokyo, the New Tokyo Stock Exchange Index.

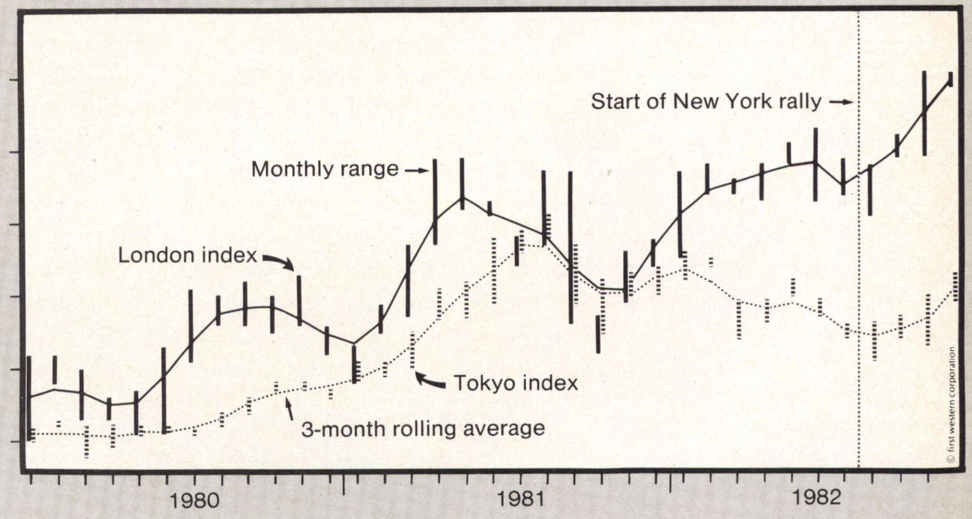
In order to make the movements of these indices comparable, each index has been recalculated with the closing index of the first trading day in January 1980 as base 100.

The vertical bars show the monthly trading range of the weekly closing price of each index. The horizontal lines show the three month rolling average of the mid-point of each monthly range.

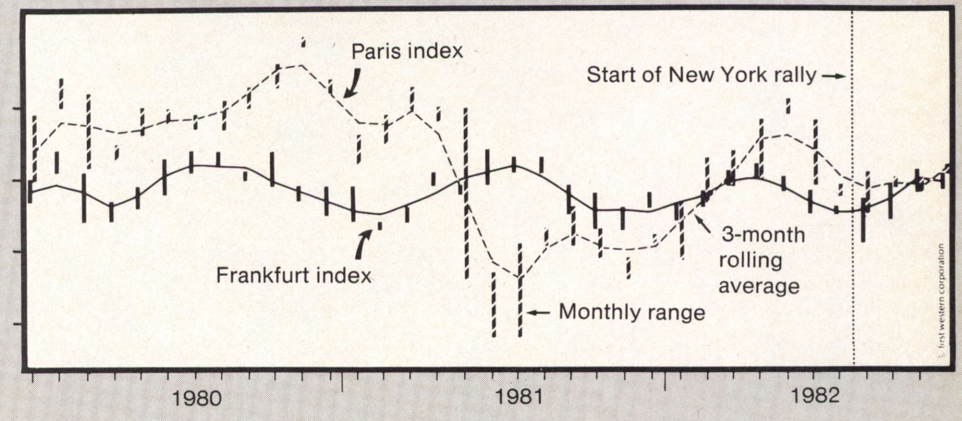
NEW YORK



LONDON & TOKYO



FRANKFURT & PARIS



saving SMALL BUSINESS

The backbone of Europe's economy is in trouble, but help is coming.

GERALD BOURKE

Small and medium-sized enterprises (SME's) defy strict definition. Individual E.C. member states use various criteria including turnover, accumulated capital, or fixed assets to classify companies, but owing to the diversity of the Ten's economies, size of workforce is seen as the most realistic measuring rod for the Community as a whole. All firms with up to 500 employees are therefore loosely categorized as SME's. Although no recent, completely acceptable figures exist, it is safe to say that more than 95 per cent of all companies in the E.C. fall under this heading (almost 100 per cent in Denmark and in Greece, 98 per cent in the Federal Republic of Germany). SME's are therefore the backbone of the economic and commercial struture of the Community.

The recession has taken its toll of large companies, but it is small business that is apparently finding it most difficult to weather the storm. Not since World War II has Europe seen such a flood of company closings. In the Federal Republic of Germany, traditionally the Community's industrial stronghold, 27.4 per cent more companies collapsed in 1981 than in 1980, while the United Kingdom, France, and Belgium experienced increases of 26.4 per cent, 20.3 per cent, and 15.8 per cent respectively. In the Netherlands, long a place of enviable prosperity, company failures were up a massive 42 per cent in 1981.

The list of casualties continues to grow. Indeed the first half of 1982 has brought an acceleration of the trend. This time around the Federal Republic of Germany has been hardest hit. Fifty per cent more companies folded there in the six months ending in June than during the same year-ago period and many economists are predicting a post-war record for the year as a whole. Some may view this weeding out of the weak as a sort of natural selection process which will ultimately result in more competitive industries. On the other hand, however, the financial chaos and widespread unemployment which has resulted from the recession may seriously undermine the ability of the survivors to bounce back properly. Nevertheless, the dismal statistics underline the need for greater efforts to help small companies stay afloat.

Following a proposal by the European Parliament to proclaim 1983 "the year of small and medium-sized companies and the craft trades," the E.C. Commission is stepping up its own program in favor of SME's. An important conference in Brussels on Jan. 20 and 21 will highlight the problems facing small companies and discuss ways and means to overcome them, including public policy. The conference will be followed by a series of seminars on various aspects of financing and of innovation technology and on the elimination of trade barriers in both the Community and export markets. The

Petticoat Lane in London. © Derek Zepper, Black Star

More than 95 per cent of all companies within the E.C. qualify as small or medium-sized businesses. © Derek Zepper, Black Star

Commission hopes that clarification at a European level will undeline the crucial importance of SME's and will encourage individual member states to improve the domestic conditions in which small companies operate. The existing E.C. program for small business is a broad one.

Obtaining adequate financial backing is the biggest single problem for companies in these days of high interest rates and credit squeezes. A top priority of E.C. policy is to improve small firms' access to capital markets. Indeed, while most banks are becoming increasingly reluctant to take the risk of funding investment, the E.C.'s lending institutions are actually making more and more money available. Last year, for example, the European Investment Bank (EIB) gave out 10 per cent more cash than it did in 1980.

The EIB's loans are also much softer than those of other banks. Under its global loans scheme, low interest credit is made available to small businesses through financial intermediaries in the E.C. member states. These loans can be anything from 25,000 European Currency Units (ECU) to ECU 4 million (the ECU is currently worth almost exactly $1) and can be given for up to half the cost of the fixed investment. To qualify for an EIB loan, individual firms must employ no more than 500 workers, they must have less than ECU 75 million in fixed assets, and no more than one-third of their capital can be owned by a larger company. In 1981, 860 loans, totalling ECU 288.3 million were granted by the EIB to small and medium-sized companies in the Community. In comparison with 1980, this represented a sevenfold increase in the number of loans and a fivefold rise in the amount of money lent.

Four years ago a new lending arm was added to the EIB. This is the so-called New Community Instrument (NCI), which funds small business investment in addition to providing money for infrastructural and energy-saving projects throughout the Community. So far two "tranches" of ECU 1 billion have been raised on the world's capital markets and a further ECU 3 billion is expected to be distributed under a third NCI authorization currently being sought by the Commission. Small businesses also benefit from a considerable amount of support from the European Regional Development Fund. Over 94 per cent of the 4,102 industrial projects which received assistance between 1975 and 1982 concerned investments of less than ECU 10 million.

Restructuring and improvement loans are also available on favorable terms from the European Coal and Steel Community (although the severe problems of these two sectors has reduced the number of loan applications) and from the agricultural assistance funds (EAGGF and FEOGA). The number of grants for research into energy saving and alternative energy sources is increasing at a rapid rate. Studies have consistently shown that SME's are more innovative than larger companies and the Commission bears this in mind when financing the risks associated with innovation.

It is often the case that managers of small firms are inadequately trained. A report earlier this year by the European Parliament's Economic and Monetary Affairs committee maintains "that the day-to-day running of SME's presupposes a level of skills and qualifications which not all of them have attained." When the Commission outlined its priorities for the administration of the European Social Fund (which co-finances training and retraining schemes in the Community) over the next two years, the improvement of management techniques within SME's was near the top of the list. Since small companies create more new jobs than large companies, this has a significant bearing on Social Fund allocations.

Small and medium-sized businesses, constantly complain that they are obliged to function in an oppressive tax environment. Fiscal policy is largely the preserve of national Govern-

Not since World War II has Europe seen such a flood of company closings. Pictured here is a bicycle shop in Rome. © Photo Researchers

Making yarn on the Isle of Skye. © Thomas Nebbia, Woodfin Camp

ments and the E.C. Commission's powers of influence in this area are strictly limited. It has been trying for a number of years to bring some degree of harmonization to E.C. member states' tax policies, but its efforts have been strongly resisted by the Council of Ministers. Value-added tax (VAT) receipts, however, do constitute a large proportion of the E.C.'s income and it is this form of taxation over which Brussels has most control. The most frequent criticism made by small companies is not over the financial burden imposed by the tax, but rather the complexity of the paperwork involved. There is, however, no standard Community VAT scheme for small firms and those operated by member states are very diverse.

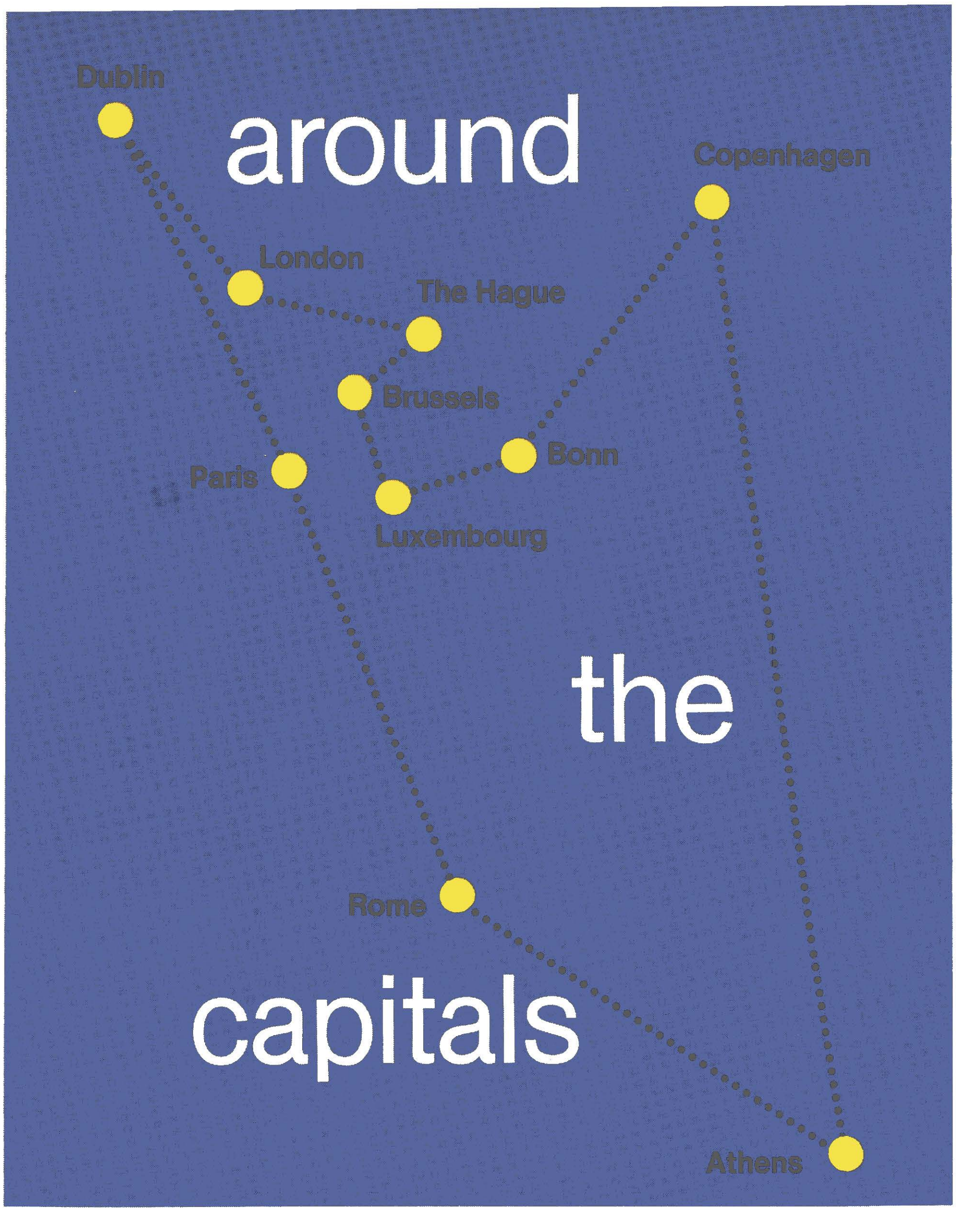
In an effort to counteract this, the Commission is now planning a single scheme for all small firms in the Community. Among other things, it wants to set a uniform ceiling below which businesses will be exempt from paying VAT. It is also formulating a simplified system which would base VAT accounting on payments and receipts as practical cash-flow concepts and therefore go a long way toward ironing out existing complications. Some member states already operate a system of deferred payments for VAT on imports. The Commission is now planning to extend this to all member states and thereby remove one of the main obstacles to intra-Community trade. Barriers to trade can take many forms. A number of measures to speed up traffic are currently in the deliberative pipeline, including regulations to cut down on cross-frontier inspection of goods and to simplify customs formalities.

The Commission has always sought to create an environment in which SME's can compete with large companies. While large-scale mergers are strictly controlled, SME's are freely allowed to enter into market-sharing agreements as they are unlikely to cause disruptions. The Council has also approved a regulation enabling small producers to establish effective sales networks in other member states. A patent licensing law which is now being prepared will give SME's access to new technologies and enable them to exploit their own inventions.

Much is being done in Brussels to create an environment in which small companies can thrive, but national Governments are often in a better position to improve their lot. Perhaps "the year of the craft trades and small and medium-sized companies" will act as the catalyst. €

Gerald Bourke is a free lance writer based in Brussels.

A top priority of E.C. policy is to improve access to capital markets for such firms as this shoe manufacturer in Ireland. © Cotton Coulson, Woodfin Camp



London

Britain's Conservative Government is proposing a new Police Bill which would extend police powers to stop, search, and detain suspects, though it also sets out safeguards to prevent stop-and-search powers being abused. After the bill clears Parliament, the police will have increased authority, but they will be obliged to identify themselves, to state the purpose of their search, and to make a written record of it.

Written into the new law is the right of all suspects to consult a lawyer. The Government also sets out an interrogation deadline —no suspect can be held for more than 96 hours without being charged. In practice, that may be a wide margin. A survey this summer by the Royal Commission on Criminal Procedure, whose recommendations are the backbone of the Police Bill, found that only 1.6 per cent of 83,000 people detained by London police were held for more than 24 hours. There were 29 cases of detention over 48 hours and just three in which it lasted up to 96. The new law allows certain circumstances where fingerprints may be taken without consent. The minimum age for fingerprinting falls from 14 to 10 and there is provision for destruction of fingerprints if the suspect is cleared.

