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# West Europe Report

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18 DECEMBER 1986

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POLITICAL

EUROPEAN AFFAIRS

## KOIVISTO DISCUSSES SUBMARINE INCIDENTS, CHERNOBYL IN STOCKHOLM

### Daily Interviews Koivisto

Stockholm DAGENS NYHETER in Swedish 21 Oct 86 p 12

[Report on interview with Finnish President Mauno Koivisto by Sven Svensson on board the MS Finlandia; date not given]

[Text] MS Finlandia--Not until the Social Democratic Party holds its congress in the summer of 1987 will the Finnish people know whether Mauno Koivisto is willing to run for another term as president.

That was revealed in an interview DAGENS NYHETER had with Mauno Koivisto, who arrived in Stockholm on Monday for a 2-day visit during which, among other things, he will discuss the naval buildup in the Arctic Ocean with the government and the opposition.

In Finland, President Koivisto has refused to comment on the future, even though he already has an avowed rival in Center Party leader Paavo Vayrynen.

"There is a time for everything." That was Koivisto's answer to the question of when he would announce whether he was going to run for another 6-year term as president. He said it was preferable to act in a traditional way.

Koivisto declined to expand on that statement, but its meaning is considered to be that the incumbent president will not announce his intentions until a late stage. He does not want to be drawn into speculations concerning the so-called presidential game at an earlier stage.

### Congress

Koivisto told DAGENS NYHETER that the Social Democratic Party would hold its congress next summer. Under its bylaws, the congress chooses the party's presidential candidate if that task is not delegated. The Party Council will meet this fall.

"My understanding is that the council does not intend to approach me to ask whether I want to be a candidate," said Koivisto. "The election is going to

take place in a traditional way in Finland--in a time-honored way," he said, and he added:

"Now let's go on to another question."

Finland will hold legislative elections in March 1987, and the presidential election will take place in January 1988.

It is traditional in Finland for the government in office to resign after both legislative and presidential elections. The government that is appointed after the legislative elections may therefore be short-lived, considering that the presidential election will follow soon afterward.

If the parties take the attitude that the government is only going to stay in office for a year, that will have a harmful effect on politics, says Koivisto. It means that the parties might adopt too tactical an approach because they do not expect the government to stay in office throughout the legislative term.

#### No Problems

Koivisto emphasized that there are no real bilateral problems between Sweden and Finland, although submarine intrusions and the reactor accident in Chernobyl have given rise to some exchanges of views.

He emphasized: "The Soviet Union has told us that except for the one that went aground in Karlskrona, no Russian subs have been involved. What the Russians tell us is that 'we have no reason at all to engage in such intrusions.'"

For example, they have said things like this:

"If you don't trust us now, you don't need to trust us in any other connection, either."

#### Shoot With Live Ammunition

"Moreover, the Soviet Union told us a couple of years ago that it would be just fine if the Swedes fired live ammunition--fired for effect--at intruding submarines. Its intention in saying that was to stress that it is not Soviet submarines or other gadgets that are involved," said Koivisto.

Following the reactor accident in Chernobyl, criticism was directed at Finnish authorities for withholding information on radioactivity.

Koivisto had, among other things, become indignant with Sweden and the Western press. In a newspaper interview, he had said that the Swedes were trying to "teach us simpletons stumbling around in the wilderness what is best for us."

Minister of Energy Birgitta Dahl in particular had come under fire. But now Koivisto was almost inclined to smooth over the quarrel.

Finnish authorities had noted higher radioactivity than usual, but since its level did not exceed the threshold, no action was taken, said Koivisto. News of the increase in radioactivity came first from Sweden, where it was higher.

#### Displeased

All the same, Koivisto had a little message for Birgitta Dahl. She had been referred to in a way she did not like, but she could not possibly claim to be unhappy with the way her statement was interpreted by reporters, he said.

The Finnish president turned the talk to the image of Finland that is being spread around the world.

He said: "One can vilify a country or a government, but reporters are sacred."

In another comment, he said: "It does no good to criticize reporters--it is wiser to swallow one's words."

#### Talking Calmly

Koivisto accepts the argument that tradition and competition in the mass media are different in Sweden than they are in Finland.

"People are inclined to talk more calmly in Finland than in Sweden. In Sweden, you magnify small matters, but perhaps in Finland people are inclined to take even big news quite calmly," said the president.

We asked: "Is it annoying that the Swedish mass media are as they are?"

"The picture that emerges of Finland originates partly in Finland, but also to a large extent in Stockholm. Many foreign newspapers and press agencies have their correspondents in Stockholm. The picture they convey has sometimes made me highly displeased," says Koivisto, who wonders if reporters have no pride.

#### Demand

"We know that there is a demand for certain kinds of news from Finland and that it does no good to try to sell news that does not satisfy the demand," he said. "Usually, there is a demand for news that is unfavorable to Finland."

He said: "If the same thing happens in Finland and in Sweden, we know it will be treated differently. A film with the English title "Born American" was made in Finland. That film was censored more or less the same way in Sweden and in Finland, but only what happened in Finland made the news."

#### News

We asked: "How does that news get from Finland to Stockholm?"

Koivisto answered: "That's another thing. If Swedish newspapers could afford to have their own correspondents in Finland, that would be an advantage."

We asked: "And how is it done now?"

"I don't want to go any further into the matter."

"So Finnish citizens are involved?"

"Quite right. That is why I say that it would be preferable if Swedish newspapers could find enough money to send their own reporters to Finland."

Koivisto gave an example: "In 1968, when Czechoslovakia was invaded by the Warsaw Pact countries, a leading American newspaper had a correspondent in Stockholm, and he wrote that Russian troops were invading Finland by way of the Saimaa Canal, but he did not go to Finland to witness the event.

"I visited Copenhagen at the time. The BERLINGSKE AFTENAVIS had printed a picture showing President Kekkonen talking to Russian officers. It claimed that the photograph was from 1968, but in fact it had been taken in 1948.

"I said at a press conference: 'I realize that you must sell your newspapers, but in a situation as sensitive as this, it would be good if you published recent photographs.'"

Arguing

Koivisto urged: "Write that it does no good to argue with reporters."

The refugee question is also part of the picture of Finland. While Sweden has granted asylum to from 7,000 to 8,000 foreigners, Finland has a quota of 100.

Koivisto commented: "During the postwar period, Sweden has admitted manpower, some of it from Finland. Most foreigners in Sweden have gone there not as refugees but to seek work.

"It can be said that the foreigners we have accepted in Finland are refugees. After the war, moreover, we had a big job on our hands finding employment and housing for 300,000 of our countrymen who had been evacuated from Karelia.

"Wouldn't it be preferable to call many refugees immigrants?"

Koivisto answered his own question by mentioning that many people come to Europe in search of better living conditions. Koivisto feels that while there are refugees who are persecuted for political or other reasons, their number is smaller than the total number of so-called refugees.

He himself believes that Finland's quota of 100 refugees will be raised, but he pointed out in the same breath that reported unemployment is still lower in Sweden than in Finland even though Sweden has accepted so many refugees.

In a speech last week, President Koivisto brought up the matter of trying to put a limit on the naval arms race, especially on the Kola Peninsula and in the Arctic Ocean.

On Tuesday, Koivisto will discuss those questions with representatives of both the Swedish Government and the opposition. Agreement will be easy.

The Swedish Government supports a 1983 UN study on the naval arms race and is preparing a draft resolution at the United Nations. Similar activities are underway in Norway.

#### Impressive

Koivisto says that the issue of halting the naval arms race is in the air. He says that the achievements at the Stockholm Conference concerning ground forces, particularly as regards controls, were really impressive.

The question now is whether it will be possible to come up with confidence-building measures in connection with activities at sea. But Koivisto is not prepared to present any specific proposals.

A report from Denmark on the naval strategic situation in the Nordic Region makes interesting reading, says Koivisto. It points out that interest is shifting from the southern Baltic Sea to the Norwegian Sea.

"What is needed now is an exchange of views. Then we will see what happens."

#### Follow-up Meeting

First there will be a follow-up meeting to the Stockholm Conference in Vienna, where discussions have been going on for a long time concerning a limitation on conventional weapons. And time will show the extent to which the United Nations can become a forum for discussions on naval limitations, he says.

In Koivisto's view, the summit meeting in Reykjavik provides subject matter for many follow-up discussions on arms control.

Most of us were surprised that they were able to achieve so much, says Koivisto. The possibilities should be good for signing an agreement to reduce 'excessive' nuclear capacity. It has been possible to resolve much more troublesome matters.

#### Submarine Incursions Focus of Press Conference

Stockholm DAGENS NYHETER in Swedish 22 Oct 86 p 14

[Article by Sven Svensson]

[Text] "I find it difficult to understand why the Russians would send submarines to Sweden."

So said Finnish President Mauno Koivisto at a press conference in Stockholm on Tuesday, when he was again asked whether he believed the Swedish submarine reports. Conservative Party leader Carl Bildt said on Tuesday that he did not believe the Soviet denials.

In response to a question asked at the press conference, Koivisto emphasized that the submarines are a troublesome question. It is believed in Sweden that they exist, while in Finland it is believed that they do not.

Koivisto wondered during the press conference: "If it is as hard to find those submarines as it seems to be, how is it possible for them to get their own bearings without using more active means of orientation?"

Koivisto emphasized from the very start that he had nothing new or important to say about the submarines.

Confirmed

He confirmed DAGENS NYHETER's report that he had had discussions with Soviet leaders a couple of weeks earlier, at which time they had strongly asserted that they had no interest in sending submarines to Sweden.

The proposal to try to establish confidence-building measures in the naval area, which Koivisto had brought up during a speech in Helsinki last week, was greeted with great understanding by Prime Minister Ingvar Carlsson.

"I have expressed my appreciation for that initiative," said Carlsson with reference to the idea raised by Koivisto.

Koivisto said by way of introduction that he had held rewarding discussions during his 2 days in Stockholm. He hoped that he had been able to shed light on Finland's way of looking at the problems and on its view of the world situation.

Koivisto said that much of what had happened in the recent past was promising. He was especially pleased with the way in which the Stockholm Conference ended.

Ingvar Carlsson stated that he appreciated the visit.

The Swedish prime minister said: "Contacts with Finland mean a tremendous lot to us culturally. From the standpoint of industrial development and internationally, Finland is an extraordinarily valuable partner for dialogue."

As already reported by DAGENS NYHETER, Koivisto is not willing at present to specify how the work of establishing confidence-building measures in the naval area should be pursued further. At the moment, what he is hoping for first and foremost is a general discussion.

Before his discussions with Prime Minister Ingvar Carlsson, President Koivisto met with a number of chief editors and then met with representatives of the government and the political opposition during a luncheon.

Participating on behalf of the government were Minister of Foreign Affairs Stig Andersson, Minister of Industry Thage Petersson, and Minister of Foreign

Trade Anita Gradin. Also attending were all the opposition party leaders with the exception of Bengt Westerberg, who was represented by Ingemar Eliasson.