The right to privacy of Britain's royal family members has been much discussed since the popular press disrupted Prince Andrew's vacation in the Caribbean. The third-in-line to the British throne, fresh from distinguished service in the Falklands war, was tut-tutted somewhat for his choice of companion. Apart from that, most felt the Prince deserved to be left alone. The marriage of Princess Anne and Mark Phillips also has been dissected persistently in the British tabloids and the Princess of Wales must be wondering if the media speculation about her health and happiness will ever let up. Probably not.

It was argued in *The Times* of London recently that much is to be said for changing the law so that no comment may be made on the private life of anyone, royalty included, without his or her consent, unless it emerges from criminal proceedings. For most Britons that would be impractical, imprudent, or intolerable. But it measures the concern over how far the British press should go to satisfy what one allegedly harassed individual termed its "lurid and morbid interest."

Prince Andrew this year took part for the first time in the annual Remembrance Day ceremony in which Britain commemorates its 1.7 million war dead since 1914. It is one of those solemn occasions the British handle perhaps better than anyone else, getting just the right blend of subdued pageantry and poignancy. It takes place on the first Sunday after November 11 at the Cenotaph in Whitehall, the national war memorial designed by Sir Edwin Lutyens and bearing just three words: The Glorious Dead.

The mood this year was different, spiced with victory and a sense of pride restored. The crowds were bigger and included many young people for whom the Falkland Islands war suddenly made sacrifice and remembrance a reality. The music of the massed military bands and pipers never changes, nor does the scene itself. Members of the royal family, the Government, Commonwealth representatives, senior officers, and veterans form a human square around the Cenotaph. Two minutes of silence begin when Big Ben chimes 11 o'clock.

The Queen then places the first wreath of poppies. At his own request, Prince Andrew laid a wreath shaped like a map of the Falklands in memory of his 255 fallen comrades. The ceremony, as always, ended with the stirring march-past by veterans to tunes of the first World War. This year almost 5,000 took part, including the dwindling number of MOTHS—the Memorable Order of Tin Hats —whose members are all well over 80.

PETER J. SHAW

courtesy British Tourist Authority

Rome

Italian shops are one of those facets of Italian life which do not square obviously with the country's status as the world's seventh industrial power. With a few notable exceptions, most of them are firmly rooted in the Mediterranean and, it sometimes seems, in the 18th century. However, now, very reluctantly, they may be forced by the Government and the electronic revolution to catch up.

Most Italian shops are little family businesses. They have a small local clientele and often carry smaller stocks of essential goods than a well-run northern European household. Prices are not always marked, because the amount you pay can depend on how much you are buying and your relationship with the shopkeeper. When you pay he will probably give you change out of a drawer, without a receipt.

The big loser under this system is the Government. Because less than a third of the 1.2 million Italian shops have a cash register of any kind, the tax authorities can never prove that a shop's income is actually far above what it declares, and that it may be under-contributing on value-added tax.

Now, after a long and fierce parliamentary battle, all that is set to change. In November, a committee passed a law which eventually will require virtually every trader in the country to use electronic cash registers. They not only will issue receipts, but will record all transactions on a sealed magnetic tape, for the sole use of the tax authorities.

Assuming the law passes the Senate, which seems almost certain, shops with an annual turnover of $140,000 and above will have to install cash registers by next July. Each year thereafter smaller and smaller shops will be affected by the law, until by 1987 even shops with an annual turnover of only $8,000 will have to conform. Only a few types of shops, such as newspaper stands and tobacconists will be exempt.

Not surprisingly, shopkeepers objected bitterly to the idea of cash registers, first introduced in parliament in 1978. The Christian Democrats fought for a system with more loopholes. The Socialists, portraying themselves as the party of rectitude in financial affairs, insisted on this blow to tax evasion and got their way.

The new law could have a serious effect on the underground economy, which is said to account for an additional 20 to 30 per cent of the gross national product and which enables Italians to live a much more prosperous life than the official statistics suggest. With full tax disclosure, many shops might find it hard to stay in business.

If that happened, Italian urban life would change drastically. Within 300 yards of where we live in a residential part of Rome, there are three little dry cleaners and laundries (doing work on the premises,) two pet shops, several lamp shops and innumerable food shops and bars. Italians do not make a weekly visit to a supermarket (though a few supermarkets do exist): they go shopping every day, calling at half a dozen places in a morning and exchanging gossip. By this means, new districts—in which vast numbers of Italians probably live—swiftly become cozy neighborhoods. Take away the little shops and the consequences for Italian life could be enormous. JAMES BUXTON

© Georges Viollon, Photo Researchers

courtesy Dom Perignon

Paris

After four years of bad harvests, champagne makers are bubbly again. The 1982 crop of grapes that will be transformed into the pale sparkling wine was the biggest on record and came at a time when champagne stocks had fallen to their lowest levels in years.

The grape juice now fermenting in the lime cellars deep beneath the Champagne province about 90 miles northeast of Paris will produce 290 million bottles of champagne when it is first uncorked in three years' time. The 1982 bumper crop was nearly twice that of the previous year and is expected to increase champagne stocks to 540 million bottles in 1983.

Last summer, the stocks had slipped to 390 million bottles, champagne exports were down 17 per cent, and prices were high. Then came what growers have called a "miracle." Everything that could go right did. There was a speedy pollination period, an excellent combination of sun and rain, and healthy grape vines that were well rested.

The mammoth harvest could have produced about 29 million more bottles of champagne. But Philippe Le Tixerant, an official with the champagne trade organization, Comite du Vin du Champagne, said about 10 per cent of the grapes harvested—those judged to be of the lowest quality—would be used to make vinegar to ensure the quality of the 1982 champagne batch.

"Grape prices for the 1982 crop were roughly the same as in 1981—about 20 francs per kilo," Le Tixerant said. "So we don't expect champagne prices to drop. But prices should stabilize after having increased steadily during the past few years."

Champagne first surfaced in the late 17th century when the Benedictine monk, Dom Perignon developed the three principles on which the wine is made. Those innovations were the production of white wine from black grapes, the blending of juices from three grape varieties, and a second, in-bottle fermentation period that gives champagne its bubbles. When he first tasted champagne, Dom Perignon is said to have called it "stars in a bottle."

In the Champagne region around Reims and Epernay, the pale wine is now called big business. There are 18,000 champagne growers and 130 champagne companies helping bring in an estimated $340 million a year in foreign currency through the export of champagne.

"Almost everyone in the region is somehow connected to the champagne industry," Le Tixerant said. "Besides the growers and the champagne houses, there are the bottle factories, cork factories, cardboard factories, and the factories that make the wire muzzles for the corks."

The biggest imbibers of champagne are the French, who drank 68 per cent of the bottles sold in 1981. But the foreign market has been growing in the last decade with the largest increases posted in the United States, now the number two champagne-drinking country. Even though total 1981 exports were down, United States sales that year were up 11.2 per cent to a record 7.8 million bottles. Britain and Italy, which in the past always had traded for the number two spot, were the third and fourth largest champagne-consuming countries respectively.

Although French champagne makers are happy with growing U.S. sales, they are still miffed by American wine makers who bottle sparkling wines and label them champagne. "Champagne can only come from the Champagne region of France," Le Tixerant said. "Other sparkling wines may look like champagne and may even taste somewhat like the real thing, but they are definitely not champagne." CAROLYN LESH

Luxembourg

The splendid building put up by the Luxembourg authorities for the European Parliament is empty. It was used once, at the end of 1980, for a special session of the Parliament, but the parliamentarians have not met there since. They have now effectively chosen Strasbourg as their seat. For various reasons, they have voted to discard Luxembourg as a site for plenary sessions. Can they? Is this legal? The political and juridical questions involved reverberate throughout Luxembourg —as they do in other E.C. capitals—but here the issue is of far greater economic and political importance than elsewhere.

Luxembourg has taken the parliamentarians to the European Court of Justice over their selection of Strasbourg. A ruling by the Supreme E.C. legal institution is expected early this year and Luxembourg's case looks good legally. Under a 1967 agreement, the seat of the Parliament was established in both Strasbourg and Luxembourg. The two cities were to share the sessions.

Unfortunately for Luxembourg, when direct elections to the European Parliament were held in 1979, the Grand Duchy found itself physically unable to house the doubled number of members attending. Grandiose plans for a super Euro-center for the parliamentarians were felled by public protest and the city retreated to a less ambitious plan involving only a new chamber capable of housing the enlarged assembly. Alas, this came too late and, for purely practical reasons, all the early sessions of the new Parliament had to be staged in Strasbourg. Backed by regional and national authorities, the French city made a massive public relations effort to woo the European members and to date it has been largely successful.

Strasbourg's grasp, however, still is not legally watertight, which is why the Luxembourgers have continued to press their claims. The practical and political influences, however, appear to be against them. The members of the European Parliament simply do not want to meet in Luxembourg. They submit various reasons—communications systems, accommodations, travel, and so on.

To a large extent you could level the same arguments against Strasbourg. The move is to establish a single center for the E.C. institutions. Probably most members would like to see everything settled in Brussels, the home of the E.C. Commission and, for most of the year, the E.C. Council of Ministers.

Already plans are afoot in Brussels to establish a massive center for the Parliament complete with a conference center, hotel, and leisure facilities. Both Strasbourg and Luxembourg are up in arms against the project, which as yet has no formal backing from the Belgian Government, but private speculators seem to recognize the longings of most members of the European Parliament.

Many Luxembourgers frankly have now accepted that sittings of the European Parliament in their Kirchberg Center are now a thing of the past. The issue has become one of compensation. How can Luxembourg be paid off for losing its right to host the European Parliament? Will new European institutions be sited there, or can new muscle be put into those already in place?

Both are likely. Moves toward the monetary integration of the European Community will certainly benefit Luxembourg, which has firmly established itself as the seat of the E.C.'s financial institutions. If the Community marches toward economic and monetary union—a difficult, but not unrealistic, goal—Luxembourg increasingly could become the seat of its activities and end up as the financial and economic "capital" of Europe. This may seem far-fetched, but it is the way many officials here are thinking, having grudgingly conceded the argument that for all practical purposes Luxembourg has lost the seat of the European Parliament. ALAN OSBORN

The Hague

Although Holland's new center-right Government, faced with an increasing budget deficit, plans to cut public spending and to freeze wages and prices, there will be no economizing in the fight against floods. Thousands of Dutchmen are working feverishly on the final and most difficult stage of a $3.7 billion flood control project begun 30 years ago and known as the Delta Plan.

Inspired by the most destructive floods in Dutch history, which raged through southern Holland in 1953 and drowned 1,850 people, this gigantic project will prevent floods by closing the treacherous sea arms. It involves a complex of 11 major dikes, dams, and sluices which would close off four major inlets and shorten the coastline of the Netherlands by some 434 miles.

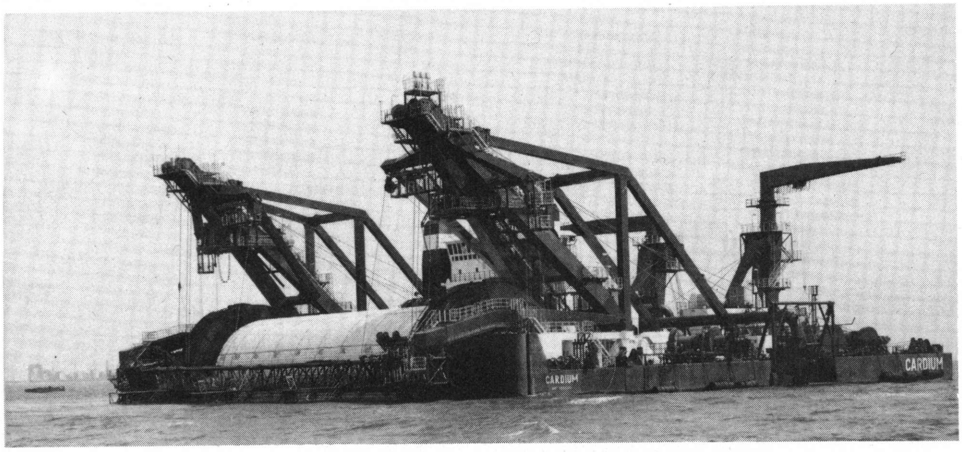
What remains is the eastern arm of the Scheldt River—the Oosterschelde—which contains three tidal inlets. At first a dike was planned, to seal off the Oosterschelde, but concern over the dike's effect on the environment—the loss of oyster and mussel breeding grounds and an unusual flora of salt-loving plants—caused these plans to be altered.

Instead, a giant, two-mile-long storm surge barrier is now being built, at a cost of approximately $1.5 billion. The design—which is unique, according to Dutch engineers—calls for sliding gates in the three tidal inlets. This will enable the Oosterschelde to be closed in bad weather, while letting the sea water flow in and out during normal conditions, thus preserving tidal movements, the environment, and fisheries.

The storm surge barrier will consist of 66 concrete piers. Each will weight up to 17,500 tons and will be from 115 to 180 feet high, depending on water depth. Between them will be placed steel "curtains," or sliding gates, weighing up to 500 tons apiece. When activated, these curtains can cut the sea off from the estuary in just one hour if a storm threatens. The piers are being assembled on a 2.5-square-mile artificial island, especially created in the middle of the estuary.

Beginning next April, a specially constructed, giant pontoon craft called the Ostrea (oyster) will pick up the mammoth piers and carry them over 19 miles to their new sites. Before that happens, however, the seabed must be reinforced to bear the weight of the piers and storm fences.

To do that, a dredge has replaced, up to a depth of some 30 feet, unreliable foundation materials with good sand. The seabed was then compacted, using a specially constructed vessel called the Mytilus (mussel). It is a combination of five pontoons, 210 feet long and 100 feet wide, and has four steel vibrator tubes. The compacting is done by vibrating needles that are driven up to 50 feet into the seabed sand and propelled with an impact force of 120 tons.



Engineers are presently waiting for the right tide to permit a third pontoon vessel, the Cardium (cockle), to start unrolling special mattresses on the seabed. There will be two layers of mattresses, bottom ones of 600 by 125 feet and upper mattresses of 200 by 100 feet. The one-foot-thick mattresses are filled with coarse sand and gravel and will form the base for the concrete piers. To ensure that this base will resist the current—which sometimes runs at 17 feet per second—these filter mats will allow passage of water, but retain the sand on which the piers will rest. Once all the piers are in position, the beams and girders making up the gates will be added and a highway will be laid on top.

Hollands' top engineers admit that they will hold their breath when they start piecing all this together. If all goes well, they say, Dutch construction firms can feel assured that their advanced equipment and exceptional experience will be drawn upon by other countries needing similar solutions. NEL SLIS.

Bonn

Martin Luther, the religious reformer whose translation of the New Testament is the basis of the modern German language spoken in both the Federal Republic of Germany and the German Democratic Republic, may do his bit—some 500 years after his birth—to bridge the gap between them.

Both Germanys, naturally enough, claim the Lutheran heritage, although the Communists ruling the German Democratic Republic (GDR) have the geographic advantage; Luther was born, and performed all of his most famous works, in what is now the territory of the GDR. The anniversary of his birth in Eisleben in 1483 will be commemorated in hundreds of ways on both sides of the demarcation line.

So far, however, the two German states have been unable to agree to celebrate together. In addition, the Communists insist that diocesan boundaries match the political frontier, so that even Luther's religious heirs will have to commemorate him separately. Still, there is some slim hope that before the year is out, the two Germanys may at least join fingertips in tribute to the great reformer. A couple of hopeful events occurred at the end of 1982.

Right on schedule, the two German states opened a new superhighway linking Hamburg and West Berlin. The Ministers of Transportation did not cut the tape together—neither side is yet quite ready to go that far—but after each one cut the tape opening the expressway section traversing his own territory, they did meet, first in the West then in the East. Later they told reporters cautiously that they hope to negotiate some more improvements of communication.

Meanwhile, the great port city of Hamburg in the Federal Republic saw the opening of the GDR's exhibition honoring the works of Karl Friedrich Schinkel, the architect who designed the neo-Grecian and English Gothic, as well as the modern functional style, buildings that gave 19th and early 20th century Berlin its character. The Schinkel exhibition is the most important cultural project ever un-

Martin Luther, after a painting by Lucas Cranach
© Bettman Archive

dertaken jointly by the two German states.

Chancellor Helmut Kohl, whose Christian Democrats had returned to power in Bonn on October 1 after 16 years in opposition, ranked the event important enough to send Philipp Jenninger, his state minister charged with overseeing relations with the GDR, to Hamburg for the opening. Jenninger noted that the Communist regime in East Berlin finally is prepared to resume negotiations on a cultural exchange agreement. "We see this as a specific and positive sign of readiness to continue the dialogue between the two German states, also in difficult times," said Jenninger.

As former Chancellor Helmut Schmidt had visited the German Democratic Republic in 1981, it is now the turn of the GDR President, Erich Honecker, to come to the Federal Republic of Germany. Kohl isn't saying whether he wants to receive Honecker before or after the March 6 parliamentary election, but it seems most likely that Honecker will be asked to come soon after that poll.

Honecker, in turn, obviously would like to get Kohl or even President Karl Carstens to visit the GDR during the Luther year. Kohl may well go this year, although it is unlikely that the Government will play its presidential card at this point. And whoever does go will have to first examine the proposed program with an eagle eye.

GDR church leaders say that "Luther is unthinkable without the church" and honor him as a man who fought for personal intellectual freedom. The Communist regime, however, sees Luther as "the banner bearer of the early bourgeois revolution" from which they draw a straight line to their own rise to power in 1945. WELLINGTON LONG

Dublin

On November 14, 1982, the people of Ireland heaved a collective sigh of relief that a new Government had been formed. After two weeks of intense political horse trading, leaders of the center party headed by Garret FitzGerald, Fine Gael, and the smaller, more left-wing Labor Party told the Dail (the Irish Parliament) that they had put together a new Government.

The two parties have a five-seat majority in the Dail, sufficient to ensure their survival for the greater part of the five-year period in power allowed by the Constitution. The coalition brought to an end 18 months of the worst political instability the country had experienced since the end of World War II. That year and a half has seen three general elections, successive parliaments in which no party had an overall majority, and exceptionally bitter rivalry between the new Prime Minister, FitzGerald, and his predecessor, Charles Haughey.

FitzGerald is, by a long distance, the most popular politician in the country. Some have argued that his obvious ability and good intentions have not been matched by the common touch. In any event, his first administration failed in January 1981, just seven months after FitzGerald made it to the top, on that occasion again with the support of the Labor Party. Haughey is a more controversial, if politically skillful, operator, but his period in power was marked by infighting in his Fianna Fail party—including two failed attempts to remove him from the leadership.

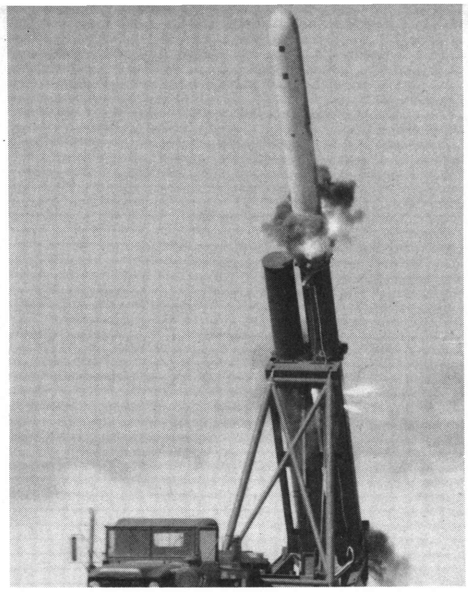
Garret FitzGerald

The standing joke during the election campaign was that the various parties were fighting hard to lose. Ireland has very severe economic problems: Unemployment is at 13.5 per cent of the work force, government borrowing is 16 per cent of gross national product, and the national debt is at the equivalent of $13.5 thousand per capita of the nation's workers. FitzGerald, for many years one of the country's leading economists, will need to utilize all the goodwill still flowing in his direction. GERALD BARRY

Copenhagen

Danish Governments often reflect a lack of consensus on economic policies and a liberal electoral system which currently allows nine, often more, political parties to gain seats in parliament. One issue, however, has for more than 30 years been an island of stability on the political battlefield and that is defense and national security.

A constant two thirds or more majority in parliament has made sure that the issue was kept apart from day-to-day politics, despite minor skirmishes within the majority, but this will no longer be the case. The Danish Social Democratic Party is now seriously challenging the broad consensus on defense. The party refused, at least initially, to accept that Denmark contributes to the Pershing II and cruise missile systems to be stationed in Europe as a response to the Soviet deployment of SS-20 missiles in eastern Europe.



A cruise missile courtesy U.S. Air Force

In financial terms, the Danish contribution is nominal, less than a $9 million share in infrastructure costs—no missiles will be garrisoned in Denmark in peacetime—and the implications of the stand of the Social Democratic Party are thus entirely political, and all the more far-reaching for that very reason, according to many observers here.

Several prominent socialists, among them former Foreign Minister K.B. Andersen, have publicly deplored the new policy of the Social Democrats, stressing that while the Danes were highly critical of U.S. foreign policy in many parts of the world, there has until now been no fundamental disagreement on the evaluation of the situation in Europe.

The majority of the Social Democratic Party claims that there is no need for new missiles, that the Western alliance has the necessary predominance without them, which is in sharp contradiction with the views of the United States, the Federal Republic of Germany, France, and the United Kingdom.

The optimists hope that Social Democratic Party policy is dictated by its present opposition role, that when the party returns to power it will take a more realistic position. However, the new policy of the Danish Social Democratic Party is not a response to any popular movement here, rather a shift within the party—as in Norway and the Federal Republic of Germany—and unlike the Dutch party's response to vocal public opinion. Danish socialist spokesmen say that socialist parties in western Europe should not block the establishment of new non-nuclear zones in western Europe, like the one that presently exists in the Nordic countries. If this is accepted it means that the socialist parties of several European countries will be on a collision course with the United States in the coming years. LEIF BECK FALLESEN

EUROPEAN HORSEBREEDERS ARE SETTLING IN FLORIDA'S MARION COUNTY.

no huddled masses these

INA SELDEN

In Ocala, Florida, agriculture means race horses. And horse breeding increasingly means Europeans. A new wave of European immigrants—horsebreeders, trainers, and investors—is settling one of the last frontiers of the United States, Marion County in north central Florida. This wooded county with softly rolling hills of green grass has become in just one generation one of the world's most famous horse breeding areas. Foreigners are now the lords of about a quarter of Marion County's 450 horse farms, the majority of them German, British, Irish, Belgian, French, Dutch, and Italian.

The land rush began because of the soil and the climate, explains Giancarlo Malnati, former managing director of northern Italy's prestigious Mirabello Stud, a stallion farm outside Milan that closed recently. "The great advantage is the climate. The horses are outdoors all year and don't have to work off fat put on in the winter. That saves breeders three or four months. And the texture of the soil is perfect—not too hard and even. Horses don't suffer concussions here," says Malnati, a veterinarian who has qualified for his Florida medical license and is raising 30 thoroughbreds on his new farm.

Some would say that the water, rich in minerals from limestone deposits, also helps the horses' bones develop better than those raised in Europe. "We even heard that the horses grow taller here," says Leni Walter, a Swiss breeder of sleek Arabian show horses. "At first I thought it was a horse story. But my colts do seem bigger than those I keep in Switzerland." Others point out that an advantageous tax structure lures many settlers. Land used for horse farming is taxed at the same low rate as agricultural land.

Marion County looks nothing like the Florida of the vacation brochures, with palm trees and stretches of white sand beaches framed by pastel high rise hotels and condominium apartments. Here the roads are lined with split rail fencing broken only by signposts that indicate Needle Rock Ranch, Normandy Farm, Live Oak Stud, and The Stallion Farm. Rather than searching for Mickey Mouse at Disneyworld or the sharks at Sea World, travelers are more likely to be hunting a prospective winner of a stakes for three-year-old fillies and have a horse trailer in tow to carry away their purchase.

Even the countryside is different from most Florida landscapes. The view out the panoramic glass windows of the home of Noel Hickey, an Irishman from County Cork who made his way here via Canada, is typical. Hickey's 320 lush green acres roll, Spanish moss streams from his giant oak trees, and his 200 thoroughbreds romp in the paddocks or train on a three-quarter mile track.

It's only in the last 20 years that Marion County has been growing in reputation and has become a main contender for the glory of Kentucky, the premier horse breeding and racing state. In the 19th century, once the "Indian question" was resolved (an eight-year Seminole War removed the native Indians to Oklahoma), settlers flocked to the area and built the county seat, Ocala, an Indian word used to denote central Florida.

Old sepia-toned photographs show the new capital as a cow town that could have been used as the set for "High Noon": a dirt Main Street bordered by covered, wooden walkways, an opera house, a general store, and a few shops to meet the needs of cattlemen and citrus farmers. Eventually, frosts drove the citrus farmers farther south into the peninsula and Ocala dropped off into an extended nap until the 1950s when the state assayed the land and pronounced the turf, with its rich limestone base, prime for horse farming.

Horse breeders snapped up relatively cheap land and started competing with Kentucky. And beginning in the 1970s when Florida-bred horses started winning a disproportionate number of big races—with only 9 per cent of the country's thoroughbred foal crop, Florida horses now capture 25 per cent of the races with purses of $25,000 or more—Europeans started eyeing the land.

Foreigners now own about a quarter of the 450 horse farms in Marion County, Florida. © Ina Selden

"Most find out about Ocala through

friends," says Dave Goldman, director of marketing for the Ocala Breeders' Sales Company. "It's pushed land values up tremendously, but you can still buy horseland for as little as $2,000 an acre."

needed for grazing to make Swiss chocolate." Comparable land would be very expensive, taxes would be astronomical, and horsefarming would not be profitable, he adds.

Heinz Holtschneider, a shopping center developer from near Dusseldorf, tells a similar story. He first heard about a farm for sale in Ocala from a real estate agent in Hamburg. While on one of his frequent visits to southern Florida, he piloted a rented Learjet to the area. The farm was not suitable for his Standardbred trotters, but from the air he was impressed with the large number of horse farms. He picked out some acreage and swooped in to buy it.

That was in 1979 and the land was scrub. Today, Holtschneider's Abido Farm (named for his prize stud in Germany) has 450 acres of manicured land and 17 miles of split rail fences. His German-born trainer looks after 60 horses and will have another 60 to hand in the near future. A German-born builder, who immigrated here a few years ago, is putting the windows in Holtschneider's new house that overlooks the training track and stables.

Holtschneider foals his horses in Germany, trains them here and, when they are two years old, flies them back on Boeing 747 cargo planes to race in Germany. In 1981, his horse Babesia was named filly of the year in Germany and other horses have distinguished themselves in German races and stables. However, he is finding that his horses need up to six months to get used to the colder climate in Europe. "It's too expensive (to lose so much time). Next year I plan to race in the United States," says Holtschneider.

At the training track on Heinz Holtschneider's Abido Farm. © Ina Selden

Hans and Leni Walter, Swiss breeders from near Bern, found out about Ocala from a trainer they had once met in Hialeah, southern Florida's racing capital. When they tried to reach the trainer a few years later while on vacation in Florida, they found he had moved to Ocala and they decided to visit the area. Leni Walter fell in love with the land. "It was like English horse country with southern comfort. No cold weather," she explains. They decided to buy land in Ocala, but at the time it took more than three Swiss francs to the dollar and they hesitated. A year later, their hesitation paid off: the dollar dropped to two francs and the deal was irresistable. They bought their acreage, named the place "Samira Arabians" after their farm in Switzerland, brought some of their horses here from Switzerland, and built a house reminiscent of Swiss chalets.

When the Walters arrived, they found the territory so vast and the roads so baffling that they navigated from one ranch to another with a compass. "It would be financially impossible to buy as much land as this in Switzerland today," says Hans Walter. "There's no room any more. All the farmland is

In addition to the Malnatis, the Walters, the Hickeys and the Holtschneiders, there is Madame Descamps, a Belgian horse breeder who has just built a house and who is looking for a property for her daughter. Madame Descamps' trainer, Lou Follett, once bought horses for the Descamps' farm in Groenendaal and now has 41 acres of his own and works with 62 horses. Other Europeans are scattered throughout the county.

According to real estate agents, more Europeans and other foreigners are on the way. One real estate agent deals exclusively with foreign clients and concentrates his European contacts in Germany, the United Kingdom and the Netherlands. In between calls from Mexico from prospective buyers, he explains: "It's not just horse breeders who are calling now. It's surgeons, industrialists, and anyone else bitten by horse farming." And it no longer depends on the strength of the dollar, he boasts. The phone continues to ring even when the dollar is up. €

Ina Selden is a free-lance writer based in Florida.

Europe is a Festival

DIANA SCIMONE

Europe's cities, big and small, sparkle year round with music and art festivals, glittering parades, top sporting events, local celebrations, and other forms of merrymaking. Here is a selection of some of the many events planned for 1983. Note that this list was prepared toward the end of 1982, and dates and times are therefore subject to change. Before planning a trip around any of these events, contact the country's national tourist office in the United States.

JANUARY

1-Dec. 31 Glasgow, Scotland. The Pride of the Clyde Celebrations: invitation extended to people worldwide with roots in Glasgow and western Scotland to join in the celebrations.

5 Rome. Epiphany Fair: on the eve of Twelfth Night, a fair with toys, sweets, and other presents takes place in Piazza Navona.

6 Piraeus, Greece. Epiphany: an official ceremony blesses the port by immersing a cross in the water. Similar Epiphany celebrations occur throughout the country.

26 Méribel, France. 5th International Grand Prix in downhill skiing.

FEBRUARY

mid Berlin. International Film Festival.

18-19 London. Folk Festival: annual event in Royal Albert Hall sponsored by The English Folk Dance and Song Society.

17-20 Dublin. All-Ireland Dancing Championships: held in Mansion House.

MARCH

1-October Wales. Cestyll '83 (1983 Festival of Castles): medieval banquets, pageants, fairs and other events throughout the country celebrating the 700th anniversary of many of Wales' castles.

2-20 Amsterdam. "Amsterdam Art Weeks": various art exhibitions in museums throughout the city.