Conservative Party leader Carl Bildt said in a statement following the luncheon that he did not believe the Russian explanations concerning the submarines. Bildt said it was normal procedure to deny that such intrusions were taking place. On the other hand, the Conservative Party leader agreed with Koivisto's ideas concerning confidence-building measures in the naval area.

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POLITICAL

DENMARK

COMMENTATOR SEES SDP/SP COALITION AS UNWORKABLE

Copenhagen BERLINGSKE TIDENDE in Danish 19 Oct 86 pp 19-20

[Commentary: "SDP/SP--A Mismatched Coalition" by Lars Bille, lecturer at the Institute for Social Sciences and Administration at the Copenhagen University, specializing in the political parties. He is a regular commentator of BERLINGSKE TIDENDE]

[Text] The most prominent political issue of the summer has been the realistic or unrealistic idea of a government cooperation between the Social Democratic Party and the Socialist People's Party. An issue which will also, to a large extent, mark the work of the session of the Folketing, which, to all appearances, will be the last one before the issue of writs for the coming election.

As is well-known, there has twice been a so-called workers' majority within the Folketing (1966-68 and 1971-73), without this having resulted in a government cooperation. On both occasions, it has ended in splits and major shifts within the political parties. In 1967, a split occurred within the Socialist People's Party with the left wing breaking away and forming the Left Socialist Party. In 1973, a split occurred within the Social Democratic Party, when Erhard Jacobsen left the party and formed the Center Democrats. This resulted in the earthquake election in December of 1973, an election which reshaped the Danish party system from a five-party to a ten-party system, which caused the remainder of the seventies to become most unstable and unpredictable.

But what is actually so very different in the present situation as to justify the belief that things will go differently this time than previously if the Social Democratic Party and the Socialist People's Party will gain the majority? We shall get some kind of answer by pointing out a couple of the major reasons why things went wrong previously and by comparing the situation at the time with the present situation to find out whether some of these causes have been eliminated.

To a political party which wants to play a role in the distribution of wealth with application for the entire society, it is a question of two things. First, to get as many votes as possible. Second, to share in the power to realize its program.

To the electorate, the Social Democratic Party and the Socialist People's Party are born competitors and no natural cooperation partners. Numerous polls taken among the electorate show that few voters will leave nonsocialist parties to join socialist parties, whereas it is normal for shifts to occur in the party choices of voters within the various wings. The groups of voters to which the Social Democratic Party and the Socialist People's Party appeal are largely the same. The gains of one party take place at the cost of the other. Such "cannibalism" hardly furthers a trusting and constructive cooperation.

The fate of the workers' majority in 1966-68 is a good illustration of this mechanism. Prior to the election in 1966, the Social Democratic Party had stated that it did not want a government cooperation with the Socialist People's Party. Right from its formation, the Socialist People's Party was regarded by the Social Democratic Party as a party which split the Danish workers' movement, and it, consequently, had to be fought.

The election result (where the Socialist People's Party gained ten seats and the Social Democratic Party lost seven), however, forced the Social Democratic Party to change its standpoint. The subsequent "cooperation" (which, on account of the unwillingness of the Socialist People's Party to participate in such a cooperation, did not become a government cooperation) was, to a large extent, marked by the ill-concealed interest on the part of the Social Democratic Party in forcing the Socialist People's Party into subjugation, in putting the Socialist People's Party into situations which would show the voters who had failed the Social Democratic Party for the benefit of the Socialist People's Party, that the Socialist People's Party had hitherto been free-wheeling, and that it was neither able to nor wanted to take a responsibility.

As is well-known, this tactics succeeded. The Social Democratic Party achieved what it wanted, i.e., splitting the competitor and showing the electorate that there was only one responsible workers' party which was able to govern the country, viz. the Social Democratic Party. It is in the light of this problem that Anker Jørgensen's statement was made to the effect that it is a Social Democratic prerequisite for the initiation of a government cooperation with the Socialist People's Party that the Social Democratic Party make gains in the next election.

With regard to the second fundamental component of a political party's activity--getting the power or getting a share in it--the situation has for decades been such that no party has had the majority on its own. That is why it has been necessary for the parties to cooperate on the legislation. Seen in the perspective of this cooperation, the points of departure of the Socialist People's Party and the Social Democratic Party differ decisively. The Socialist People's Party can only share in the power through a cooperation to the right, thus with the Social Democratic Party, possibly also with the Radical Liberal Party. Consequently, it is in the clear interest of the Socialist People's Party to arrange as close ties to the Social Democratic Party as deemed acceptable by the Socialist People's Party through previous arrangements prior to an election. The possibilities of maneuvers on the part of the Social Democratic Party and the influence of the Socialist People's Party are thus increased correspondingly.

The situation is different, as far as the Social Democratic Party is concerned. The Social Democratic Party has got a choice in that it may choose to cooperate either to the right or to the left--perhaps even to both sides. It is consequently in the interest of the Social Democratic Party, first, not to discount this possibility of choice in advance and, second, that the negotiations take place on the basis of an actually ascertained majority. For such negotiations are considerably weightier than negotiations conducted on the basis of the assumption that the next election may possibly provide the majority.

Finally, it, furthermore, plays a role, as far as the Social Democratic Party is concerned, that the parliamentary experience has shown that the wing in the Folketing which is able to obtain the support of the middle parties has got the government power. Statements on the part of leading Social Democrats made in the course of the summer show that they are quite aware of this circumstance. Their opinion is that it will be inappropriate and too shortsighted already now to initiate negotiations on a basis for a SDP/SP coalition. For it may well be that the Social Democratic Party will need the middle parties. Their readiness to cooperate, however, will not be great if the Social Democratic Party in advance has chosen the Socialist People's Party as its coalition partner, cf. Niels Helveg Petersen's statements that a cooperation agreed upon in advance between the Social Democratic Party and the Socialist People's Party will, if anything, be detrimental to the country.

There are thus certain structural circumstances which separate the Social Democratic Party and the Socialist People's Party. These circumstances have always existed and, in my opinion, there is nothing in the present development to show that they do not apply at present as well.

However, it is not merely structural circumstances which obstruct the formation of a SDP/SP coalition. Naturally, the different political ideologies of the two parties also play a role. I shall just mention a single but equally weighty example, viz. the foreign policy and the defense policy.

At the congress of the Socialist People's Party in 1963, Aksel Larsen, founder and chairman at the time of the party, stated: "In discussions within our party, the question is turned over in the minds of the debaters again and again on which conditions it will be possible to enter into a government coalition or form a coalition together with the Social Democratic Party. One might equally well resume the nearly forgotten scholastic discussions on how many angels are able to dance at the point of a needle. Irrespective of how large a workers' majority in the Folketing will be, and even if things should go so well that we would double our number of seats, there is no possibility of participating in the government. That simply is not feasible with the foreign and military policy to which Denmark, as a NATO country, is committed."

Since then, there have been decisive shifts within the Socialist People's Party. While the party previously discounted a government cooperation with the Social Democratic Party in advance, primarily on account of the foreign and defense policies, it is not the case today. But the Socialist People's Party has, of course, laid down certain conditions, and it is the very nature of these conditions which causes the political conflict to assume its present proportions.

The demands are of such a far-reaching importance that the Social Democratic Party, so far, has been unwilling to accept them. That has become clear in the course of the debate of the summer.

Ebba Strange, chairman of the Folketing group of the Socialist People's Party, has stated that the defense policy will not hold outside a government cooperation between the Social Democratic Party and the Socialist People's Party, and that the defense expenditures will have to be reduced considerably. Anker Jørgensen's viewpoint has been a rejection of this, and, during the summer, he, therefore, expected a defense agreement to be concluded between the Social Democratic Party and the nonsocialist parties.

The substance of Aksel Larsen's evaluation from 1963 is thus still valid. As far as the foreign and defense policies are concerned, the points of departure of the Socialist People's Party and the Social Democratic Party are still far apart, and even if both parties have changed their positions, the situation is still no different from what it has been all the time. The upcoming negotiations with a view to a new defense agreement will constitute a decisive test whether this evaluation is tenable.

Finally, I shall discuss the prospect of stability in a SDP/SP coalition, if any, viz. the internal decision-making structure of the Socialist People's Party and the attitude of the Social Democratic Party toward it.

Right from its formation, the Socialist People's Party has put great emphasis on the development of an active membership democracy. The result of this has been that it is the members of the party who have got the final say via their elected representatives within the executive committee. It is the executive committee which will approve agreements of more far-reaching significance that are entered into by the party with other parties.

Such a procedure, however, is easier to adhere to when in opposition than when in power. It is easier to comply with when it is theoretical statements and positions which have to be laid down than when it is a question of daily compromises which will necessarily have to be entered into in a government cooperation. In such a cooperation, it is the Folketing group which is the prime mover, and the executive committee (elected by the members) and the Folketing group (elected by the electorate) may, therefore, easily be steering a collision course. This applies not only with regard to the conclusion of agreements but equally when it comes to who has the final authority to interpret agreements that have been concluded and which, naturally, have not always been clearly worded.

Such a controversy with regard to authority between the executive committee and the Folketing group was a major reason why the first workers' majority in 1966-67 ended in a split of the Socialist People's Party.

The circumstance that the Socialist People's Party can only share in the power through a cooperation to the right in the Folketing also becomes important when considered in conjunction with the decision-making procedure of the Socialist People's Party. What are the Socialist People's Party members to do who, on

the one hand, find that the Socialist People's Party has moved too far to the right to obtain a cooperation with the Social Democratic Party but, on the other hand, desire to exert direct influence on the legislative work in the Folketing? One possibility open to them is joining a party to the left of the Socialist People's Party. But here the situation is such that the Communist Party has been dragging on a languishing existence without any immediate prospect of gaining sufficient votes to enter the Folketing. The Left Socialist Party is another possibility. However, developments within the Left Socialist Party, its internal power struggles and fundamental disagreements as to whether sharing the power and thus the responsibility in a capitalist parliamentary system is the right thing to do, will hardly attract the dissatisfied members of the Socialist People's Party.

These people, however, have another possibility open to them. Instead of the possibility of leaving the party, they have the possibility of voting. They may work for and vote for the adoption of resolutions and the election of delegates on the part of the competent assemblies of the Socialist People's Party that will take a critical stand on the policy agreed upon with the Social Democratic Party.

A survey taken in 1979 shows that the delegates to the national congress of the Socialist People's Party are clearly to the left of the Folketing group of the Socialist People's Party, which, in turn, is somewhat to the left of the rank-and-file of the Socialist People's Party. In other words, it is the votes to the extreme left which elect the executive committee and the votes to the extreme right which elect the Folketing group. Within the decision-making procedure of the Socialist People's Party, where the executive committee, in the name of the membership democracy, has got such a great influence, it is thus not difficult to see the possibilities of conflicts that may arise between a left-wing group of membership activists and a Folketing group that is under pressure from the Social Democratic Party. It is thus not the most stable point of departure for a party such as the Socialist People's Party, for which it is not traditional to have the government responsibility.

And it is precisely here that leading Social Democrats have already now pointed out that a government cooperation between the two parties will not be feasible if it is to take the shape of a study group cooperation--as it has been tastefully put. If the Social Democratic Party follows the same tactics as in 1966-67, the Social Democratic Folketing group will enter into agreements with the Folketing group of the Socialist People's Party. How the latter will get enough seats to enter into such agreements will become its own problem. This was the problem that overturned the first workers' majority, and I do not believe that anything has happened to indicate that it will not be a problem as well in the present situation.

A number of circumstances which previously ruined the possibilities for an SDP/SP coalition thus also exist today. Therefore, is all the fuss about an SDP/SP coalition not merely a sham and food for political commentators? Well, so far, that has been the case.

7262

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POLITICAL

ITALY

PAPER DISCUSSES SUPPORT FOR ERITREAN CAUSE IN ETHIOPIA

Rome AVANTI! in Italian 29 Oct 86 p 7

[Article by Franco Prosperi: "A Liberation Front White Paper: 'The Eritrean People Ask for Autonomy'"]

[Text] The story of the past 2 years of political activity relating to the Eritrean question has been compiled by the ELF [Eritrean Liberation Front] into an interesting "white paper" that contains abundant documentation of the widespread political will to have the question of the Eritrean people brought up once again--in real and concrete terms--by various political forces in the UN and in the Italian parliament.

The copious documentation relates to actions, data, and events--serious and dramatic events--concerning the populations of the tormented Horn of Africa.

Among the various documents compiled, special mention is due the collection of case histories involving political asylum and flights abroad on the part of Ethiopian officials and civil servants (the most recent case being the amateur soccer team that requested asylum at the UN High Commissioner's office in Cairo) who do not share the political views of the existing pro-communist regime; refuse to tolerate the massive presence of the Russian and Cuban military advisers, and their interference in Ethiopia's internal affairs; disapprove of the misapplication--for military purposes against national liberation movements--of the international aid that has been supplied; and denounce the forced deportation of more than 500,000 Ethiopians in connection with resettlement of the northern territories.

In this regard, the Ethiopian ambassador to Italy's reply to a denunciatory article by Bernard-Henry Levy in IL MESSAGGERO appears ineffectual and not very convincing. Moreover, we have not seen a redistribution of the labor force in connection with the 1984-94 10-year agricultural plan to combat the famine and to halt the process of desertification. Gilles Herzog himself--in EUROPEO--has called it a crazy plan to construct the new Ethiopian man; authoritative international humanitarian organizations have likewise voiced negative opinions.

In glancing through the abundant and well-organized material in the "white paper," one thing that especially stands out is the numerous inquiries--on the part of members of parliament belonging to various groups--concerning specific

matters of a critical and speculative nature. One disquieting fact emerges which should give pause for thought: namely, the clear intent on the part of some high government circles to evade the questions and to say nothing in response. It is a kind of conspiracy of silence that may suggest the hypothesis of the existence of a powerful lobby that favors the existing Ethiopian regime, fashioning political attitudes and decisions which cannot be interpreted as being in accord with a proper policy of noninterference vis-a-vis a foreign government.

The publication as a whole reflects the desire to reopen and reintroduce--in the most appropriate ways and forums--the case of the Eritrean people, while requesting a parliamentary debate in accordance with the people's inalienable right to self-determination: a legitimate aspiration which for more than 40 years has obliged the Eritreans to fight with stubborn tenacity for their own autonomy.

We are convinced that the time has come--and that the international political conditions are present--for an Italian initiative.

Next January, Italy will become a nonpermanent member--for 2 years--of the UN Security Council: a circumstance of great importance that should be utilized to the maximum.

In a recent statement the current minister of foreign affairs envisaged an Italian initiative for a peace conference in connection with the Iran-Iraq conflict; and in Parliament last June he asserted the necessity for compliance with UN Resolution 435 in order to find a political solution in Namibia for the denial of its independence.

As a former colonial power we have the humanitarian and moral duty--inasmuch as the armed Eritrean separatism manifested itself immediately following our defeat in East Africa--to sponsor an initiative that will permit a political solution of the Eritrean problem, mindful of the fact that relations between Eritrea and Ethiopia are based on the famous Federal Resolution 390A/5, approved by the UN in December 1950 and in whose formulation our country also participated.

The present minister of foreign affairs--who is sensitive to Middle Eastern questions--also cannot fail to demonstrate an interest in this serious problem that is tormenting and bloodying the Horn of Africa.

Most opportune indeed, in this connection, are the words spoken by Omar Burg at the recent meeting between the office of the chairman of the socialist group of the Chamber of Deputies and a delegation from the Eritrean Liberation Front. We do not employ terrorism--he said--to make ourselves known and recognized internationally. Precisely for this reason an impenetrable conspiracy of silence is practiced, so as not to draw attention to the enormous difficulties encountered by the Eritrean political refugees, who are employed largely in the labor black market, a kind of geographical racism.

In this respect, it is worthwhile to emphasize the commitment of the socialist members of parliament--a commitment confirmed at the aforementioned meeting by

Deputy Marte Ferrari--to give unconditional support to the Eritrean cause. It is no accident that Deputy Ferrari underscored the necessity for Parliament finally to hold--after many repeated requests--a comprehensive in-depth debate in which each parliamentary group would adopt well-defined policies and actions.

The target date for the near future--in the event this desire to debate persists and prevails--is the vote on ratification of the agreement between our government and the Ethiopian Government regulating certain relations of a financial nature.

This is an important opportunity that should be used, among other things, to clarify a fundamental problem, to wit: Ethiopia cannot alternate freely and easily between political and strategic aid in the context of the Eastern bloc, on the one hand, and massive economic, financial, and food aid from the West, and in particular from Italy through the FAI [Italian Aid Fund].

This is a problem that must be resolved, in the name of clarity and fairness in international relations.

The Eritrean delegation received similar assurances at the meeting with Deputy Spini, who heads the foreign affairs department of the party leadership. On this occasion, attention was also quite properly called to the commitment, the interest, and the sensitivity vis-a-vis the Eritrean cause that have been demonstrated on several occasions--and in various forums--by the party secretary and prime minister, the honorable Bettino Craxi.

10992

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POLITICAL

LUXEMBOURG

#### UN AMBASSADOR ON ROLE IN UN, FOREIGN POLICY ISSUES

Luxembourg LUXEMBURGER WORT in German 7 Oct 86 p 12

[Text] His English is absolutely perfect. "To be sure, we Luxembourgers with our little country are on the Franco-German border, and it has always been easier for us than for others to adopt the language of our neighbors." Ambassador Andre Philippe was active abroad in English-speaking countries for a number of years prior to assuming his present office in May 1984 as Luxembourg's representative at the United Nations in New York. In stark contrast to a year ago, there is a calm bustle in the Luxembourg Mission this rainy Monday afternoon. During the second half of 1985 Luxembourg occupied the presidency of the European Political Cooperation (EPC), a difficult task for the smallest country in the EC, as a comparison with Ireland, its predecessor in this position, demonstrates. While the Green Republic, itself of course one of the smaller EC member states, took over the chairmanship of the EPC with 15 diplomats, the same tasks were distributed among only 8 Luxembourg officials, 3 of them without any UN experience. "I am afraid that during this period I stepped on the toes of some people who urgently wished to see me, but our schedule was crammed right down to the last minute." While Ambassador Philippe is not exactly happy about the strained work situation of his diplomatic mission during such periods of expanded representational obligations on the European level, he nonetheless points out that the expenditures for Luxembourg's foreign policy, as measured against the contemporary gross national product, are not greater than in the other countries of the EC.

#### Wide-Ranging Consensus in the EPC

For a long time the fundamental principle of the Grand Duchy's relations with other states was that of neutrality. After this position of Luxembourg had been violated for the second time, the country, after World War II, developed into a committed supporter of the Atlantic alliance and European integration. A first step towards this orientation toward the West was the creation of the Benelux Union in exile in London. "It proved that Luxembourg, in union with the other European states, could attain a stronger position than it could as a neutral nation." The economic and military alliances of the West, in comparison with their counterparts in "actually existing socialism," are characterized by open dialogue and consensus-building with due regard for all participants. Thus, controversies among equal partners form the heart of

Western politics, and not uniformity in the face of pressure from a hegemonic superpower. To what extent and in what areas, therefore, do the views of the EC countries diverge, and what position does Luxembourg take in the various instances?

In this regard Ambassador Philippe cites a number of examples from the most recent set of discussions within the EPC and emphasizes above all the conflicting tendencies in regard to the South Africa question. Not only the problem complex of apartheid, but the emergency situation on the entire African continent is a topic of the utmost relevancy. The 40th session of the UN General Assembly therefore decided to hold a special session on this subject. On the other hand, a relatively uniform consensus of opinion exists in the European camp in regard to Nicaragua. There is complete unanimity in the condemnation of human rights violations in Chile, Guatemala, in Iran, and in Afghanistan. European opinion concerning disarmament matters is again more heterogeneous, whereby France adopts a position which deviates most perceptibly from the "mainstream."

#### Clear Course in Luxembourg Foreign Policy

The security policy debate over NATO's so-called double decision appeared to be developing into the greatest test of strength among the political parties of West Europe in the early 1980's. In the Federal Republic of Germany, thinking in the peace movement was often synonymous with criticism of loyalty within NATO to the alliance with the United States, if it did not indeed manifest outright anti-American traits. Overwhelmingly important within the ranks of the Greens, but also ever stronger on the part of the SPD--particularly after Helmut Schmidt's loss of majority, at the level of national policy as well as in his own party--the concept of a nuclear weapon-free and non-aligned zone in Central Europe was popularized, to a certain extent driven by the hope that both German states, by virtue of their then-enhanced role in peace policy, would gain an opportunity for the reconciliation of their two social systems. Viewed under the dissecting knife, the historically new variety of a decisively antimilitaristic nationalism, which, to be sure, runs the risk of overestimating the ability of both German states to play a role, possibly with the goal of establishing a "pax germanica" for all of Europe, most assuredly lies at the heart of this chain of thought. Luxembourg knows neither the problem of being divided as a nation, nor was it directly affected by the stationing of nuclear weapons. Ambassador Philippe therefore stressed that the relationship to the United States was considerably less problematical for Luxembourg than it was for the FRG. As far as the relations of other small European nations to Washington are concerned, however, a considerable similarity can be observed, although Luxembourg, more so than its neighbors, commemorates the liberation by the Allies with special memorial days. The essential elements of foreign policy are relatively simple for Luxembourg with, according to Ambassador Philippe, a tendency on the part of the citizens "to oversimplify the problems." The calm political climate in Luxembourg during the conflicts over the stationing of "cruise missiles" was, for example, the result of a tradition of national political thinking which has

become questionable: "To a certain extent the Luxembourgers simply did not realize that missiles in Bitburg are just as close as in Clervaux."