11-18 Ireland. St. Patrick's Week: celebration of the National Feast Day, with parades on March 17 in Dublin, Dundalk, Kilkenny, Cork, Limerick, Sligo, Waterford, and Wexford.

12-19 Valencia, Spain. Fallas de San Jose: feast day of the patron saint of carpenters celebrated with construction of *fallas*, or scenes with figures satirizing social and political themes.

end of March to mid-May Netherlands. Flowers in bloom in bulb district between Haarlem and Leiden.

APRIL

1-September Copenhagen. 400th anniversary of Bakken, Copenhagen's "other" amusement park, which is the world's oldest.

3 Florence, Italy. Scoppio del Carro (Explosion of the Cart): pyramid of fireworks in Cathedral Square is set off by a mechanical dove driven from an altar during High Mass on Easter morning.

4 Luxembourg. Emais'chen: traditional festival and market during which young lovers present each other with whistling ceramic birds called *peckvillercher*.

4-8 Katwijk aan Zee, Netherlands. International tulip time music festival.

27-May 1 Cork, Ireland. Cork Choral and Folk Dance Festival: concerts and events with choirs competing from all over the world.

29-May 2 Koblenz-Guels, Federal Republic of Germany. Carnival of flowers and procession at Koblenz Wine Market.

end April-beg. May Munich. Auer Maidult: traditional antique fair and market.

MAY

1-4 Cagliari, Italy. Sagra di Sant'Efisio (Festival of St. Efisio): thousands of pilgrims wearing costumes dating back to 1657 accompany the saint's statue on foot, carts, and horses.

1-15 Cordoba, Spain. Feria de los Patios Cordobeses: open house at the best of Cordoba's interior patios and courtyards, which are covered with flowers.

6-20 Bordeaux, France. Mai Musical: music, drama, and ballet with international stars.

7 Netherlands. National Windmill Day and National Cycling Day throughout the country.

11-15 Jerez de la Frontera, Spain. Feria del Caballo: horse-riding competitions, costume balls, flamenco, and bullfights.

12 Bruges, Belgium. Holy Blood Procession: procession depicting biblical scenes and return from the Crusades of the Count of Fland with vial of holy blood enshrined in Bruges.

23 Wiltz, Luxembourg. Genzefest: festival celebrating the broom flowers which cover the slopes of the Ardennes.

23 Sassari, Italy. Cavalcata Sarda (Sardinian Cavalcade): traditional procession of over 3,000 people in Sardinian costumes.

24 Echternach, Luxembourg. St. Willibrord's Day: medieval procession through narrow cobblestone streets to Basilica and Shrine of St. Willibrord.

27-June 5 Le Bourget Airport, France. 35th Paris Air and Space Show.

29 Mons, Belgium. Procession of the Golden Chariot and Battle of the Dragon: St. George fights his arch enemy in the town square.

29-30 Belvoir Castle, England. Medieval jousting tournament.

JUNE

early Greece. Navy Week: local festivals throughout the country, including in Plomari (Lesbos), Agia, and Volos.

9-20 Ireland. Festival of Music in Great Irish Houses: beautiful music in 18th-century mansions.

10-26 Strasbourg, France. 45th International Music Festival.

11 London. Queen's official birthday parade.

11-12 Le Mans, France. 24 Hours of Le Mans: world-famous auto race with amusement park, games, live music, and vintage car museum.

14-17 Ascot, England. Royal Ascot: impor-

Festival and parade in the Black Forest region of the Federal Republic of Germany © Diana Scimone

tant event in racegoer's calendar, attended by members of the royal family.

JULY

1-August Epidaurus, Greece. Epidavria Festival: ancient Greek drama held in open-air theater at Epidaurus.

2-3 Maidstone, England. Balloon Meet: to coincide with 200th anniversary of ballooning; followed by international London to Paris balloon race.

6-13 Pamplona, Spain. Fiesta de San Fermin: running of the bulls through the streets, bullfights, parades, fireworks. It's everything Hemingway promised.

7-Aug. 19 Athens and Alexandroupolis, Greece. Wine festivals reminiscent of ancient Dionysian revelries.

8-10 Hasle, Denmark. Herring festival.

15-Sept. 20 Paris. Festival Estival. Concerts in historic sites; ballet, drama, and art exhibitions at Pompidou art center.

mid-July-mid-Aug. Odense, Denmark. Hans Christian Andersen Festival: celebrations in the storyteller's hometown.

17 Venice. Il Redentore: Feast of the Redeemer celebrated with procession of gondolas and other craft commemorating end of epidemic of 1575.

AUGUST

beg. Aug. Cos, Greece. Hippokrateia Festival: ancient drama performances, flower show, reenactment of Hypocratic Oath.

2-6 Dublin. Dublin Horse Show: principal sporting and social event of the year in Ireland.

weekends Bruges, Belgium. Festival on the Canals: cameo scenes reenacting medieval life and historic moments.

mid-Aug. Ruedesheim/Rhine, Federal Republic of Germany. Wine festival.

21-Sept. 4 Luxembourg. Schueberfouer: celebrations at ancient shepherd's market founded in 1340.

SEPTEMBER

3-4 Sint Niklaas, Belgium. 36th international balloon competition.

3-11 Copenhagen. Århus Festival Week 1983: concerts, sports, theater, exhibits, celebrations.

4 Venice. Historical Regatta: procession of Venetian ceremonial boats and competition between racing gondolas.

7-8 Naples. Piedigrotta: celebrations and Neapolitan song competition.

mid-Sept. Bad Duerkheim, Federal Republic of Germany. Wine and sausage market, folk festival.

mid-Sept. Logroño and Jerez de la Frontera, Spain. Vendimia celebrations: harvest celebrations, blessing of grapes, first pressings, folk dancing.

20 The Hague. Prinsjesdag: procession by the Queen in traditional golden coach to yearly opening of parliament.

23-25 Galway, Ireland. Galway Oyster Festival.

OCTOBER

1-31 Copenhagen. Autumn Exhibition at Charlottenborg, and Artists' Autumn Exhibition at Den Frie.

25-29 London. British Philatelic Exhibition: major stamp collectors' exhibition in Wembley Conference Center.

NOVEMBER

12 City of London, London. Lord Mayor's Procession and Show: celebrating inauguration of Lord Mayor.

19-21 Burgundy, France. Three Days of Glory: most important wine festival in France with Brotherhood of Winetasters' banquet at Nuits St. Georges, and folkdancing at Hospice de Beaune.

DECEMBER

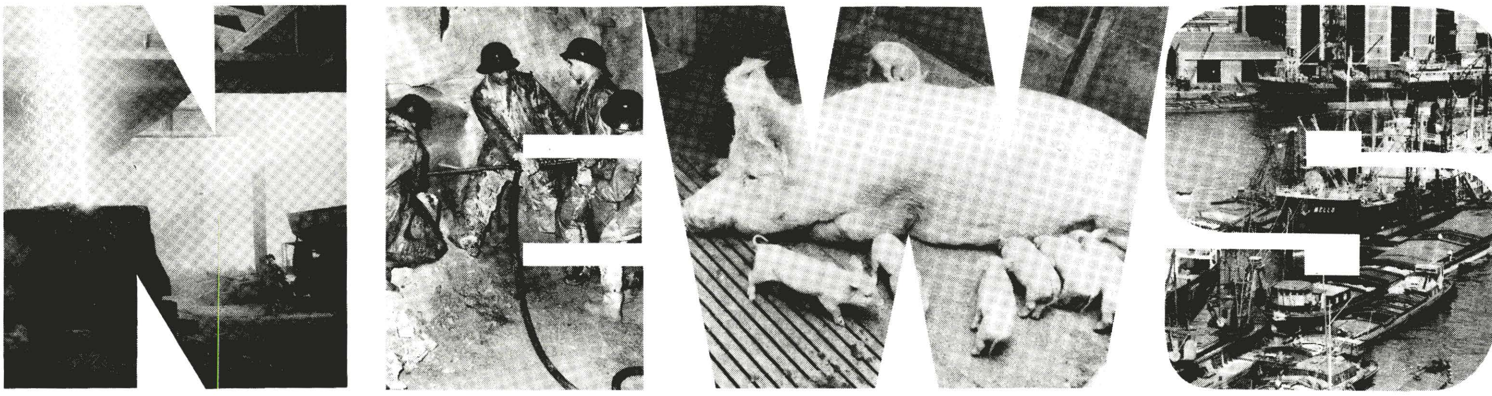
1-24 Nuremberg, Munich, Frankfurt, Cologne, and Berlin. Christmas Markets.

13 or 20 Gouda, the Netherlands. Gouda by Candlelight: townhall and market-square lit by candlelight, carillon concert, lighting of Christmas tree.

25 Hillegom, Beursgebouw, the Netherlands. Christmas exhibition of forced bulbs.

31 Chios, Greece. New Year's Eve: local seamen carry ships' models through town, ending in the central square for a parade and award ceremony. €

Diana Scimone is Europe*'s travel correspondent.*



INTERNAL AFFAIRS

New Dairy Measures Proposed

A package of measures in the dairy sector was proposed by the E.C. Commission in early November to signal milk producers that production will exceed the guarantee threshold for 1982 and to try to prevent a significant build-up of stocks. The Commission adopted the measures after a thorough analysis of developments in the dairy sector indicated that milk deliveries to dairies would rise by 2.7 per cent in 1982 and that butter and skimmed milk powder production would be 6 to 7 per cent higher than in 1981.

The Commission had made clear in the 1982 price package that, in the event of the threshold being exceeded, it would propose the appropriate reduction of intervention prices effective from April 1, 1983. Consequently, in view of the developments in the dairy sector, the Commission decided to propose a 2.2 per cent reduction in intervention prices for dairy products to take effect at the beginning of the 1983-84 marketing year. This action was independent of price proposals for 1983-84. In addition, a quantity of subsidized butter was to be made available to consumers, and a proposal was made to increase the Community subsidy on butter by 33 per cent for those benefiting from social assistance. This measure is optional for member states, and only one country currently applies it. The Commission also took the view that it was no longer necesary to exclude butter from the range of foodstuffs currently exported to the Soviet Union. Exports of butter to that country, however, will depend on the commercial situation on the butter market and will be subject to close surveillance.

Proposal Backlog Listed

A list of Commission proposals that have been submitted to the Council of Ministers and are still pending was recently released. This list contains hundreds of directives that have been awaiting approval for up to 15 years. Among them are a 1968 proposal for a directive on the mutual recognition of architect's qualifications in E.C. member states; a 1968 proposal for a regulation on the manufacture and marketing of butter; a 1967 proposal for a regulation on access to the inland waterway freight market; and a directive proposed in 1969 on a common system of taxation for parent companies and their subsidiaries in other member states. A special mention was also made of 32 fisheries proposals that have been piling up over the past two years.

Budget Amendments Adopted

The Council of Ministers adopted in November a draft supplementary and amending budget for 1982 based on the Commission's proposal. This budget includes expenditures of over ECU 1.3 billion to cover the financial impact of the agreed compensation to the United Kingdom and to finance a special energy program to reduce the Community's dependence on oil imports. As for agricultural provisions, the Commission observed that expenditure for subsidies had been lower than the original estimates for the 1982 budget because of a continuation last fall of favorable market trends both inside and outside the Community and of improved market operations. On the revenue side, several items were added to the 1982 budget, including adjustments of value-added tax balances and agricultural levies.

Pollution Protocol Advised

The council of Ministers recently asked the Commission to examine a fourth protocol to the Barcelona Convention of 1976, which deals with pollution in the Mediterranean. This protocol provides for the setting up of a chain of marine and coastal areas along the Mediterranean to preserve natural resources of scientific, cultural, or recreational importance. Over the last six years, other protocols have been added to the convention dealing with pollution caused by dumping from ships and aircraft, cooperation in dealing with emergency cases of pollution by oil and other harmful substances, and pollution from land. Based on the convention, 16 Mediterranean states and the Community launched the Mediterranean Action Plan in 1976 for cooperation on pollution prevention measures.

Euro-mortgages Foreseen

In a speech in Munich last fall, EC Commission Vice President Christopher Tugendhat told the European Federation of Building Societies that he hoped within two years to have a draft directive aimed at opening up the housing finance market on a European basis. He also announced a forthcoming study on problems relating to Europe-wide mortgages on residential property. Commission officials are already studying the problems arising with loans for non-residential purposes. The new study will also deal with freedom of establishment of credit institutions in other E.C. member states and with the freedom to carry out business across borders, said Tugendhat. He said the best way to deal with exchange rate problems would be to denominate all transactions in European currency units.

Regional Development Planned

The E.C. Commission announced in October several proposals involving regional assistance totaling ECU 710 million over five years. This funding will come from the non-quota section of the European Regional Development Fund and is intended for areas affected by industrial restructuring. The regions that will benefit are in Belgium, Greece, Italy, France, the Netherlands, Ireland, and the United Kingdom.

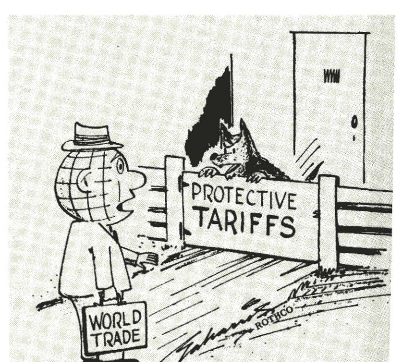
The proposed measures cover three main areas: strengthening and extending measures adopted in 1980 and currently being carried out in the fields of enlargement, energy, shipbuilding, and steel; extending a number of measures to include Greece; and assistance for certain areas adversely affected by the restructing of the textile and clothing industry. The Commission was also expected to propose new measures to extend the economic development basis in Ireland and Northern Ireland.

From the quota section of the Regional Fund, the Commission approved an allocation of ECU 205.8 million for 333 investment projects as follows: ECU 42.3 million for 95 projects in industry, artisan activities, and the services sector, enabling 7,718 jobs to be either created or preserved, and ECU 163.5 million for 238 infrastructure projects. Italy, the United Kingdom, and Ireland are the main beneficiaries.

Regional Development Fund aid in 1981 was over ECU 1.7 billion, an increase of more than 50 per cent over 1980. Most of this money went to infrastructure projects, mainly in transportation and water supply; assistance for investment in industry and the services should have created around 60,000 jobs.

Road Accidents Increase

About 20,000 more accidents a year take place now on Europe's roads than 15 years ago. Different insurance premiums in different member states, meanwhile, have resulted in unequal and sometimes inadequate amounts of compensation to accident victims. To remedy the situation, the Council of Ministers recently began examination of a Commission proposal for a second directive on the harmonization of road accident insurance plans to provide minimum coverage for accident victims.



© E. A. Harris, Canada

Nuclear Venture Authorized

A British-German joint venture to manufacture and distribute radioactive material and products, Amersham Buchler GmbH & Co. KG, was announced by the E.C. Commission in early November. The products will include radiochemcial products for research purposes, radiopharmaceutical products, and radiation sources.

Until recently, Amersham International Ltd. was indirectly wholly owned by the British Government. The company originally acted as the commercial department of the United Kingdom Atomic Energy Authority (UKAEA). In spring 1982, its shares were offered and issued to the public. Amersham still has access to the nuclear facilities of the UKAEA, from which part of its radioactive products derive. Buchler had acted for Amersham as sole distributor for Germany. When the joint venture was founded, Buchler transferred its radioactive product business to the joint venture, but remained an independent producer in its other product lines.

Since the two parent companies were competitors, the agreements setting up the joint venture fall under competition policy. The Commission authorized the arrangments since the joint venture contributes to improving the production and distribution of goods by enabling Amersham to produce and market a greater variety of products in Germany. Moreover, the new entity provides the basis for creating a nuclear waste disposal service vital to the marketing of radioactive products.

Film Subsidies in Danger

The E.C. Commission acted to initiate a block on state aids to film-makers in Germany, Italy, and Denmark on the basis that the Governments were helping only national film-makers and not all E.C. film-makers, thereby breaking competition rules by giving the recipients an unfair advantage. Commission officials were hopeful that the national laws would be adapted to E.C. competition rules by the end of 1982.

Protectionism Decried

The growing tendency toward renationalization of domestic markets in the E.C. member states was the subject of a recent warning by E.C. Commissioner Frans Andriessen, responsible for competition policy. He said that member states were doing themselves a disservice by erecting new trade barriers such as compulsory indication of origin and compulsory use of a particular language on customs documents, thereby sealing off their domestic markets.

Andriessen went on to say that public intervention in the management of firms was spreading rapidly. "Whether in the form of nationalizations, acquisition of holdings, or straightforward national aids, this growing interventionism is threatening to break up the Community market. Instead of strengthening the industrial base, it is undermining it." Cooperation and mergers between European firms, he said, were being thwarted.

These developments work to the detriment of E.C. firms and play into the hands of Japanese and U.S. competitors, according to the Commissioner; he called on the Community to stem this tide, saying that industry and commerce needed a Community framework. "National standards should be superseded by Community standards, customs formalities simplified . . . and capital movement liberalized," said Andriessen.

Fighting Hoof-and-Mouth

The Food and Agriculture Organization of the United Nations has asked the Community for $870,000 for the purchase of vaccine to maintain the buffer zone against hoof-and-mouth disease that was set up in 1962 along the Greco-Turkish border. The E.C. contribution would continue the program until 1984 and protect the Community from an epidemic of the disease. All animals within the buffer zone that are susceptible to the disease are vaccinated.

Information Policy Planned

Research and Technology Ministers meeting in November agreed on the essential features of E.C. activity in information technology. Pilot projects in advanced microelectronics, software technology, advanced information processing, office automation exchange systems would be carried out on a cost-shared basis between contractors and the Community, with the Community's share estimated at ECU 11.5 million.

The ministers also worked on the experimental phase of a project to stimulate the scientific and technical potential of the Community. The experimental phase would test approaches and methods of Community stimulation in seven areas: pharmacobiology, solid state physics, optics, combustion, photometry photoacoustics, interface phenomena, and climatology. Funds needed for this phase would be ECU 7 million. Partial agreement was also reached on a program in the fields of science and technology for development. This program would concentrate on tropical agriculture and on medicine, health, and nutrition in the tropics. Funding an initial four-year period would cost about ECU 40 million.

Duty-Free Shops Remain

Following months of speculation about the possibly drastic impact of a 1981 European Court of Justice decision on duty-free zones, the E.C. Commission has emphatically denied that the ruling endangers the duty-free shops at airports and ports of the Community. The only types of duty-free shopping ruled out by the Court's decision are the handful of so-called butter-ship tours which had offered short excursions from North Sea or Baltic ports into international waters to qualify for international duty-free status.

Italian Steel Merges

Finsider, part of an Italian state-owned conglomerate, and the car giant company, Fiat, recently agreed that Finsider would take over the steel activities of Teksid, one of Fiat's holding companies. The Commission has given the go-ahead to the takeover on the basis that the merger is unlikely to alter the balance between companies in the markets concerned. The move will result in a drop in production costs and greater economies of scale, which coincides with the Commission's restructuring goals for the E.C. steel industry.

Parliament Fights Terrorism

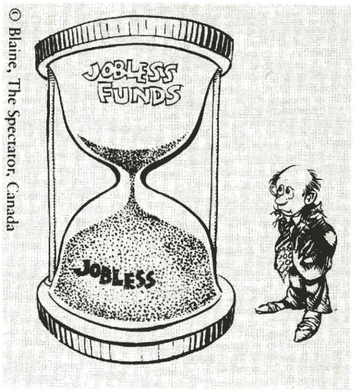
When asked in a recent survey about what worried them most, almost 70 per cent of the Europeans questioned answered the increase in crime and terrorism. Now the European Parliament has called for the creation of a "European judicial zone" to close the loopholes inherent in the free movement of goods and people between member states. It has asked the E.C. Commission to draw up a directive on the suppression of terrorism and the introduction of a clause allowing for the extradition of criminals and terrorists. At a special meeting in late October, the 10 E.C. Justice Ministers examined two European conventions laying down procedures to be applied after the capture of a terrorist and pressed for closer collaboration with the E.C. Interior Minister.

Cultural Activities Readied

Plans to step up activities in cultural affairs have been outlined by the E.C. Commission. The four priority areas are: freedom of trade in cultural goods; improving the living and working conditions of artists and authors; enlarging the audience; and conservation of the architectural heritage. A traveling art exhibition of 300 paintings by young Community painters is scheduled for 1982 and 1983, and 1985 will be dedicated as European Music Year.

Social Fund Spending Set

Major new Social Fund allocations were approved by the E.C. Commission in October, totaling ECU 649 million for projects in several areas. This funding followed an earlier ECU 14 million approved for a limited number of projects to assist migrant workers. Together with other 1982 Social Fund



© Blaine, The Spectator, Canada

decisions, these amounted to nearly ECU 1.3 billion, an increase of about 30 per cent over last year.

The latest decision included funding to relieve the unemployment situation, particularly for young people who were to receive more than half of the allocation. Other areas to benefit included regions, the handicapped, technical progress, textiles, migrants, and women.

At about the same time the Commission proposed a radical simplification in the complicated structure of the Social Fund, with one broad area of activity to encompass practically all the training and employment initiatives. Given the particular importance of youth unemployment, a separate category of intervention was proposed for young people under the age of 18. Procedures for selecting applications in these two areas would be improved, and special provisions would be made for regions suffering the most acute problems.

Social Security Examined

The E.C. Commission approved in November a communication on current social security problems that aims at stimulating extensive discussion at Community level. The paper starts with a brief outline of the E.C. member states' economies and social protection systems, which cover social insurance for unemployment, health services, and family benefits. These systems vary considerably from state to state. Despite the differences among them, said the Commisison, they share one point: The percentage of gross domestic product allocated to them has grown more rapidly than has gross domestic product itself.

The Commission also said that it is the economic crisis that is principally responsible for present difficulties in social security systems, rather than any faults in the systems themselves. At the same time, stressed the Commission, "social protection is a precondition for maintaining a high level of skills, efficiency, and motivation in the economic life of Europe."

As for corrective measures,the Commission said priority could be given to the specific areas of healthy expenditure, reassessment of social benefits, and simplification of social security systems. In addition, the Commission called for a review of methods for financing social security and discussion of reorganization of the present systems with a view to making them better able to meet current social needs.

Parliament Attacks War Toys

The European Parliament called for a crackdown on the sale of advertising of war toys last September by a vote of 82 to 45. The parliamentarians acted on grounds that the toys may represent a physical danger to children and are frequently used as replica weapons in criminal actions.

This move followed warnings from some police forces, especially in Northern Ireland, that tragic consequences could arise if they were confronted by children holding what appeared to be real weapons. The decision would affect Europe's toy-producing industries, which employ 25,000 people in Germany, and over 17,000 in France. Since war toys constitute 10 per cent of their output, some parliamentarians suggested that E.C. funds be made available to convert production lines to other categories of toys.

Noise Reduction Proposed

A directive aimed at reducing the risks of deafness from exposure to noise at work was sent to the Council of Ministers in October. The Commission's proposal would ensure a minimum degree of protection throughout the Community with a daily average exposure no greater than 85 decibels.

Exposure to high noise levels is known to cause hearing loss and the risk is controlled by limiting the amount of noise, either by reducing the levels or the duration of exposure. The recent proposal also calls for surveillance of the hearing of workers likely to be over exposed to noise. This should allow detection of affected hearing before an unacceptable degree of handicap occurs.

Historic Preservation Planned

A new plan to protect Europe's cultural and architectural heritage was proposed by the European Parliament last fall. It calls for the creation of a European Fund for Sites and Monuments to begin a priority inventory of locations needing protection and to launch aid programs to stem the deterioration of Europe's rich heritage. This action would unite the resources of national and regional authorities and the private sector.

The Parliament does not view the safeguarding of monuments and historical properties as a luxury, but as an economic investment. The plan makes clear that the preservation of historic sites generates employment for small- and medium-size enterprises and for tourist and service-oriented professions. The Parliament's proposal also stresses the environmental aspect of such activities and emphasizes the need for urgent action to protect sites against pollution.

The E.C. Commission has already allocated funds for individual projects and training programs for young artisans to acquire skills associated with restoration and preservation. About 50 scholarships were awarded recently to train specialist architects, engineers, town planners, and other craftsmen in Leuven, Rome, Munich, Venice, and the island of Tinos, Greece.

ECONOMY

Job Initiatives Proposed

A joint policy approach to unemployment was proposed by the E.C. Commission in November in a move to consolidate efforts to provide more jobs. The measure proposed to Economic and Social Ministers fall into three areas: strengthening the economy; reorganizing working time; and improving employment opportunities for young people.

To improve the economic climate, economic and social policy must aim at investment-led growth, said the Commission. This approach includes measures to improve international economic and financial stability; to increase convergence and stability within the Community; and to promote structural change and investment in the medium-term.

Regarding the reorganization of working hours, the Commission said that overtime should be avoided, but that a reorganization of working time—possibly in combination with a reduction in working hours—could lead to increased employment. The Commission also called on the Council of Ministers to act on proposals on flexible retirement and part-time work that had already been tabled.

Young people represent 40 per cent of the Community's unemployed, and the Commission considers that special action to promote the recruitment of young people and increase employment opportunities is necessary to retain their capacity to contribute to economic recovery. Measures in this area include special recruitment programs linked to reductions in working time, such as part-time or shared jobs for young people; recruitment premiums or wage subsidies for particularly disadvantaged groups of young people; and a more developed system of local guidance and counseling for the young.

In an earlier communication regarding vocational training, the Commission proposed that the Council of Ministers adopt a five-year action program costing ECU 140 million to be financed largely by the Social Fund. The three main areas of concern were: the social and vocational preparation of the young; training for women; and training to support social and economic change, particularly in job creation.

Steel Sector Hit Hard

Forecasts announced by the E.C. Commission toward the end of 1982 set total production between October and December at 25.6 million tons, 6 million tons less than for the same period last year. Commission officials did not expect demand to pick up because of stagnation in the two key sectors, car manufacturing and construction.

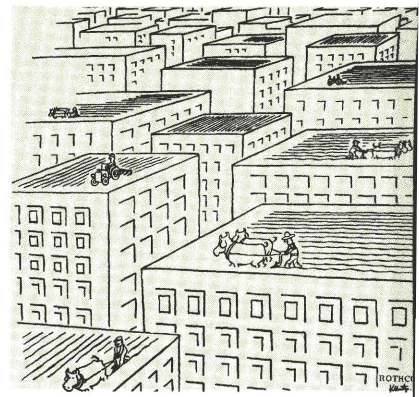
This situation could lead to stocks building up and to dangerous price cutting. To prevent this, the Commission decided to lower still further the production quotas. Plans to stimulate investment in new industries are to be introduced to help regions hardest hit by the steel crisis. Regional Policy Commissioner Antonio Giolitti indicated that about ECU 200 million could be made available for this purpose.

Between 1974 and the beginning of 1982, 247,000 jobs were lost in the steel industry. With the cutting of excess capacity to come as part of the restructuring process, yet more jobs will go over the next three years. The Commission considers it essential to use the full range of E.C. financial instruments to back up the reconversion policy and to make it easier to create other economic activities as alternatives to the steel industry. Measures under discussion include strengthening European Coal and Steel Community (ECSC) instruments in three main areas: making more studies and organizing more actions on the preparation of small projects in new fields of economic activity; trying to apply new reconversion techniques; and making the interest rate rebates on ECSC reconversion loans play a greater part. Retraining steel workers is generally covered by ECSC measures, but the Commission feels that revisions of the Regional and Social Funds could also provide much-needed assistance in the steel sector.

New Shipping Help Sought

The E.C. Commission has proposed extending for three years aid to the shipbuilding industry which was to expire the end of 1982. The reason given for the extension was that aid provided since April 1981 had not yet achieved the goal of making the E.C. shipbuilding sector competitive and independent.

So far the aid has provided the basis for a number of restructuring projects involving reductions in capacity in shipbuilding. E.C. rules on state aids from 1967 to 1981 also emphasized reducing excess capacity. Over this period, capacity was cut by about 30 per cent and the workforce by 40 per cent, while output fell by 48 per cent. In 1982, however, there was a shift in strategy by the member states, who argued that it was not possible to make further cutbacks in the industry. In some cases the Commission accepted the idea of consolidated restructuration, thus acknowledging that there is a limit to how far the industry can be cut back, given the need to maintain a minimum strategic industrial base.


© Mitropoulos, Ta Nea, Greece

Petrochemicals Demand Down

According to a recent meeting of European chemical and general workers unions, only 60 to 65 per cent of existing production can be marketed and —given an expected 5 per cent growth rate in 1983—the situation will deteriorate. In 1981, only 10.5 million tons of petrochemicals were marketed out of a capacity of 17 million tons. The unions believe that plant closures are inevitable.

Most of the problems faced by the industry in Europe can be attributed to a fall in demand and to over-investment, and tough competition, though concern is now growing over the threat of foreign competition, particularly from Middle Eastern producers who have invested in new petrochemical plants in recent years.

Inflation Slows Down

According to E.C. statistics for 1982, prices increased by only 6.8 per cent during the first eight months compared to an 8.5 per cent rise during the same period in 1981.

1983 ECSC Budget Drafted

The 1983 draft operating budget for the European Coal and Steel Community (ECSC) was released in October. The proposed budget included ECU 150 million for social expenditure for redeployment and measures connected with restructuring the steel industry; ECU 54 million in aid for research; ECU 53 million as aid in the form of interest subsidies; ECU 6 million in aid for the coking coal and metallurgical coke industries; and ECU 5 million for administrative costs.

Stabex Payments Decided

Stabex payments for losses in export earnings in 1981 by African, Caribbean, and Pacific (ACP) developing countries that are partners with the Community under the Lomé Convention have been announced. The financing shortfall encountered for the first time in 1980 occurred again for 1981. Justified requests totaled more than ECU 453 million, but available resources amounted to little more than ECU 112 million.

A reduction in requests, because of debts owed to Stabex by some of the developing countries and through additional financing of ECU 70.7 million, brought requests down to ECU 427.3 million and available financing up to ECU 182.8 million. Allocations were accordingly decided as follows: The least developed ACP states would receive payments of 46.5 per cent of losses sustained, and the rate for other countries would be fixed at 41.9 per cent; 100 per cent compensation would, however, be paid for losses of less than ECU 1 million.

EIB Loans Reported

As part of the pre-accession aid offered by the Community, the European Investment Bank (EIB) loaned ECU 10 million to Spain for investment in industrial energy-saving plans and development of domestic energy resources. A loan of ECU 10 million was also granted last fall to help Uganda's economic recovery through the modernization of medium-scale industrial, agribusiness, and mining enterprises.