### The Changing United Nations

Over the course of the 4 decades of its existence, the UN's field of endeavor has shifted considerably. In 1946 they were hoping to create with the UN an organ of "collective security" which could further the superpowers' desires to achieve understanding. This soon proved to be an illusion and the system of regional alliances, such as NATO or the Warsaw Pact, replaced the concept of global security measures. In contrast to the situation in 1946, countries such as Luxembourg no longer feel themselves threatened in their national identity. Europe has achieved a high degree of political stability. To that extent, the main emphasis of UN activity is far less on questions of how to achieve peace than it was expected to be 40 years ago. Problems, which are still determining the general political climate today and which were already looming on the horizon then, were the conflict in the Middle East and South Africa's policy of apartheid. On the other hand the colonial empires disappeared--a process which can also be put into the United Nations' success column and which had even been cited in the Atlantic Charter as a high-priority goal. To be sure, traces of past colonial connections come to the fore even today in the so-called Second Committee when, during discussions of measures relating to the developing nations, France would like to give precedence to the French-speaking developing countries, while Great Britain on the other hand wishes to do the same for the nations of the Commonwealth. Ambassador Philippe: "A noticeable change has also take place in regard to cooperation among UN member-states."

Meanwhile, the smaller developing countries represent the majority among the 159 nations now in the United Nations. Some 40 years ago the industrial countries predominated in number. With this structural change the topics changed as well. Today, issues relating to development policy and progressively leading away from the East-West conflict occupy the foreground. Different than for the industrialized countries who cooperate economically and politically in a series of other international organizations, the UN indeed represents for the developing nations the sole forum of importance.

### Necessary Reforms

According to Andre Philippe, procedures within the UN should be simplified for the future. A significant step would be taken if the length of speeches during debates could be limited, and the number of resolutions could be reduced to a minimum. Thus, it no longer makes sense to make public further statements regarding arms limitations issues since the positions of all concerned have been announced more than once. The American Congress undertook the unquestionably most spectacular attempt to demand a reform of the rules of order. After the United States had already left UNESCO, the Congress suggested reducing the U.S. contribution to the UN's budget from 25 to 20 percent if no agreement could be reached on reform initiatives. In this connection the Americans are also insisting on the convening of a special committee to

examine the efficiency of UN budget plans. Such suggestions, which aim at a tightening up of operating procedures and an improvement in economic efficiency, certainly are in accord with the wishes of a country like Luxembourg, whose UN Mission, in addition to purely diplomatic functions, also performs those of a consulate and of an information office for American tourists. The Luxembourg Mission, at least as far as physical facilities are concerned, is not put at a disadvantage in its administrative duties by this multifunctionality. Ambassador Andre Philippe: "Conferences for up to 16 delegates are conducted without difficulty, and since the beginning of this year we have had a second conference room so that now two meetings can be arranged independently of each other." Luxembourg is thus entering the United Nations' 5th decade better equipped than ever. In any case, the Grand Duchy certainly need by no means feel like a Liliputian in the big world of politics.

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POLITICAL

SWEDEN

## SEPTEMBER POLLS SHOW POST-PALME SDP BACK TO NORMAL

### Environmental Party Gains

Stockholm DAGENS NYHETER in Swedish 19 Oct 86 p 12

[Article by Dick Ljungberg]

[Text] A "Chernobyl effect" can be seen in the DAGENS NYHETER-IMU [Institute for Market Research] voter barometer for September, which shows that the Environment Party made strong progress during the summer. It seems to have done so mainly at the expense of the Social Democrats and the Center Party.

In general, however, the poll shows that the situation for the parties in Parliament has stabilized. Only the Environment Party's rise from 2.5 percent in May to 4.5 percent in September is statistically certain.

The IMU poll consisted of 200 interviews conducted during home visits that were made between 15 September and 8 October. During that period, Minister of Finance Kjell-Olof Feldt backed away from his plans for a tax on real interest, opting instead for a one-time tax on pension plans. The situation in the labor market was unsettled, resulting in open rifts at the big LO [Swedish Federation of Trade Unions] congress.

Environment Party: 4.5 Percent

But outside the halls of politics, the effects of the Chernobyl accident also began to show up to their full extent among hunters, berry pickers, reindeer owners, and others.

Here are the IMU poll results, with the change since May in parentheses: SDP: 45.0 percent (-1.5); Conservatives: 18.5 (+0.5); Center Party: 10.0 (-1.0); Liberal Party: 17.0 (0.0); Left Party-Communists [VPK]: 4.0 (+0.5); Christian Democratic Union [KDS]: 1.0 (-0.5); and Environment Party: 4.5 (+2.0).

The number unable or unwilling to answer came to a low 3.5 percent.

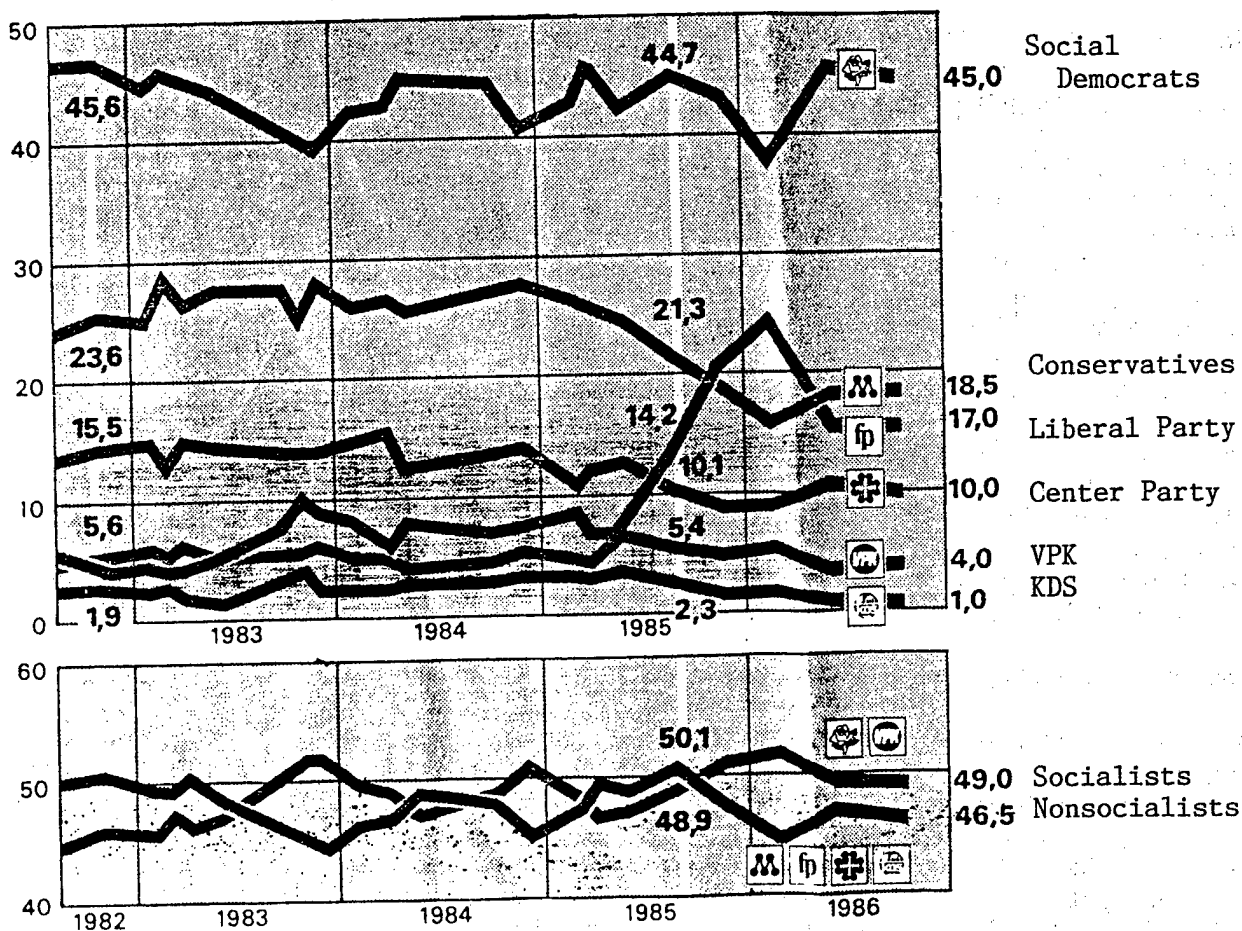
This means that the socialist bloc (49 percent) is still larger than the nonsocialist bloc including the KDS (46.5 percent).

## Norrland Residents

The idea that the Environment Party's rise is connected with the fallout from Chernobyl is reinforced by the fact that to a large extent, the party's new sympathizers are young people and women--the groups usually most strongly opposed to nuclear power--and Norrlanders, who have been hardest hit by the fallout. The Environment Party has exceeded the 4-percent threshold in IMU polls before, and it needs to be pointed again once again that these polls are a reflection of current attitudes, not an election forecast.

### DAGENS NYHETER-IMU Poll

% Election result Sep 82 Election result Sep 85



The Environment Party's rise from 2.5 percent in May to 4.5 percent in September can be seen as a "Chernobyl effect." The increase occurred at the expense of the Social Democrats and the Center Party, but the socialist bloc is still larger than the nonsocialist bloc including the KDS, according to the DAGENS NYHETER-IMU voter barometer for September.

| <u>Description</u>                           | <u>Voter Opinion</u> |               |               |               | Long-term<br>trend<br><u>Sep 86</u> |
|----------------------------------------------|----------------------|---------------|---------------|---------------|-------------------------------------|
|                                              | <u>Sep 86</u>        | <u>May 86</u> | <u>Apr 86</u> | <u>Sep 83</u> |                                     |
| Number of interviews                         | 900                  | 894           | 887           | 894           |                                     |
| % with party preference:                     |                      |               |               |               |                                     |
| Social Democrats                             | 45.0                 | 46.5          | 46.0          | 40.0          | 43.8                                |
| Conservatives                                | 18.5                 | 18.0          | 17.5          | 27.0          | 20.0                                |
| Center Party                                 | 10.0                 | 11.0          | 10.0          | 13.5          | 10.5                                |
| Liberal Party                                | 17.0                 | 17.0          | 19.0          | 7.0           | 15.8                                |
| VPK                                          | 4.0                  | 3.5           | 4.0           | 5.0           | 4.7                                 |
| KDS                                          | 1.0                  | 1.5           | 1.0           | 3.0           | 1.9                                 |
| Environment Party                            | 4.5                  | 2.5           | 2.5           | 3.0           | 3.1                                 |
| Other                                        | 0.0                  | 0.0           | 0.0           | 1.5           |                                     |
| Total                                        | 100.0                | 100.0         | 100.0         | 100.0         |                                     |
| Unable or unwilling to<br>state "best party" | 3.5                  | 3.0           | 3.5           | 3.5           |                                     |

The interviews were conducted between 15 September and 8 October 1986.

The most important change among the voters in the summer of 1986 was the Environment Party's sharp jump from 2.5 to 4.5 percent, a statistically reliable increase. Relative strengths within the nonsocialist bloc remained unchanged. The Conservatives are the largest party, but the gap between them and the Liberals is very small.