In 1981, EIB loans reached a record ECU 2.2 billion. More than 80 per cent of the projects were located in the Italian Mezzogiorno, Ireland, Northern Ireland, Greece, Greenland, and in regions where unemployment was more than 25 per cent above the E.C. average. Areas of southern Italy devastated by earthquake damage in 1980 were another major area of EIB financing in 1981. Overall, about 60 per cent of the loans were made in Italy, 15 per cent in Ireland, 11.4 per cent in the United Kingdom, 6.7 per cent in Greece, and lesser amounts in France, Denmark, and Belgium.

New Aid Strategy Sought

In cooperation for the first time with the developing world, "real objectives" have been set to adapt policy to "economic reality," said E.C. Development Commissioner Edgard Pisani about the Community's new development policy proposed in late September. Pisani denounced as an "historic scandal" past neglect of food production. The new strategy for future aid policies would stress rural and food development, cooperative strategic planning, long term and regional links, and increased aid transfers. Most effective use of funds to achieve a higher degree of self-sufficiency in developing countries was the objective underlined by Pisani.

Food Shipments Arranged

Proposals for food aid to Honduras and Tunisia were made by the E.C. Commission in late September. The aid to Honduras would be in the form of 2,000 tons of milk powder worth ECU 2.3 million. Half of this amount would be distributed free and half would be sold to the dairy industry with the proceeds going to finance a project to stabilize prices at levels accessible to the people. Food aid has been going to Honduras since 1974, with allocations worth a total of ECU 20.6 million.

Following a request by the Tunisian Government for multiannual food aid to increase milk supply and generate financing for stock-farming projects, the Commission has proposed a multiannual program worth ECU 31.2 million. At the same time, an allocation of 1,000 tons of milk powder and 345 tons of butteroil was proposed for 1982.

African Nations Get Aid

The authorities of Angola and Mozambique have notified the Commission that they intend to participate in negotiations in September to renew the Lomé Convention. The decision means that these two nations are now entitled to about ECU 17 million in E.C. aid available under its program for non-associated developing countries. Teams of experts will visit the two countries to identify projects suitable for rapid funding, which must be concerned with either rural development or regional cooperation.

New Food Aid Proposed

The E.C. Commission proposed an increase of more than 160,000 tons in the cereals food aid program approved for 1982, which was cut from the Commission's initial request. The increase would bring the program up to the original allocation. The new food aid would go to countries in southern Africa that face food shortages as a result of severe drought; to Peru, which suffered a cereals shortfall, as well as to other Latin American countries; to Kampuchea and the Yemen Arab Republic, whose requirements were not known when the original program was drawn up; and to several developing countries worldwide that were not originally included or whose allocations were cut back when the program was approved by the Council of Ministers.

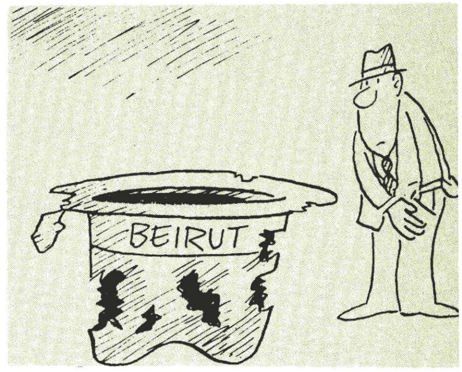
Development Aid Decided

New financial aid for projects in developing countries was announced in October by the European Development Fund. Out of 24 projects, the largest allocations were: ECU 15.4 million for construction and equipment of hospitals and a school for laboratory technicians in Ethiopia; ECU 9.5 million for rehabilitation of the seeds industry in Uganda; ECU 12.8 million for controlling hoof-and-mouth disease in Botswana and Zimbabwe; ECU 10 million for road improvement in Niger and Upper Volta; nearly ECU 9 million for road repairs in the Central Africa Republic; and almost ECU 11 million to establish and renovate the regional telecommunications networks for aid to air navigation in the Indian Ocean.

Emergency Aid for Lebanon

The E.C. Commission voted in October to contribute funds to an emergency relief plan for Lebanese citizens and Palestinians in Lebanon. The plan has been drawn up by the United Nations Disaster Relief Office and is to cost ECU 17 million, of which the Commission is to provide almost ECU 9 million. Over 230,000 Lebanese and Palestinians in West Beirut and southern Lebanon will benefit from the funding for relief supplies, services, reconstruction work, and temporary accommodations. Community aid to Lebanon so far totals more than ECU 22 million.

Emergency aid of ECU 90,000 was also granted to help the Government of Ghana tackle a cholera epidemic; ECU 500,000 was announced for the Cape Verde Islands, which are suffering from a severe drought; and ECU 400,000 was allocated to Benin for flood relief. Food aid worth ECU 2.1



© Bas, Tachydromos, Greece

million was granted to Sri Lanka for relief of famine brought on by drought. This country had already received food aid amounting to ECU 5.9 million. In addition, the E.C. Commission decided to allocate Sri Lanka 350 tons of sugar.

Aid Guidelines Posted

General guidelines for financial and technical cooperation with the non-associated developing countries was approved by the E.C. Commission in October. The proposal breaks down the assistance into geographical and sectoral categories. The amount, estimated at ECU 290 million in the Commission's preliminary draft budget for 1983, has yet to be determined.

Non-associated developing countries include about 30 countries in Asia, Latin America, and Africa and represent a total population of 1.3 billion people (not including China), of whom 1.2 billion live in 15 countries with an annual per capita income of less than $370. Asian countries are to receive about three-fourths of the funds. Potential beneficiaries there are countries that have previously benefited from E.C. aid, plus a few others. A possibility is China, which has not received aid under previous E.C. programs but in recent years has been identified as a developing country. In 1979, average per capita income in China was $260. Eligible Latin American countries are to receive up to 20 per cent of the funds, and African countries will benefit from at least 5 per cent of the aid.

Priority will continue to be given to the rural sector and, whenever possible, to operations connected with food supplies. These operations will focus not only on the actual production, but on upstream and downstream activities and on production and back-up infrastructure (including welfare and education infrastructure) in order to improve the income and living conditions of the people.

ENERGY

Energy Investments Soar

About 45 per cent of the European Investment Bank's (EIB) total lending in the Community for 1981 went to energy-related projects. The sum reached ECU 1.4 billion, of which about half was for the construction of nuclear power stations in the Federal Republic of Germany, France, Belgium, and Italy. EIB energy loans were primarily aimed at developing indigenous resources, diversifying imports, and using energy more rationally.

On top of the ECU 700 million nuclear investments, loans aimed at exploiting Europe's oil and gas reserves added up to ECU 420 million. Other big loans went to the extension of power lines, thermal and hydroelectric power stations, combined heat and power generating plants, and coal extraction.

Brown Coal and Peat Studied

A report was adopted by the E.C. Commission in October showing that brown coal and peat are secure, economically viable energy sources and constitute an important primary energy source for power stations. Both have now entered the industrial and household heating markets, said the report, and their importance will grow even further in Greece and Ireland. Although the development of Scotland's peat reserves is still an open question, the reserves in general are abundant enough to allow extraction of both these fuels for a long time to come in the member states concerned.

Brown coal and peat have a far smaller share than hard coal in the Community's energy production and consumption. In 1981, brown coal accounted for 6.4 per cent of the overall primary energy production, and peat 0.2 percent. Neither product is traded between E.C. member states. By comparison, hard coal accounted for 20.4 per cent of E.C. energy consumption and 31. 2 per cent of indigenous energy production for that year.

Since almost all brown coal and peat is extracted by open-cast mining over large surface areas, environmental damage is immense. Land reclamation laws are in force, however, and the cost advantage of both fuels is so great that the financial burden of reclamation does not pose an economic problem. The production of both these fuels has also significantly improved the employment situations in certain regions.

Peat deposits are found in every member state except Belgium and Luxembourg, although the size and economic significance vary widely. To date, only Ireland has benefited from E.C. financial aid for peat production; France, Federal Republic of Germany, and Greece have received Community support for brown coal production.

Natural Gas Pricing Sought

Natural gas is the latest subject of Commission energy pricing proposals. The main recommendations are based on the scarcity of natural gas in the Community, which necessitates a pricing structure ensuring the best possible use of available resources. The Commission proposals also said prices should be set in such a way that they can be adjusted quickly to changes in the prices of other energy sources. Additional recommendations were that price structures that effectively subsidize consumption or encourage waste should be scrapped, a two-tariff system covering fixed costs and another which varies with the quantity of gas supplied should be set up, and special tariffs for off-peak periods should be arranged.

In a report on natural gas adopted in October, the Commission said that by 1990 a total of 56 per cent of the gas consumed by the Community will be covered by domestic production. The balance will be provided by traditional suppliers such as Algeria, Norway, the Soviet Union, and to a lesser extent, Libya, which will be supplying Italy.

Imports of natural gas will account for 8 per cent of total energy consumption, if it is assumed that current negotiations between the Soviet Union, Italy, and Belgium lead to agreement. Based on this assumption, said the report, the natural gas imported from the Soviet Union will represent about 19 per cent of total natural gas supplies and less than 4 per cent of total energy supplies. In addition, it would seem that the Community's gas industry is able to cover all foreseeable interruption scenarios for normal gas supplies. Finally, the Commission plans to set up a body that would advise on an ad hoc basis if fears of a major interruption in supplies from outside the Community should arise.

Rational Energy Use

A proposal to stimulate the rational use of energy has been made by the E.C. Commission. It includes measures to stimulate investment in areas such as generation of residual heat for district-heating systems, conversion of industrial oil-fired installations to coal, and the recovery of energy from waste. The Community's contribution would take the form of a 3 per cent interest rebate on loans contracted from E.C. financial instruments.

E.C. Oil Bulletin

The average increase in CIF prices of crude oil between the end of 1978 and mid-November this year was nearly 143 per cent, as a result of decisions taken by the oil-exporting countries. The pre-tax prices of the principal oil products (crude oil and imported finished products) increased by an average of 88 per cent over the same period.

The Commission publishes weekly bulletins in order to make the Community oil markets more transparent, particularly regarding price information.

EXTERNAL

New Coffee Agreement Signed

A new International Coffee Agreement was signed in late September between leading exporting and importing countries. The aim of the agreement is to match world supply and demand for coffee over the next six years by means of a system of export quotas.

Coffee is the most valuable commodity exported by the developing world, with earnings second only to oil revenues. As the world's largest coffee importer, the Community buys about 33 per cent of the world's coffee trade. The Federal Republic of Germany, France, and Italy are the largest E.C. coffee drinkers, and Ireland is the smallest.

The CAP and LDC Trade

A recent E.C. Commission study maintains that the common agricultural policy (CAP) has had little overall effect on developing countries' agricultural exports to the Community. Though there have been fluctuations, these reflect supply trends in the developing world, rather than any changes in the Community's import policy. The study shows the Community as the world's largest importer of agricultural produce and by far the biggest customer of the developing countries, taking an average of almost 30 per cent of their exports. In 1979, the Community imported nearly $27 billion worth of agricultural produce from developing countries, compared to less than half that ($11.6 billion) for the United States, and one-fifth as much ($5.6 billion) for Japan.

Textile Talks Suspended

The second round of bilateral textiles negotiations between the Community and its suppliers from developing countries ended in Brussels in September. Within the framework of the Multifibre Arrangement (MFA), 18 new agreements had been concluded, but nine of the Community's most important suppliers left the negotiating table, refusing to accept E.C. terms.

In the face of massive unemployment and industrial decline in the European textiles industry, restrictions on low-cost textiles imports are a necessity, says the European textile industry. These restrictions would include import quotas to cover the next four years—with reductions averaging 10 per cent for certain sensitive items such as shirts, blouses, and cloth—and new measures to protect the E.C. industry from any sudden surge in imports. Negotiations may have to be discontinued, but the Community's chief textile negotiation, Horst Krenzler, recommended one last round. The nine countries to withdraw were Hong Kong, South Korea, Macao, Singapore, Malaysia, the Philippines, Indonesia, Brazil, and Argentina, who together represent almost half the Community's low-cost textiles trade.

GRANTS

Education Grants Awarded

A grant enabling architects, social scientists, and lawyers from different member states to come together and examine the effects of urban planning on juvenile delinquency is one of the 93 grants under the 1982-83 joint study programs announced by the Commission this fall. The scheme encouraging cooperating in higher education has been in operation since 1976, and a total of 467 grants have been made to support 269 joint programs. Demand for cooperation assistance increased and competition for support was also stiffer, with 10 per cent more applications in 1982 than the year before. More than 60 per cent of the programs involved student exchanges.

BOOKS

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

Approaches to Industrial Policy within the EC and its Impact on European Integration. By Fritz Franzmeyer. Gower Publishing Co., Brookfield, VT, 1982. 167 pp. $40.00.

A study of industrial structure and policy in E.C. member states and the effects on the process of integration. Diagnoses structural problems in each country, such as unemployment and deficits, and questions to what extent Community efforts have furthered integration or merely supported national policy.

Political Rights for European Citizens. By Guido van den Berghe. Gower Publishing Co., Brookfield, VT, 1982. 245 pp. $38.00.

The concept of European citizenship is examined through a study of the voting rights of nationals of E.C. member countries, particularly those living abroad. The 1979 direct elections to the European Parliament are discussed in detail; also covers relationship between "special rights" and political rights granted to citizens of member states.

World Steel in the 1980s: A Case of Survival. By William T. Hogan. Lexington Books, Lexington, MA, 1983. 272 pp. $26.95.

A study of the current crisis in the world steel industry with separate analysis of domestic industry on a country-by-country basis. Questions the industry's future in terms of growth, ownership, international trade, technology, and new developments in the Third World. Tables cover steelmaking capacity, production, imports, and exports.

The Future of the European Alliance Systems: NATO and the Warsaw Pact. Edited by Arlene Broadhurst. Westview Press, Boulder, CO, 1983. 316 pp. $22.50.

Several authors discuss the problem of European security and offer a comparison of east and west alliance systems. Areas covered are a definition of European security, the North Atlantic Treaty Organization, the Warsaw Pact, and resource allocations for defense. Tables.

Nuclear Weapons in Europe: Modernization and Limitation. Edited by Marsha Olive and Jeffrey Porro. Lexington Books, Lexington MA, 1983. 164 pp. $19.95.

Authors at an Arms Control Association Conference comment on the North Atlantic Treaty Organization's nuclear doctrine and the growing rift between U.S. and European defense strategies. Considered are attitudes toward the practical utility of nuclear weapons, different meanings of detente, and public involvement in national security decisions.

Member States and the Community Budget. By J. Ørstrom Møller. Samfundsvidenskabeligt Forlag, Copenhagen, 1982. 352 pp.

Economist in the Danish Foreign Affairs Ministry describes the Community budget system and analyzes how budget payments and receipts influence the different member states and various industrial sectors. Discusses the common agricultural policy, monetary compensatory amounts, and challenges British and German criticisms of the budget system.

Conflict of Laws and European Community Law. By Ian F. Fletcher. North Holland Publishing Co., Amsterdam, 1982. Available from North Holland Publishing, New York. 395 pp. $74.50.