Changes between two successive polls should be interpreted with great caution if it is not stated that they are statistically significant. Instead, one should pay attention to trends over the three most recent polls or to differences with respect to the long-term trend.

For an individual poll, the statistical margin of error is as follows: SDP: about 3.3 percent; Liberal and Conservative Parties: about 2.5 percent; Center Party: about 1.9 percent; and all other parties: from 0.7 to 1.5 percent approximately.

The long-term trend is calculated as a moving average of the seven most recent polls.

The surveys are conducted using a nationally representative probability sample of Swedish citizens between the ages of 18 and 74. Interviews are conducted during home visits. The question is: "Which party do you think is best?" Preferences are expressed using ballots and ballot envelopes.

## Normal SDP Figures

Under its new leader Ingvar Carlsson, the SDP seems to be back to more normal levels again following the wave of sympathy that followed Olof Palme's death. The 45 percent in this IMU poll should be compared to the 44.7 percent the party won in the 1985 election. In the IMU's long-term trend, a moving average of the last seven polls places the government party at 43.8 percent.

## Bildt Effect

In the May poll, the Conservatives were again the largest nonsocialist party following the big successes won by the Liberal Party and Bengt Westerberg in the immediate wake of the election. The Conservatives have held their position, but it cannot be construed from the IMU poll that they have experienced something comparable to the "Westerberg effect" following Carl Bildt's election as party leader.

At 18.5 percent, the Conservatives are still slightly below their election result of 21.3 percent. Their figure in the long-term trend is 20.0 percent. The Liberal Party, on the other hand, seems to have stabilized at around 17 percent, putting it safely above the 14.2 percent it had in the election. The Liberal Party has 15.8 percent in the long-term trend.

## Slow Going for Soder

Things are moving slowly for the Center Party under its new chairwoman, Karin Soder. The next 6 months should decide whether the party will be able to pull itself out of its slump in time for the next election in 1988. It was not given a boost by the Chernobyl accident. Its 10 percent in this IMU poll corresponds almost exactly to the share of the vote it won as a result of its electoral cooperation with the KDS in 1985.

The KDS is leading a languishing existence. The cost may be high as far as Alf Svensson's seat in Parliament is concerned. His seat has not yielded the PR dividends the party was looking forward to.

Lastly, the VPK is scraping along at about the 4-percent mark. The VPK had 5.4 percent in the 1985 election, and not until the 1988 election will it be time for "Comrade 4-Percent" to do his duty again.

## Sven Svensson Commentary

Stockholm DAGENS NYHETER in Swedish 19 Oct 86 p 12

[Commentary by Sven Svensson: "Normalized After Palme's Death"]

[Text] This fall's first voter barometer points to a normalization of party opinion for the Social Democrats following Olof Palme's death. The upswing for the party in two polls last spring has been interrupted, and we now see a quite normal figure of 45 percent for the government party. This suggests that the situation between the two blocs will soon even itself out.

In the longer term, we must expect that the outcome of the current struggle in the public sector will determine the SDP's position in voter opinion.

Ingvar Carlsson was undoubtedly greatly relieved to learn that the strike would be canceled and that the parties would meet for new bargaining talks. The dispute has revealed an open split within the union movement, and that is clearly unfavorable to the Social Democratic Party.

But at the same time, an agreement at too high a financial level will threaten the government's economic policy and bring a greater risk of higher unemployment, especially in the public sector.

The IMU poll reveals an obvious Chernobyl effect. The reactor accident has not helped the Center Party, as many thought it would, but instead has favored the Environment Party. This strengthens Ingvar Carlsson's thesis that all the parties in Parliament have been burned by the issue of nuclear power.

It is important to emphasize that the figures for the Environment Party reflect the current state of opinion and indicate absolutely nothing about future election results. To a large extent, the way things develop for the Environment Party will depend on how the established parties are eventually able to channel the anxiety aroused by the reactor accident.

The Energy Council will submit its material in November, and then the party leaders will take a position on nuclear power.

The idea that there is substantial public opinion behind the Environment Party's increase during the summer is reinforced by the fact that those naming the Environment Party as the "best party" were young people, women, and residents of Norrland. Berry pickers and moose hunters have been alarmed by the cesium fallout.

On that point, the IMU poll clearly differs from the corresponding SIFO [Swedish Institute for Public Opinion Polls] barometer of a few weeks ago, which showed low figures for the parties not represented in Parliament. The explanation may be that SIFO reported that 8.5 percent of the voters were undecided, compared to 3.5 percent in the IMU poll.

On the other hand, the difference may be due to the fact that unlike SIFO, the IMU also includes ballots for the Environment Party. Moreover, SIFO now uses telephone interviews, and it can automatically be assumed that parties outside Parliament are underrepresented as a result.

There is another politically significant difference between the IMU and SIFO, and that is that for a long time, SIFO has consistently reported higher voter figures for the Conservatives than the IMU has.

Although it is too early to draw definite conclusions, that tendency seems to be holding true even when the Liberal and Conservative Parties are about equal in voter opinion.

In the SIFO poll, new Conservative Party leader Carl Bildt could be pleased with two increases in a row, from 17 percent to 21.5 percent. In the IMU poll, the Conservatives stand at 18.5 percent--an insignificant increase.

Only new voter opinion polls can provide clearer information as to a reasonably accurate figure for the Conservatives.

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CS0: 3650/17

POLITICAL

TURKEY

OZAL MEETING WITH GREEK OPPOSITION LEADER, EDU POSITIVE

Istanbul CUMHURİYET in Turkish 21 Sep 86 p 12

[Article by Sedat Ergin and Mehmet Inhan: "Ozal and Mitsotakis Agree on Dialogue"]

[Text] Vienna--Prime Minister Turgut Ozal yesterday established a dialogue here with Greece's chief opposition leader, Constantine Mitsotakis, something he has been unable to do with Greece's prime minister, Andreas Papandreu, who has not responded to the invitations he issued. Meeting yesterday morning over breakfast in Vienna's Imperial Hotel, Ozal and Mitsotakis agreed that the issues between Turkey and Greece should be solved by way of dialogue. Prime Minister Turgut Ozal yesterday completed his business in Vienna, where he had come to attend the meeting of the European Democratic Union (EDU). Ozal, in whom a close interest was shown at the EDU meeting, yesterday returned to Turkey with the "moral support" he had received from the European right and, going directly to Gaziantep, threw himself into the election campaign. The night before, at a dinner attended by the EDU party leaders, Ozal was invited to the podium as the guest speaker and was a "great success" with his speech, in which he directed sometimes mocking criticisms towards social democracy. At the dinner, which was held in the ballroom of the Hoffburg Palace, EDU president, Dr Alois Mock, who is also president of the Conservative People's Party of Austria, introduced Ozal as "the Turkish leader who achieved a return to parliamentary democracy and is advancing human rights step by step in Turkey." Dr Mock also compared Ozal to Conrad Adenauer, who brought about the miracle of Germany after World War II, calling him "Turkey's Adenauer." Dr Mock's good wishes to the effect that "God willing, you will continue your successes as Turkey's leader for many more years to come" were met with applause from the guests in the ballroom of the Hoffburg Palace.

Ozal in his speech proposed that the meeting of party leaders to be arranged by the EDU in 1988 be held in Istanbul. Ozal's suggestion that he host the meeting, which will take place immediately after the 1988 elections, was also met with applause.

At the press conference he held yesterday morning before leaving Vienna, Ozal said that the meeting of the EDU, which organization he characterized as being the "opposite" of the Socialist International, was positive, and that through

it beneficial bilateral contacts were maintained. Ozal said that the relations established among the parties and leaders had secured important benefits to Turkey in the Council of Europe and the European Parliament and that he would maintain more frequent contacts between ANAP [Motherland Party] and conservative parties in Europe. In his statements, Ozal hinted, that Turkey's principal opposition party, the SDPP [Social Democratic Populist Party], has strengthened its relations within the Socialist International. Evaluating ANAP's membership in the EDU, Ozal said: "This is the first time a party from Turkey has joined an organization of this magnitude as a member."

Speaking of the benefits of the EDU, Ozal noted that it is now possible to benefit from the political experience of the European parties. Referring to the conservative parties' schools of politics in Europe, he said that they were also going to make some moves in this direction. Ozal said: "For example, in Germany there is an Adenauer Foundation. It trains politicians. Taking this as an example, we would like to attempt some initiatives."

Ozal also noted that the contacts made during the EDU meeting were helpful in solving bilateral issues more easily outside the bureaucratic framework and cited his talk with West German Chancellor Helmut Kohl as an example of this. During his statements, Ozal quoted West German Chancellor Kohl as having said to him that "At the end of this century Turkey's situation will be exactly the opposite of what it was at the beginning of the century." Referring to the discussion later, Ozal stated that "rather good results were obtained" and that discussions on these subjects would be continued in the coming weeks. At this point it was disclosed that the under secretary of the Foreign Ministry of the Federal Republic of Germany would be coming to Turkey in the first week of October and that the negotiations which were begun last year between the Foreign Ministry under secretaries of the two countries would be continued. These discussions will concern how Germany will compensate by means of military aid and economic concessions for the withdrawal of the right of freedom of movement for Turkish workers within the EEC, due to go into effect 1 December 1986.

Prime Minister Turgut Ozal noted that for now there is uncertainty about the issue of freedom of movement, an issue for which approximately 2 months remain to find a solution. Asked by a reporter, "What will happen on 1 December?" Ozal said, "I am not even guessing what will happen. The EEC commission does not know very well what will happen, either. Nothing clear has been brought forward yet. When necessary, something will be done. But they have not entirely made up their minds, either."

#### No Clues on Application for Full Membership

Despite the insistent questions of reporters concerning the date of Turkey's application for full membership in the EEC, Ozal gave no hints whatsoever. Answering a question along the lines of, "It is generally thought that the application will be submitted this autumn. Are you going to submit the letter for full membership this autumn?" Ozal said: "I have not yet decided for

certain. Of course, Turkey's aim is full membership. There is no change in this. But we have not decided on a definite date for the application." In response to the question, "What lies at the basis of this indecision?" Ozal said, "This is not indecision, of course. It is a matter of timing." In answer to the question: "If the EEC comes up with very attractive proposals in the economic area, will you postpone the application for full membership until a later date?" Ozal said: "When you say attractive proposals, what is the criterion for this? This strikes me as somewhat hypothetical. The community has many problems of its own. One must accept this."

#### Understanding on Dialogue

According to Turkish reports, during his meeting yesterday morning with Mitsotakis, Ozal gave detailed information on developments in Turkey and especially economic developments. The Turkish prime minister and the chief opposition leader of Greece then told each other their general approaches concerning bilateral relations and the issue of Cyprus. Mitsotakis made it known very candidly that he does not approve of Papandreou's policy towards Turkey of closing the door to dialogue. In a statement he made to the press the preceding day, Mitsotakis described the UN Secretary General's most recent plan for Cyprus as "unacceptable," and yesterday he told Ozal that in order to solve Turkish-Greek issues, progress must first be made on the Cyprus question. As for Ozal, pointing out that he wishes to establish a dialogue with Greece, he stated his known views on this issue. Ozal noted that, in order to arrive at a solution to bilateral issues, it would be beneficial to "by-pass" formal relations by first pursuing cooperation in areas such as the economy and tourism. Ozal and Mitsotakis agreed on the benefits of Turkish-Greek dialogue. Ozal thus obtained at least a tangible sign to the effect that, if Mitsotakis should come to power in the government in the future, he would follow a policy of dialogue with Turkey. And for the present, even if not at a formal level, a dialogue has been initiated.

#### Ozal's Words

In telling reporters about the meeting, Ozal took pains not to use expressions that would put Mitsotakis in a difficult position in the internal politics of Greece. Saying that on the subject of solving Turkish-Greek issues Mitsotakis exhibited "general good will," Ozal added, "but will this good will suffice to solve the issues? This I do not know." Refraining from drawing a comparison between Papandreou and Mitsotakis, Ozal added, "Like all politicians, Mitsotakis is of the opinion that it is not beneficial for relations to become tense."

#### End to Arms Race

It was noted that Ozal in his statements used rather "soft" expressions on the subject of Turkish-Greek relations. Saying that Turkey and Greece "are doomed" to get along together, Ozal said, "We must look for ways to get along and solve the problems between us. There is no benefit for the people of the

two nations in increasing the problems. On the contrary, to create problems needlessly, to pursue an arms race, does not work in favor of the people of the two countries. Although all this is true, events have unfortunately developed in this direction. From the start we have adopted a policy of acting as mildly as possible, to ease things instead of making them more difficult."

Turgut Ozal also remarked that Cyprus and the other Turkish-Greek issues will be able to be solved "if good intentions predominate." He said, "Of course, both sides will have to make sacrifices. Without making sacrifices we need not expect that the problems will be solved." With these words Ozal hinted that both Turkey and Greece were in a position to "give in a little" to each other on the matter of solving the issues.

Avoiding a direct answer to a question about how Mitsotakis evaluated Papandreou's attempts to obstruct the normalization of Turkey's relations with the EEC, Ozal said:

"Turkey and Greece are within the same pact. Being in the same economic community would facilitate relations between them. But if they are in entirely different places there will be more tensions."

Remarking that the relations he had established with Mitsotakis within the EDU were beneficial, Ozal suggested that the SDPP also establish relations with Papandreou's PASOK party within the Socialist International. On this subject Ozal said: "If our chief opposition party also establishes relations in the Socialist International with a Greek party, this also will facilitate the solution of the problem. We must encourage our chief opposition party to establish such a relationship."

Despite ANAP's success at the EDU meeting, it was not able to prevent the issuing of a declaration by the European Democratic Students' Union, a sub-organization of the EDU, blaming Turkey in the matter of Cyprus.

In the declaration, Turkey is accused of invading Cyprus, and the proclamation of the TRNC [Turkish Republic of Northern Cyprus] is called an illegal act. The declaration also asserts that Prime Minister Turgut Ozal's visit to the TRNC was a "provocative" move that rendered a solution to the problem more difficult.

13293/8309  
CSO: 3554/37

POLITICAL

TURKEY

PRIME MINISTRY ADVISER KAHVECI INTERVIEWED

Istanbul HURRIYET in Turkish 21 Sep 86 p 11

[Interview with chief Prime Ministry adviser Adnan Kahveci in column "Sunday Chat"; date not given, photo indicates Kahveci's office]

[Excerpts] Adnan Kahveci was born in 1949 in Trabzon. He lived in his village until he was 9, and in Samsun until he was 16 years old. After finishing high school in Istanbul, he passed the national university entrance examination as the first one on the list, but left for the United States for his college education. He became an electronic engineer in the United States; later earned his MS in computer science and PhD in medicine. After working for a while in such jobs as being a real estate agent in order not to starve in that country, he came back to Turkey for his short-term military service in 1976 and decided to stay. He became an advisor to Korkut Ozal who was the Minister of Interior in 1977. When Turgut Ozal became under secretary to the prime minister in 1980, Kahveci was appointed adviser to the Office of the Prime Minister. Adnan Kahveci still holds that position. He is married and has two children. Kahveci speaks English and some German and French.

[Question] Welcome to our battlefield, Mr Kahveci. You are Mr Turgut Ozal's right arm and work as his adviser. What exactly do you do?

[Answer] First of all, I do not care much for terms such as "the right arm." I am only a working person. My job is in fact not described in government bureaucracy. In other words, it is a new institution. I work on the prime minister's instructions or try to produce solutions to problems that come to me. I also have an assignment to cut red tape in the bureaucracy. I do some work on these matters. I make small contributions at almost all levels. I contribute to the preparation of governmental regulations, directives and bills. Here I deal with political, economic and social issues. But I am particularly interested in social issues.

[Question] There have been some important projects that I know of that you have originated to date...tax return, Poverty Fund, etc. Do you have any other inventions?

[Answer] One should not say that these are my inventions. I tried to make contributions to every project I am interested in.

[Question] I heard that now you have a project on stopping the practice of begging. What is this all about?

[Answer] Well, beggars are people who know well how to collect money. Now I have an idea. Let us make a list of all the beggars in every province and bring them into an active and working condition. For example, we can benefit from them this way: We can give them a salary or commission, assign them in front of mosques and have them collect money for the Poverty Fund with receipts...use them in other similar tasks. If I can convince the prime minister, I would like to engage in detailed study of the project on how to stop begging.

[Question] Dear God...I wouldn't even have dreamed of such a project. What other things are there?

[Answer] I am working on increased TV channels to six or eight.

[Question] Can TRT [Turkish Radio and TV Corporation] cope with eight channels while it cannot even get us to watch one channel and does broadcast the world's most boring and absurd programs?

[Answer] Most of those channels will be educational.

[Question] I understand, Mr Kahveci. Let us not open the subject of TRT and upset our readers. Your first meeting with the Ozal family occurred through Korkut Ozal, didn't it?

[Answer] When I was in America, Mr Korkut Ozal came to visit a student of his. We met there. When I told him that I was working on my doctorate in Medical Engineering he got interested and we talked for about 2 hours. Then I founded a company in the United States. I wrote him a letter asking, "Can we find capital for the firm in Turkey?" The reason was that we could not find capital in the United States. We renewed contact as a result of this. Then, upon returning to Turkey I got a job as his adviser in the Ministry of Interior.

[Question] Are you now a partner of any company?

[Answer] Not yet.

[Question] Will that happen?

[Answer] Hopefully. I would like to become a shareholder if I have money to invest.

[Question] Don't you have money?

[Answer] I am not an economical person...I wish I were.

[Question] What are your assets?

[Answer] I do not own anything. My wife has two apartment buildings and two stores.

[Question] Isn't there anything else? For example, isn't there anything in confidential accounts or in Swiss banks?

[Answer] I have \$1 billion in Swiss banks (continuous laughter).

[Question] There are charges today that, in the bidding for every contract offered by the government or municipalities, big bribes are paid and, unfortunately, among those who take these bribes are people who occupy very high echelons. This is also my personal belief.

[Answer] Look, I have also suggested a solution to this. We could make the present contract bidding system superb, but the biggest reaction to our new system would come from the press. Let me tell you the reason as well: Suppose I introduced a system which would provide savings worth probably 1 trillion liras and also quality. In other words, let us assume that there is no corruption, I will bring quality. How am I going to do this? I will have experts draw up the project and contract file, evaluate the contract files and control the project. Furthermore, I will do something that is not done in Turkey, I will get a guarantee from those who win the bidding. In other words, if a construction project is delayed for 10 or 15 years I will charge the contractor. Hell will break loose if I apply this system in Turkey. There will even be those who will accuse me of treason. Why? Because nobody will see the 1 trillion liras that we will save, but will pay attention to 50 billion liras to be paid to expert firms. For that reason, it is presently difficult to change this law, but this is the system applied in Europe.

[Question] All right, will you be able to make such a change?

[Answer] If I thought the public was ready for it, if I thought you would not light into us, I would do it right now.

[Question] Do you deny that a great deal of corruption presently exists in state echelons?

[Answer] I assure you that the new contract bidding law has reduced corruption to a degree as compared to the old law. And there are ways to reduce it further. But corruption is significantly less than it used to be.

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SOCIAL

TURKEY

# HEADCOVER DISPUTE AT MIDDLE EAST TECHNICAL UNIVERSITY

Ankara KADIN VE AILE [Woman and Family] in Turkish Jun 86 pp 6-9

[Article by Adile Oduncu: "Are There Negroes in My Country?"]

[Text] The enemies of the headcover are not even satisfied with the turban. They want more concessions. Do you want to know why?

To study.

For that, torture is compounded with more torture, assaults are compounded with more assaults. The only option given to our girls is:

"Either you uncover your head, or you leave this school."

It is like saying: Either you drive this camel or you leave this land.

But what is happening is enormously unfair: Who is supposed to leave whose land? That is where the fallacy is.

Here is the response of our girls at the Middle East Technical University [METU] who are aware of this situation:

"I will neither drive this camel nor will I leave this land."

This is the battle they are fighting right now--despite their loneliness.

Intrigues are being staged at METU, in the center of Ankara. They have neither laws nor rules here. They only have their own regulations. It appears that the "liberated regions" of the past are still fashionable here.

Today there are about 30 METU students who want to use their headcovers but who cannot wear it and who have been "graciously" permitted to wear turbans by the Higher Education Council [HEC].

But even the HEC has no authority here. Not a single day goes by without one or more of our girls being thrown out of class at this university.

There is something that they cannot tolerate.

We shared the daily quandary of our girls at METU for a day; we ran around together and we experienced their ostracism and pain together. That is why you will sense some bitterness in our article.

That day, once again, two of our girls had been thrown out of the history class because they were wearing turbans.

Reason: Because they were not wearing the modern turban.

Modern turban?

They have invented--or rather concocted--something new.

It is quite comical. This is like admitting to a school only those who dress in contemporary garments and throwing out those who wear classical clothes.

If you wear a modern turban you are admitted to class, if you wear a classical turban you are thrown out.

Is that not wonderful?

We were curious about this entity called "the modern turban." We went to a competent authority and inquired about this entity.

The response we received (from the Dean of the Public Administration Department of METU) described the modern turban as follows:

1. Firstly, part of the hair must be visible in the front. If it is not visible, the turban must be pulled back so that it is visible.
2. Some hair must be visible at the back.
3. The ear lobes must be visible.

These are the requirements of the modern turban.

It sounds like a cap in the middle of one's head.

Who do you think invented these rules?

We, too, were curious and asked about it to every official we met.

Answer:

"We did not determine them. That is how it was decided."

"What decision? We see neither a written decision nor an arbitration system."

However, one fact remains, and that is that our girls are thrown out of class and expelled from the school on the basis of an unwritten and undocumented decision.

We met them in the library after a long quest. All of them were gathered around a table writing something.