Looks at the ways in which the private international law of the E.C. member states has been and will be affected by their membership in the Community. Discusses the nature and quality of E.C. law in relation to national law and covers in detail the conventions which dealt with harmonization of civil, commercial, and company law.

Building Europe: Britain's Partners in the EEC. Edited by Carol and Kenneth Twitchett. Europa Publications, Ltd., London, 1981. 262 pp. £16.00.

Various contributors comment on each current E.C. member state and on the proposed members, Portugal and Spain. Traces motives for joining the E.C. attitudes and developments in national Governments since its inception, and the methods by which the E.C. is used to further national interests. Detailed bibliography included.

Socialism of a Different Kind: Reshaping the Left in France. By Bernard E. Brown. Greenwood Press, Westport, CT, 1982. 201 pp. $29.95.

A discussion of the events leading to the electoral victory of French President François Mitterrand and the power of the Socialist Party in France. Outlines the evolution of the two major parties of the left and the limits of the alliance between the Socialist and Communist Parties. Also covers broader questions of Eurocommunism and the concept of self management in an industrial society.

The Commerce Department Speaks on Dumping and Countervailing Duties. Practising Law Institute, New York, 1982. 634 pp. $30.00.

PLI handbook discussing legislation, cases, and investigations concerning antidumping and countervailing duties. Includes processing antidumping and countervailing duty investigations, pertinent litigation now in the courts and in the Department of Commerce, as well as a review of major decisions and issues.

Thirteenth Annual Institute on International Taxation. Practising Law Institute, New York, 1982. 640 pp. $30.00.

The course handbook distributed at the 1982 Institute on International Taxation; covers foreign investment in U.S. real estate, intercompany pricing, current status and interpretation of U.S. tax treaties, the effect of state taxes on multinational companies, and tax planning for Americans abroad.

European Yearbook, Vol. XXVIII, 1980. Martinus Nijhoff Publishers, Boston, 1982. 682 pp. $110.00.

Published in association with the Council of Europe. A comprehensive summary of European institutions and their activities in 1980. Organizations included are the European Communities, the European Free Trade Association, the European Space Agency, and the Council of Europe; also published are selected articles on general topics.

Understanding ASEAN. Edited by Alison Broinowski. St. Martin's Press, New York, 1982. 323 pp. $27.50.

Explains how the Association of South East Asian Nations (ASEAN) system developed and how it works today. Studies its relationship with the E.C., Japan, Indochina and the Soviet Union; also considers why ASEAN was formed, the extent to which regional cooperation can override national competition, and the possibility of ASEAN becoming a common market.

Wer Liefert was? (Who supplies what?) Wer liefert was, GmbH, Hamburg, 1982. 2100 pp. $68.00.

Indexed in English, French, German, Italian, and Spanish, lists thousands of products and who produces them in West Germany. Arranged also by commodity group, trade names, and brands, in alphabetical order.

A Guide to the European Community Grants and Loans. By Gay Scott. Euroinformation Ltd, Bedfordshire, 1982. 111 pp.

Updated annually. Lists sources of funds available from the European Community, with a background description of each fund, an explanation of the criteria for eligibility, and methods of applying for grants and loans. Lists projects that have been awarded funds in the past.

Fiscalité Européenne Revue. Les Cahiers Fiscaux Européens, Nice, 1982. 54 pp.

Seven brief articles on fiscal affairs in France, Belgium, the Netherlands, West Germany, and the United States, with a paper on E.C. tax harmonization by Christopher Tugendhat, Vice President of the E.C. Commission.

The International Monetary System: A Time of Turbulence. Edited by Jacob S. Dreyer, et al. American Enterprise Institute, Washington, D.C., 1982. 523 pp. $25.95 cloth, $14.95 paper.

Results of a 1980 American Enterprise Institute conference that tried to pinpoint major causes of the problems facing the international monetary system and discussed strategies for improving its operation. Emphasis is on the viability of flexible exchange rates in the 1980's, the proposed control of offshore currency markets, the future of the dollar, the European Currency Unit, and other reserve assets.

Meeting Human Needs: Toward a New Public Philosophy. Edited by Jack A. Meyer. American Enterprise Institute, Washington, D.C., 1982. 469 pp. $34.95 cloth, $13.95 paper.

Detailed proposal for the transfer of social programs and responsibilities to the private sector. Studies private initiative in areas such as education, youth employment, housing, transportation, and explores possibilities for government/private sector partnerships in these areas.

The "Greens" and the "New Politics": Goodbye to the Three-Party System. *EUI Working Paper, No. 7.* By Wilhelm Bürklin. European University Institute, Florence, 1982. 57 pp.

Speculates on the significance of the electoral success of the Greens—Germany's environmental parties—and the possibility that they represent a realignment between social groups and the party system. Explains shifts in voter behavior and estimates future potential support for the parties.

Unilateralism or the Shadow of Confusion. *EUI Working Paper, No. 8.* By Athansios Moulakis. European University Institute, Florence, 1982. 29 pp.

Essay arguing against unilateral reductions of nuclear arms. Defends deployment of U.S. missiles in Western Europe and deterrence as a way to ensure peace.

Inflation and Structural Change in the Euro-Dollar Market. *EUI Working Paper No. 23.* By Marcello de Cecco. European University Institute, Florence, 1982. 40 pp.

An attempt to determine to what extent changes in Eurodollar deposits affect world inflation. Questions whether correlation between an expanded money supply and increased inflation can be applied and concludes that positive statements cannot be made.

An Electoral Atlas of Europe: 1968-81: A Political Geographic Compendium Including 76 Maps. By John Sallnow and Anna John. Butterworth Scientific, Woburn, MA, 1982. 149 pp. $49.95.

A political guide including maps designed to show the degree of electoral support in major administrative divisions of European countries. Also has complete set of electoral statistics and commentary on each election.

The Mediterranean Basin: Its Political Economy and Changing International Relations. By Glenda G. Rosenthal. Butterworth Scientific, Woburn, MA, 1982. 145 pp. $39.95.

Looks at the E.C. and the Mediterranean countries in the areas of enlargement of the Common Market, agriculture, labor, energy, and political alliances. Measures implications of Greek, Spanish, and Portuguese membership in the E.C., and the economic involvement of all the Mediterranean countries with Western Europe.

European Political Cooperation: Towards a Foreign Policy for Western Europe. By David Allen, et al. Butterworths Scientific, Woburn, MA, 1982. 184 pp. $32.50.

Conclusions of a study group on European political cooperation with articles on its background and objectives, coordination between European Political Cooperation as an institution and E.C. activities, the Euro-Arab dialogue, and other foreign policy issues.

On the Meaning and Future of the European Monetary System. *Essays in International Finance, No. 138.* By Tom de Vries. Princeton University, Princeton, N.J., 1980. 64 pp. $1.50.

A paper on the development of the European Monetary System (EMS) in the context of overall European integration. Past problems with monetary union and the political forces that have shaped it are outlined; the present EMS and its relevance in the future are also discussed.

World Military and Social Expenditures. By Ruth L. Sivard. World Priorities, Leesburg, VA, 1982. 44 pp. $4.00.

Series of tables, graphs, and articles illustrating the extremes of militarism and the decline of social progress in 1982. Sections on military expansion, wars and deaths, the nuclear arms race, and unmet human needs.

Unpaid Work in the Household. By Liusella Goldschmidt-Clermont. International Labour Office, Washington, D.C., 1982. 137 pp. $10.00.

Attempts to estimate the value of the goods and services produced by households for their own use or consumption. Examines the approaches used to assign values to unpaid work and the way in which market and nonmarket sectors interact in an industrialized society.

Helmut Schmidt: Perspectives on Politics. Edited by Wolfram F. Hanrieder. Westview Press, Boulder, CO, 1982. 247 pp. $27.50.

Speeches, interviews, and essays of Helmut Schmidt, former Chancellor of the Federal Republic of Germany. Topics include the Federal Republic in the early 1970's, relations with Africa and the Soviet Union, as well as general policy statements delivered to the Bundestag and the United Nations Assembly.

European Business and South Africa: An Appraisal of the EC Code of Conduct. By Anne Akeroyd et al. Kaiser Verlag, Munich, 1981. 257 pp.

Assessment of E.C. business practices in South Africa, concluding that while some progress has been made on wages, working conditions, and black unionization, progress in the last few years has been marginal. Special problems cited are compliance with codes and reporting.

Policy Analyses in International Economics, No. 3: Trade Policy in the 1980s. By C. Fred Bergsten and William R. Cline. Institute for International Economics, Washington, D.C., 1982. 84 pp. $6.00.

Attempts to offer a policy approach to trade issues in the 1980's from the findings of an Institute of International Economics conference in June 1982. Reviews old issues such as subsidies, safeguards, steel, and agriculture and speculates on problems in high technology trade, services, and tariff elimination. Argues for a new multilateral trade negotiation for the 1980's as well as changes in international monetary arrangements to improve the world trade system.

Documents in Communist Affairs—1981. Edited by Bogdan Szajkowski. Butterworths, Boston, MA, 1982. 347 pp. $65.00.

A collection of significant speeches, reports, broadcasts, communiqués, and statements on communism, with special attention given to events in Poland and China. Includes background and analysis of developments in these two nations, as well as sections on Africa, the Middle East, Latin America, the Soviet Union, and Western Europe.

Foreign Policies of Western Europe. Edited by Bengt Sundelius. Westview Press, Boulder, CO, 1982. 239 pp. $22.00 cloth, $8.50 paper.

Comparison of the foreign policies of Denmark, Finland, Iceland, Norway, and Sweden. Organized by policy area, gives background details on the international and domestic environment, factors of international security, and economic conditions.

Agriculture in Western Europe—Challenge and Response 1880-1980. Second Edition. By Michael Tracy. Renouf, USA, Brookfield, VT, 1982. 419 pp. $30.50.

Traces weaknesses and problems of West European agricultural policy and pressures for reform in light of unstable markets. Focuses on Britain, France, Germany and Denmark, their policies before and after World War II, the formation of the Common Agricultural Policy, and government intervention. Tables included.

Strategies for Change: The Future of French Society. By Michel Crozier. The MIT Press, Cambridge, MA, 1982. 230 pp. $17.50.

Identifies three sources impeding change in French society—the educational system, public administration, and the recruitment of leaders—and proposes ideas for progress. Opposes practices and goals of the bureaucracy and studies it in Western society.

The European Community and New Zealand. By Juliet Lodge. Frances Pinter Publishers, Wakefield, NH, 1982. 249 pp.

Reviews New Zealand's relationship with the European Community since 1973, with particular emphasis on problems between 1973-1980. Covers New Zealand's sheep meat and dairy imports arrangements with the EC.

The Uncertain Ally: British Defense Policy 1960-1990. By M. Chichester and J. Wilkinson. Gower, Brookfield, VT, 1982. 246 pp. $38.00.

A 20-year review of the management of British defense and strategic policy, considering factors in policy making, relations with the North Atlantic Treaty Organization and the United States, the role of the Royal Air Force and Navy.

Administering Foreign-Worker Programs. By Mark J. Miller and Philip L. Martin. Lexington Books, Lexington, MA, 1982. 224 pp. $21.95.

Details guest-worker programs in Europe and related policies, including work and residency permit systems, protection of indigenous labor, and counting of migrants. Also covers rights of workers and social policies in education and housing. Includes important agreements and treaties.

The European Community and Development Cooperation. By Gerrit Faber, Van Gorcum and Co., Assen, the Netherlands, 1982. Available from Humanities Press, Inc., Atlantic Highlands, N.J. 257 pp. $15.20.

Analysis of the integration of Third World development policies within the EC and the likely effects on social and economic progress in developing countries. Discusses the Lomé Convention, the Euro-Arab dialogue, the Generalized System of Preferences, food aid policy. Also looks at development policies in individual member states and prospects for integration.

Poverty and Social Security in Britain Since 1961. By Wilfred Beckerman and Stephen Clark. Oxford University Press, New York, 1982. 94 pp. $21.00.

Measures the impact of social security on poverty in Britain and estimates potential level of poverty without social security and other benefits. Addresses main concepts of welfare policy, the efficiency of social security payments and traces the pattern of poverty in Britain since 1961. Tables.

Energy from Biomass. Solar Energy R & D in the European Community, Series E, Vol. 2. Edited by W. Palz and G. Grassi. D. Reidel Publishing Co., Boston, MA, 1981. $26.00.

Proceedings of the workshop on biomass pilot projects on methanol production and algae, held in Brussels, 22 October 1981.

Photochemical, Photoelectrochemical and Photobiological Processes. Solar Energy R & D in the European Community, Series D, Vol. 1. Edited by D.O. Hall and W. Palz. D. Reidel Publishing Co., Boston, MA, 1981. $32.50.

Proceedings of the EC contractors' meeting held in Cadarache, France, 26-28 October 1981.

Published for the Commission:

Integrated Crop Protection. Edited by P. Graffin. A.A. Balkema, Rotterdam, 1982. 407 pp.

Proceedings of a symposium held at Valence, France, 18-19 June 1980.

Thermal Energy Storage. Edited by G. Beghi. D. Reidel Publishing Co., Boston, 1981. $59.50.

Lectures of a course held at the Joint Research Centre, Ispra, Italy, June 1-5, 1981.

Evaluation of Research and Development: Methods for Evaluating the Results of European Community R & D Programmes. Edited by G. Boggio and R. Gallimore. D. Reidel Publishing Co., Boston, 1982. $24.50.

Proceedings of a conference held in Brussels, January 25-26, 1982.

Photovoltaic Power Generation. *Solar Energy R & D in the European Community, Sieres C, Vol. 1.* Edited by W. Palz. D. Reidel Publishing Co., Boston, 1982. $49.50.

Proceedings of the final design review meeting on E.C. photovoltaic pilot projects held in Brussels, 30 November-2 December 1981.

Plasma Physics for Thermonuclear Fusion Reactors. Edited by G. Casini. Harwood Academic Publishers, New York, 1980. $74.50.

Lectures from a course held at the Joint Research Centre, Ispra, Italy, October-December 1979.

The Community's Bookshelf

To order the publications listed below, please check the desired items and fill out the order blank. Mail to the European Community Information Service, 2100 M Street, NW, Suite 707, Washington, DC 20037, (202) 862-9540. In the New York area copies can be ordered from the European Community Information Service, 245 East 47th Street, New York, NY, 10017, (212) 371-3804. Telephone orders are also welcome.

☐ **The Institutional System of the Community: Restoring the Balance.** *Bulletin of the European Communities, Supplement No. 3/82.* Commission, Brussels, 1981, 20 pages................free
Text of three Commission communications on relations between the institutions of the E.C., the budgetary conciliation procedure, and the role of the European Parliament in preparing and concluding international agreement.

☐ **Freedom of Movement for Persons in the European Community.** *European Documentation No. 3/1982.* Commission, Brussels, 1982, 51 pages ....free.
Describes Community actions to facilitate freedom of movement for workers and the self-employed in 10 E.C. member states.

☐ **The Current State of Europe Research and Development.** *European File No. 15/82.* Commission, Brussels, October 1982, 7 pages ....free

☐ **European Steel Policy.** *European File No. 15/82.* Commission, Brussels, October 1982, 7 pages ....free

☐ **Tourism and the Community.** *European File No. 17/82.* Commission, Brussels, November 1982, 7 pages.free

☐ **Euronet Diane: Towards a Common Information Market.** *European File No. 18/82.* Commission, Brussels, November 1982, 7 pages..............free
Description of DIANE, the Direct Information Access Network for Europe, consisting of 300 data bases available on-line in Europe.