They were doing something that they did frequently: They were writing petitions complaining about the fact that they were thrown out of class that day. Meanwhile, Zeynep was preparing her oral defense because she was scheduled to take an examination the next day.

They said that that day they would go to court.

What court?

Wearied about the dispute over the turbans, the girls had decided to file a lawsuit in court. And they had filed it. They needed an expert witness and a lawyer.

"Agreed. Let us go together."

After holding a few inconclusive interviews at the school and after being thrown out by history lecturer Nedret Celebioglu, we began looking for a lawyer for the trial.

A sensible lawyer.

However, it is ironic and painful that there are no lawyers who will defend our turbaned sisters in court.

We must be ashamed. We must put our hands on our conscience and think.

Do we not have any lawyers? It appears that we do not. Some cannot accept the case because they are really busy, while others cannot because they do not wish to get out of their comfortable chairs and warm beds; others find other pretexts.

There were no lawyers.

Despite numerous phone calls, shuttling around in several cars and tiring footwork, a lawyer could not be found.

Eventually, we were forced to appear in court without a lawyer.

Our morale had sunk down to nothing.

The person who would act as expert witness was a teacher of attire. She was a lady of faith, but she wore a dismal expression on her face.

Whereas we expected her to support our girls and to raise their morales, she told us angrily:

"Where did you find my name from? Are you trying to make me lose my job? Why do you not uncover your heads? What are you trying to do? We, too, uncover

our heads. (Her head was covered.) In any case, the die is cast now; if I will be fired, so be it."

What great sacrifice!

Our morales were already down, now it was worse.

I could not lift my head and look in the girls' faces. I was ashamed.

Patience.

My mind whirled with thoughts at that moment.

We felt knots in our throats.

But crying was no longer of any help.

In any case it would not solve the problem.

Then...

We did what we could do--everything we could do.

We did not leave their side to be of at least some support.

Thank God the judge was an understanding man. He adjourned the trial to the next day so that we could find a lawyer. The next morning, we were once again in the court's corridors--with a lawyer.

We hoped that the lawyer was not one of us--a lawyer who stands up for Islam more strongly than its standard bearers.

We waited.

This time we were waiting for the expert witness.

A phone rang.

The attire teacher with the covered head announced that she declined to appear as an expert witness.

All the work, footwork, effort had been in vain.

If we cannot stand up for ourselves then who will?

I am no longer angry at METU administrators. Because now I know who I should be angry at.

I am now angry at myself and you.

I am angry because we do not have a lawyer, because we cannot train courageous and conscientious ladies who will act as expert witnesses, because we cannot

rally public support and because we permit our girls to be treated this way at METU and in other schools.

Because we did not raise our voice when the mosques were shut down. Because we permitted people to pray in the open and, most painfully, because we allow our brothers and sisters praying in the open to be fined for doing so.

In sum, because we still act as standard bearers without shame while our faith is being repressed.

Because we tolerate the remarks, the disrespect and the arrogance of the METU lecturers who cannot tolerate turbans in classrooms.

I am ashamed.

I am ashamed of you and myself.

[Box, p 9] Headcover Lawsuit in Bursa

The HEC agreed with its Decision No. 84.35.527 on 10 May 1984 that female students at institutions of higher learning may wear turbans in a modern way.

Despite that decision, however, the dean and some lecturers of the School of Education of the Uludag University in Bursa refused to admit female students wearing turbans because of religious beliefs into the school and classrooms causing the loss of a semester. They curtailed the students' educational freedoms and teased, derided and insulted them for wearing turbans.

In response, one of the students, Nes'e Yinecag, has filed a lawsuit in the Bursa Minor Offense Court against the dean of the School of Education, Professor Ulviye Ozer, the director general of the school, Alattin Kaya, and lecturers Canan Gursoy, Aziz Bahceli, Kemalettin Yaman and Recep Nas charging them with causing her moral injury and unconstitutional and illegal behavior and attitudes. She also complained to the Office of the Republican Prosecutor that she has been mocked and insulted because of her religious beliefs.

The moral injury lawsuit at the Bursa Minor Offense Court and the investigations of the Bursa Republican Prosecutor are continuing.

Following the filing of lawsuits and complaints by the students, the illegal and unconstitutional behavior of the staff of the School of Education has stopped and turbaned students have begun to attend class without interference.

[Box, p 11] Worshippers Punished

The operating hours of the mosque at METU, which has been open for a full day for the last 15 years, has been reduced first to 3 hours a day and then to 1 and 1/2 hours a day. Currently, the mosque is open from 1:00 pm to 2:30 pm daily.

These hours at the mosque, which is used by more than 1,000 students, has put

students with classes in those hours in a difficult situation. Petitions sent to the university president's office have received the reply: "You have to choose between your classes and prayers." Walking out of class may result in nonattendance and failure to pass the course, while walking out of worship may mean the violation of the freedom of worship and faith guaranteed by Article 24 of the Turkish Constitution and Article 175 of the Turkish Penal Code (Law No. 3255) as well as moral injury.

The mosque reserved for ladies has been completely shut down. That mosque was also used by a large number of female students. They, too, feel that their freedom of worship has been curtailed and that they have been morally injured.

Students who were forced to pray outside because their mosque was shut down were punished by disciplinary bodies by "being censured."

Article 175 of the Turkish Penal Code (Law No. 3255) says:

"No one can be prevented from performing his religious worship; no one can be censured or punished for his or her religious beliefs."

What do you think is the purpose of this law in the face of these incidents?

9588

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ECONOMIC

FEDERAL REPUBLIC OF GERMANY

## FISCAL EQUALIZATION THREATENS TO BECOME NORTH-SOUTH CONFLICT

### Fiscal Equalization Plan Submitted

Munich SUEDEDEUTSCHE ZEITUNG in German 4 Nov 86 p 21

[Article: "Laender Need to Help One Another Financially. Stoltenberg Submits Fiscal Equalization Proposals. Tax Revenues Short-Change Federal Government"]

[Text] The poorer and wealthier federal Laender should help one another by way of fiscal equalization and make less demands on the federal government. Federal Minister of Finance Gerhard Stoltenberg informed the federal states of his views on the reform, mandated by the Federal Constitutional Court, of important parts of the fiscal equalization system beginning in 1987.

They contain two proposals made by Stoltenberg for cutting the level of the DM1.7 billion supplemental allocations the federal government will pay this year to Lower Saxony, Schleswig-Holstein, Bremen, the Rhineland-Palatinate, Saarland and Bavaria. They "supplement" the approximately DM2.6 billion in (horizontal) fiscal equalization payments among the states. The proposal states that, starting in 1987, the supplemental allocations would be "significantly" cut and that this would make it possible to equalize the fiscal burden of the states, or the payments would be frozen, "if necessary," at the level of 1987 (just below DM1.8 billion). In the past, Bonn has paid allocations totalling 1.5 percent of its share of the annually growing business tax revenue. Stoltenberg defended his proposal by saying that the development of tax revenues is putting the Federal Government at a disadvantage.

The federal minister of finance will submit to "the federal cabinet, at the earliest possible time after the new government has been formed," a legislative initiative to revamp the fiscal equalization program. It is scheduled to become effective by the end of this year. However, adjustments are going to be made in supplemental allocations at an earlier date for the benefit of North-Rhine Westphalia and Bremen. Stoltenberg has asked the Laender to also examine the question of whether total inclusion of the petroleum and natural gas exploration tax, as called for by the constitutional court, should be resolved earlier. In addition to the current 50 percent inclusion, Lower Saxony must pay an additional DM400 million into the fiscal equalization fund of the states and hence lower its claim for transfer payments from other states.

The Karlsruhe verdict also requires a change in the distribution of supplemental allocations which currently are believed to take inadequate account of the special financial burdens of some states. However, since the court has left considerable leeway for implementing the changes, Stoltenberg does not plan to start the equalization with special expenditures like those Duesseldorf claims for coal, but with the states' overall fiscal strength.

Stoltenberg is thinking of a provision that would not permit individual states to automatically claim supplemental allocations whenever their fiscal resources are only slightly below the average per-capita financial resources of all federal states. That would mean that, currently, Bavaria and North-Rhine Westphalia would not be eligible to put in a claim. For years, Munich received large sums of money from Bonn and its hope was that, as a result of the Karlsruhe verdict, it would become a permanent part of the supplemental allocation program.

However, as exceptional cases, the special financial responsibilities of the Saarland, Bremen and Schleswig-Holstein which, in terms of the number of their population, must pay the "high costs of political leadership," would be earmarked for early distribution of the allocations. Among these costs are funds the state governments spend on personnel or parliaments. Stoltenberg believes that, "topically," the future disbursement of supplemental allocations should be based on changes in the financial strength over the preceding year.

Stoltenberg emphasized that fiscal equalization for the years since 1983, which is to benefit North-Rhine Westphalia and Bremen next year, should be a one-time deal and not a commitment for subsequent periods. The minister stated earlier that Bremen would receive a first instalment of DM100 million and Duesseldorf DM75 million. To equalize the economic burden, indications are that Bremen will get a total of DM200 million for North-Rhine Westphalia, the total could go as high as DM100 million. In a statement to the press, the ministry said that the minister believes solutions would have to be worked out in close coordination with the states.

#### Coastal Laender Plans Unclear

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 17 Oct 86 p 14

[Article: "Hamburg Plans Creation of New Jobs for Displaced Workers/  
"Diversification Fund"/Promote Cooperation]

[Text] The SPD Bundestag fraction welcomes the comprehensive structural assistance program the federal cabinet has adopted for the German coastal Laender. Economic spokesman Wolfgang Roth calls the decision "Kohl's first work creation program." Roth would like to see the cabinet decision expanded to assist other structurally weak regions as well, e.g., Upper Franconia, the Rhineland Palatinate, Ruhr valley and Saarland. Finance Minister Gerhard Stoltenberg should not only think of his home region.

After the FRG cabinet made the decision to grant DM420 million in financial assistance to the battered shipbuilding industry over the next two years, the four northern-German Laender are now discussing how to use the funds. So far, hardly any concrete plans have come up. In past meetings, the economic and transportation ministers of the coastal areas spoke in vague terms of wanting to create new jobs for the unemployed in future-oriented industries. However, so far it is unclear what specific measures are needed to accomplish this.

As a first reaction to Bonn's decisions, Hamburg Economic Senator Volker Lange has now announced a state-sponsored action program that will be financed from expected federal funds (Hamburg's share will be DM60 million) and from supplemental funds provided by the Land. One of the main efforts will be to diversify and modernize the shipyards. The plans call for a "diversification fund," a large portion of which is to be funded by federal money. In addition, the federal funds are to be used for improved training of shipbuilders. Hamburg, in cooperation with Bremen, is also planning to develop new port technologies. This, in particular, means communications, environmental protection, and transportation technologies.

"We want to create new jobs at the coast, stimulate the restructuring of our shipyards, but under no circumstances will we spend money for value adjustment and social programs." These, at any rate, are the plans of Walter Hirche, Lower Saxony's new economic minister, when, on 1 January 1987, the first funds are beginning to roll in from Bonn's "Special Program North." Lower Saxony is expected to get DM60 million of the DM300 million. The distribution of the additional promised DM120 million, which will be granted as part of the joint responsibility to improve the regional economic structure, depends on the need to create jobs. The FRG and Laender Planning Committee will discuss the matter on 5 November.