☐ **European Coal and Steel Community Financial Report 1981.** Commission, Luxembourg, 1982, 69 pages free
Gives the main characteristics of European Coal and Steel Community loans and guarantees, balance sheet, and receipts and payments for 1981 and 1980.

☐ **Forging Ahead: Thirty Years of the European Parliament.** European Parliament, Luxembourg, 1982, 237 pages $11.00
Review of the powers, organization, working methods, and composition of the European Parliament, with emphasis on the first directly elected assembly. Covers the 1979 direct election, including voting results and the national electoral laws, and the proposals for the 1984 election. Includes a complete list of the membership of the Parliament since 1952 and outlines the status of the existing political groups.

☐ **A New Impetus for the Common Policies.** *Bulletin of the European Communities, Supplement No. 4/81.* Commission, Brussels, 1982, 107 pages $7.00
Collection of the papers prepared by the Commission between July and October 1981 on structural changes needed to strengthen the development of the Community. The papers focus on economic policy, energy, research and development, industry, industrial innovation, regional policy, and the common agricultural policy.

☐ **A Community Policy on Tourism: Initial Guidelines.** *Bulletin of the European Communities, Supplement No. 4/82.* Commission, Brussels, 1982, 32 pages $2.00
Text of the Commission's communication. Lists relevant Community measures on tourism enacted or pending before the Council; identifies areas for possible coordination; indicates priorities for development of tourism.

☐ **Community Law.** Commission, Brussels, 1982, 36 pages.............$2.50
Offprint from the "Fifteenth General Report, 1981." Covers the interpretation and application of the substantive rules of Community law, with an analysis of cases by subject and treaty.

☐ **European Regional Development Fund Sixty Annual Report (1980).** Commission, Brussels, 1982, 116 pages $9.40
Describes the fund's activities in 1980 in financing individual projects and integrated operations in the E.C. member states.

☐ **Records of the Luxembourg Conference on the Community Patent 1975.** Council, Brussels, 1982, 334 pages $39.50
Collection of the documents issued before, during, and at the conclusion of the conference held in Luxembourg, November 17-December 15, 1975 to draft the Convention for the European Patent for the Common Market. The final text is included.

☐ **Annual Report of the ACP-EEC Council of Ministers (1 March 1981—31 December 1981).** Council, Brussels, 1982, 116 pages.........................$6.00
Reviews the implementation of the Lomé Convention in 1981. Discusses accession of new states, trade arrangements, Stabex, Sysmin, industrial cooperation, agricultural cooperation, financial and technical assistance, and institutional matters.

☐ **The Energy Situation in the Community: Situation 1981, Outlook 1982.** Commission, Brussels, 1982, 26 pages $1.50
Report from the Commission on energy developments, by energy source.

☐ **Euratom Supply Agency Annual Report 1981.** Commission, Brussels, 1982, 61 pages...........................$2.00
Reports on the trends and prospects for the development of nuclear energy in the member states and resulting nuclear fuel requirements. Analyses the situation of Community supply and the contracts negotiated by the agency.

☐ **European Communities Glossary: English-French.** Councils, Brussels, 1982, 592 pages......................$21.00
2nd edition. English alphabetical list of words or expressions used in different areas of Community activity, with the corresponding French equivalent. A companion volume, with a French alphabetical list and corresponding English translation, is available for $17.00.

☐ **Twenty-third Report on the Activities of the Monetary Committee.** Monetary Committee, Brussels, 1982, 41 pages $4.50
Contains four papers of the Committee: indexation mechanisms, dollar interest rate and exchange rate developments, financial aspects of North-South relations, and monetary and exchange rate objectives within the European Monetary System.

☐ **Inventory of Taxes: 1981 Edition.** Commission, Brussels, 1982, 671 pages $24.00
Concise survey of the duties and taxes in force in the member states on September 1, 1981.

☐ **Bibliography on Transport.** *Documentation Bulletin B/3.* Commission, Brussels, 1980, 61 pages.............$1.45
Addendum, as of April 1980, to the base 1979 bibliography. Lists Community reports and legal acts and non-Community publications relating to transport.

☐ **Bibliography on the Removal of Technical Barriers to Trade in Foodstuffs.** *Documentation Bulletin B/6.* Commission, Brussels, 1982, 35 pages $1.45
List of the reports on the Scientific Committee for Food, legislation adopted by the E.C. Council and proposals of the Commission relating to food and food additives as of June 1982.

☐ **The Borrowing and Lending Activities of the Community in 1981.** *European Economy No. 13,* Commission, Brussels, September 1982, 41 pages $9.40
Communication from the Commission to the Council and Parliament reviewing all the borrowing and lending activities of the Community institutions, including the European Coal and Steel Community, European Investment Bank, the New Community Instrument, European Monetary System interest subsidies, and Euratom. Describes loans granted to non-members from the proceeds of borrowing on capital markets.

☐ **The Treatment of Solid Municipal Waste: Guide for Local Authorities.** Commission, Brussels, 1982, 95 pages $7.25
Provides factual information on different methods of treating solid municipal waste and on the selection criteria to use before choosing a given process.

☐ **Demarcation of Occupational Groups/Occupational Fields with Regard to Vocational Training at Skilled Level in the European Community.** European Centre for the Development of Vocational Training, Berlin, 1982, 147 pages...................................$4.00
Study by Hermann Benner.

☐ **Government Financing of Research and Development 1975-1981.** Statistical Office, Luxembourg, 1982, 191 pages $14.00
Yearbook 1982.

☐ **A Prognosis and Simulation Model for the EC Cereals Market: Part II, Conception of the Model and Quantification of Factors Determining the Demand for Cereals.** *Information on Agriculture No. 80.* Commission, Brussels, 1982, 194 pages $6.00
Presents an econometric model specifying the demand for cereals according to final utilization (seed, animal feed, industrial processing, and human consumption) and the evolution of these uses at E.C. member state level.

Order Blank

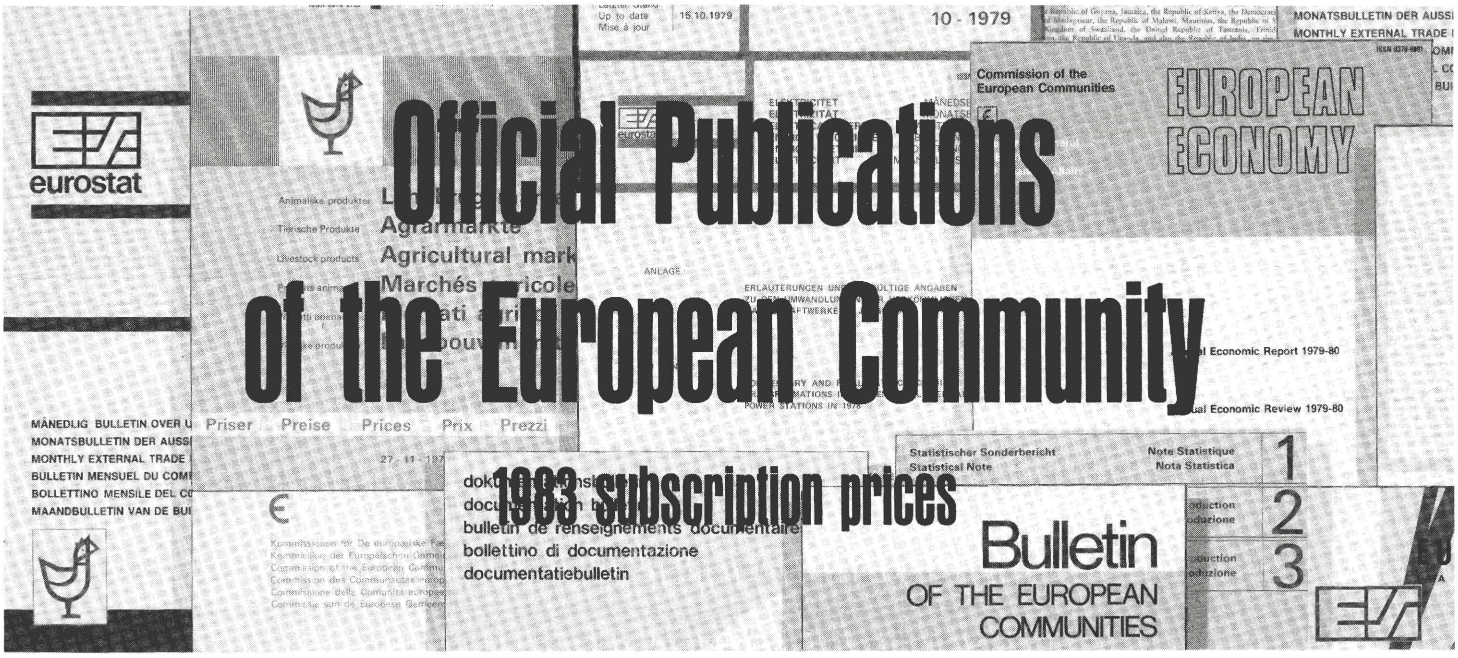
Please send me the free items checked.
Please send me the sales items checked and
☐ Bill me
☐ My check for $ ________________ is enclosed.

____
Name

____
Address

____

____
Zip



Official Publications of the European Community

1983 subscription prices

EUROPE. Magazine of the European Community. Six issues. $9.00 per year. Please make check payable to *Europe*.

OFFICIAL JOURNAL OF THE EUROPEAN COMMUNITIES. Daily. Publishes all Community legislation and many communications. Surface mail: $173.00. Air mail: $521.00 additional. **Index To The Official Journal.** Monthly. Surface mail: $40.00. Air mail: $11.50 additional. Microfiche Edition. Surface mail: $156.00. Air mail: $14.50 additional.

BULLETIN OF THE EUROPEAN COMMUNITIES. 11 issues and Index. Surface mail: $35.50. Air mail: $22.50 additional. **Supplements to the Bulletin.** Standing order available. Invoiced quarterly according to the number of pages in supplement.

PUBLIC CONTRACTS AND TENDERS OF THE EDF. *Supplement to the Official Journal.* Surface mail: $74.00. Air mail: $98.00 additional.

VOCATIONAL TRAINING: INFORMATION BULLETIN. Quarterly. Surface mail: $4.00. Air mail: $4.50 additional.

LIST OF ADDITIONS TO THE LIBRARY OF THE CEC. Monthly. Surface mail: $40.00. Air mail: $17.00 additional.

DOCUMENTATION BULLETIN. Irregular. Surface mail: $45.50. Air mail: $47.50 additional.

EUROSTATISTICS. Monthly bulletin of general statistics. Surface mail: $24.00. Air mail: $14.00 additional.

AGRICULTURAL MARKETS: PRICES. Ten issues + 2 supplements. Surface mail: $60.00. Air mail: $25.50 additional.

EUROPEAN ECONOMY AND SUPPLEMENTS A, B, AND C. Surface mail: $50.00. Air mail: $14.50 additional.

European Economy. Three issues. Surface mail: $22.80. Air mail: $9.00 additional.

Recent Economic Trends: Supplement A. 11 issues. Surface mail: $11.50. Air mail: $3.50 additional.

Business Survey Results: Supplement B. 11 issues. Surface mail: $11.50. Air mail: $3.50 additional.

Consumer Survey Results: Supplement C. Three issues. Surface mail: $4.20. Air mail: $0.80 additional.

Supplements A, B, and C. Surface mail: $27.00. Air mail: $8.00 additional.

EC AGRICULTURAL PRICE INDICES (OUTPUT AND INPUT). Four issues. Surface mail: $18.00. Air mail: $5.50 additional.

AGRICULTURAL PRODUCTION. For the two series, surface mail: $45.00. Air mail: $16.50 additional.

Crop Production. Quarterly. Surface mail: $27.00. Air mail: $8.50 additional.

Animal Production. Quarterly. Surface mail: $27.00. Air mail: $8.00 additional.

COMMITTEE REPORTS OF THE EUROPEAN PARLIAMENT. About 70 reports monthly. Surface mail: $41.00. Air mail: $181.00 additional.

BALANCE OF PAYMENTS: GLOBAL DATA. Quarterly. Surface mail: $9.00. Air mail: $7.50 additional.

DEBATES OF THE EUROPEAN PARLIAMENT. Monthly. Surface mail: $49.00. Air mail: $38.50 additional. Microfiche Edition. Surface mail: $49.00. Air mail: $3.50 additional.

RESULTS OF THE BUSINESS SURVEY CARRIED OUT AMONG MANAGEMENTS IN THE COMMUNITY. Monthly. Surface mail: $65.50. Air mail: $12.00 additional.

INDUSTRIAL SHORT-TERM TRENDS. Monthly. Surface mail: $15.00. Air mail: $12.50 additional.

EURO-ABSTRACTS: SCIENTIFIC AND TECHNICAL PUBLICATIONS AND PATENTS. For the two series, surface mail: $86.00. Air mail: $34.50 additional.

Section I: Euratom and EEC Research. Monthly. Surface mail: $49.00. Air mail: $13.50 additional.

Section II: Coal and Steel. Monthly. Surface mail: $49.00. Air mail: $21.00 additional.

UNEMPLOYMENT: MONTHLY BULLETIN. Surface mail: $9.00. Air mail: $4.50 additional.

HOURLY EARNINGS-HOURS OF WORK. Two issues per year. Surface mail: $18.00. Air mail: $9.00 additional.

PIG-IRONS AND STEELS: BASIC PRICES. Basic document and 8 to 10 amendments. Surface mail: $185.00. Air mail: $26.00 additional.

INDUSTRIAL PRODUCTION. Quarterly. Surface mail: $13.00. Air mail: $7.50 additional.

IRON AND STEEL STATISTICS. For the two series, surface mail: $44.00. Air mail: $16.00 additional.

Monthly Statistics: Iron and Steel. Surface mail: $14.00. Air mail: $6.00 additional.

Quarterly Statistics: Iron and Steel. Surface mail: $36.00. Air mail: $10.50 additional.

REPORTS OF THE CASES BEFORE THE COURT. Volume XXIX. Irregular. Surface mail: $60.00. Air mail: $24.00 additional.

MONTHLY EXTERNAL TRADE BULLETIN. Surface mail: $53.00. Air mail: $27.50 additional.

ENERGY STATISTICS.
For the three series, surface mail: $33.00. Air mail: $17.00 additional.

Coal: Monthly Bulletin. Surface mail: $9.00. Air mail: $6.50 additional.

Hydrocarbons: Monthly Bulletin. Surface mail: $18.00. Air mail: $6.00 additional.

Electrical Energy: Monthly Bulletin. Surface mail: $9.00. Air mail: $5.50 additional.

All subscriptions, with the exception of EUROPE, *are for the calendar year.*

I wish to order the publications circled above and have underlined the desired method of shipment.

☐ Check enclosed. Amount $ __________ ☐ Please bill me.

Name ....

Company ....

Street ....

City ....

State .... Zip Code ....

Mail to:
European Community Information Service
2100 M Street NW, Suite 707, Washington, DC 20037

LEPANTO

"The world famous classic de-luxe Brandy"

GONZALEZ BYASS
SHERRY & BRANDY