Creating employment in the coastal regions is not easy. For several years, it has been virtually impossible to attract industries. According to Hirche, little has changed in this respect so far. Hence, his current thoughts are to concentrate any cooperative efforts on the small shipyards of Lower Saxony, at the lower Weser river. Relevant first discussions have already been initiated. Such cooperation could involve the establishment of planning bureaus or the division of labor in filling orders, for instance.

#### SPD Terms Equalization Inadequate

Duesseldorf HANDELSBLATT in German 24 Oct 86 p 5

[Article: "Shipyards: SPD Considers Federal Government's DM420 Million Structural Assistance Program Totally Inadequate. Bangemann: 10,000 Jobs to be Lost"]

[Text] About one-fifth of all jobs in German shipyards, i.e., the jobs of about 10,000 workers, can no longer be supported. This statement was made

by FRG Minister of Economics Martin Bangemann in a "topical hour" [Aktuelle Stunde] in the German Bundestag which the SPD had requested.

Kiel's SPD Deputy Norbert Gansel has called the DM420 million in structural assistance granted by the Federal Government for a three-year period completely inadequate. His SPD faction colleague Ernst Waltemathe also demanded that the federal government "finally do its duty vis-à-vis northern Germany."

#### Large-Scale Agreement Among Speakers in Debate

The planned assistance is a step in the right direction, but cannot be considered the last word, he said. The workers in northern Germany do not want public social programs to destroy their work places; rather, they also want meaningful work in the future, Waltemathe stated.

The speakers agreed that no subsidies should be granted for ships nobody wants. However, they squabbled about the responsibility of those who were responsible for the shipyard crisis and about the level of federal assistance for the four northern German coastal Laender.

Federal Finance Minister Gerhard Stoltenberg, who is also chairman of the CDU in Schleswig-Holstein, talked about the nearly DM530 million he has made available to the shipbuilding industry, in addition to structural assistance. The SPD complaints would be more credible, Stoltenberg argued, "if the SPD would no longer resist the shipbuilding orders of friendly nations."

Federal Economics Minister Martin Bangemann underlined in particular that the federal government's special allocations to the coastal laender of northern Germany are not payments to the shipyards. It is not a question of paying subsidies to preserve the capacity of shipyards which have no longer a chance in world markets, but to facilitate the adaptation of northern Germany's economic structure.

In addition to the role the federal government and the Federal Labor Office could play in creating new jobs, the economics minister emphasized the responsibility of the collective bargaining partners, he said. They should take account in their wage policies of the economic situation in the different sectors. For instance, at this time, the automobile and shipyard industries should not be lumped together.

The economics minister painted a dismal picture of the shipbuilding industry. For the next few years, there is no reason to believe that demand will be rekindled. During the first nine months of this year, the German shipbuilding industry received orders for new ships totaling DM540 million, compared to DM3.8 billion for all of 1985.

Because of the decline in the dollar value, the slump in cargo, and difficulties in financing new ship construction, no improvement is in sight. For that reason, one-fifth of the jobs cannot no longer be preserved. However, this loss of employment should not be equated with an equal increase in

unemployment. It is very easy for skilled workers to find new jobs, the minister explained.

He referred to an entire package of federal government measures that essentially pursues two objectives: to support shipyards in their efforts to preserve internationally competitive shipbuilding capacities at a lower level and to create new jobs in northern German coastal regions that are adversely affected by the loss of employment.

#### Rau Seeks Ruhr Assistance

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 5 Nov 86 p 13

[Article: "Rau Wants Assistance for Ruhr as Well. Planning Committee to Make Annual Grant of DM200 Million. Calls for Equal Treatment with Coastal Regions"]

[Text] The FRG and Laender Planning Committee for Regional Economic Development, which will vote today on the federal government's special program for the coastal regions, must also deal with the surprising request of the North-Rhine Westphalian government that the Ruhr area receive equal treatment with the coast. Economics Minister Reimut Jochimsen, in preparatory discussions for the meeting of the committee--a panel of the FRG economics minister, the federal minister of finance and the Laender ministers and senators in charge of economic matters--has already submitted a proposal to expand regional development. This newspaper has learned that Minister President Johannes Rau has requested for the Ruhr area at least DM200 million a year more for the period starting in 1987 and extending to at least 1991. There are already indications that in light of the special program for the coast and even more so as a result of North-Rhine Westphalia's request, other states are also drafting special programs and that they expect the federal government to play its part.

The majority of the committee members, with the required 75% of votes, seems to be willing to allocate DM120 million over a two-year period to the coastal program, although they have serious reservations. Even laender that are prepared to follow that course believe such a regional special program would violate the principle of equal treatment and distort the limits of the development efforts the committee has set. established by the committee for the development efforts. Furthermore, the federal government is being criticized for informing the Laender too late. Bavaria evidently plans to make its agreement dependent on whether the federal government goes along with changes in the regional development program Munich has proposed for years. Thus, the Bavarian government insists on expanding the investment subsidy program and on softening the principle of assisting only specific distressed areas. It probably believes it would be advisable to improve efforts to take care of the Bavarian region.

North-Rhine Westphalia wants a comprehensive special program because new jobs must be created both in both the Ruhr and the coastal areas. It claims that

since this is the purpose of the costal assistance program, the same should apply to North-Rhine Westphalia. The government of that land points out that 80,000 jobs were lost in the coal and steel industry and its related sectors during the period from early 1977 to August 1986. The loss of another 37,000 jobs is expected. The additional funds would be used for the Bochum, Dortmund, Duisburg, Essen and Gelsenkirchen area, and also for the Aachen-Juelich region. The Ruhr has already received special assistance from the Steel Industry Location Program.

Another reason why North-Rhine Westphalia's request for regional development is so controversial is that allocations to eligible enterprises from the supplementary program, which is entirely financed out of the state budget, is linked to labor union agreement. They are asked whether they approve or disapprove the application of a company. The Chamber of Commerce Federation of North-Rhine Westphalia has raised its objections. This procedure would lead to considerable delays and controversies about the obligation of companies to provide information.

#### Bavaria Challenges 'Northern Program'

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 5 Nov 86 p 13

[Article: "Bavaria Criticizes Northern Program"]

[Text] Bavaria has raised constitutional objections to the so-called "Northern Program," which will provide DM300 million in federal financial assistance to Bremen, Hamburg, Lower Saxony and Schleswig-Holstein in 1987 and 1988. The assistance is designed, among other things, to create employment for workers who will lose their jobs in the shipyards. The Bavarian government argues that this is the first program that violates the Basic Law by granting financial assistance to a region of "wealthy" and "poor" Laender. It expects the federal government to provide equally adequate aid to other regions with structural problems.

7821

CSO: 3620/49

ECONOMIC

FEDERAL REPUBLIC OF GERMANY

## REGIONAL, SECTORAL SELF-INTEREST IN SUBSIDIES ANALYZED

### 'Restructuring' Goal Said Lost

Munich SUEDEUTSCHE ZEITUNG in German 17 Oct 86 p 4

[Commentary by Helmut Maier-Mannhart: "No Cure for Subsidies"]

[Text] The Siemens electrical and electronics concern is by no means among the poor of the country. After all, its most recent financial statement disclosed cash holdings in excess of DM20 billion. Yet its Munich headquarters has not hesitated to apply for, and collect, a DM320 million government subsidy for the mega-chip it is developing in collaboration with Philips. And Daimler-Benz is not a genuine hardship case either; the Stuttgarters recently acquired three large firms and paid the purchase price out of their vest pocket, so to speak. However, this has not kept the father of the people Lothar Spaeth from ensuring that the Croesus got another DM140 million for the construction of a plant at Rastatt, under the "equal rights for everybody" motto. After all, its competitor, BMW [Bavarian Motor Works], in the neighboring Land [state] also cashed in on hefty subsidies for its new plant in Regensburg.

Industrial policy in Germany--this could be the title of this sad chapter, where the three above-mentioned cases are only the top of the iceberg. Whenever somebody in a land raises a finger to indicate his willingness to make an investment, he can be sure of the fiscal treasuries opening up wide for him. And it does not matter at all whether the applicant is poor or rich; a journey through the FRG Laender [states] produces an abundance of attractive offers from which he can pick the best. After all, the prime ministers of various political persuasions have managed to declare 64 percent of all regions in the FRG as deserving of assistance, just as if almost two-thirds of the FRG were economic wasteland. In most cases, what emerges has nothing to do with a rational industrial policy.

Of course, not everything should be lumped together. It will be difficult to dismiss as unwarranted assistance the measures recently adopted by Bonn for the four coastal Laender that are hard hit by the shipyard crisis. This, however, is only true if all of the promised DM420 million will not not again be spent on the preservation of jobs in shipyards that cannot compete in the long run, but if they help a restructuring process that creates jobs in industrial and service sectors with a promising future. Because they pay

a high price for resisting the global trends in the shipbuilding industry for too long by granting inefficient subsidies to the coastal regions and, in the process, missing the time when changes should have been made. Whoever is responsible for such omissions--they cannot be used as an argument against funding urgently needed adjustment measures. After all, federalism does not mean that our interests must stop at the border of our federal states.

What makes things so annoying in the overall framework is the lack of conceptualization that continues in the use of subsidies to this day. The colorful mix of structural assistance, which merits consideration and is needed in a constantly changing economic landscape, versus mere favors to buy the goodwill of voter groups and business leaders--this mix is fatal for the development of our economy overall. Many measures in this bouquet violate the strict principles under which such assistance should be offered, e.g., no subsidies to keep an industry or firm alive, but merely adjustment aid, and even the latter should be limited in time. Those who want to continue to operate steelmills, which are premanently unprofitable because they are in the wrong location--regardless of whether they are called Georgsmarien Steelworks or Max Steelworks--, are actually violating both rules.

Of course, what makes it so difficult, even impossible, to dismantle subsidies, is the ambiguity of public discussion. There is hardly an industry association or economic leader who does not vehemently support dismantlement at every appropriate moment. However, if it comes to saying so under oath, everybody follows the Florian principle of supporting cuts in everything else except in his own privileges, and then frequently demands supplemental assistance for himself. This is why federal government efforts to use the red pencil have failed. On the contrary, during the current legislative period, subsidies continued to grow to DM121.5 billion last year as against DM104 billion four years ago, according to the Institute for International Economics in Kiel.

Despite the very real difficulty every politician who wants to tackle the problem finds himself in, it is and continues to be disappointing to see how fast any resistance to group interests evaporates whenever some key elections are just around the corner. It would by no means be a drastic remedy that would cause considerable problems since matters are already so far out of control. Nevertheless, the very fact that it is impossible to undertake even modest cutbacks is like a surrender. It affects us all. Because the misplaced allocation of capital seems to be more and more taken for granted, and increased prosperity in the longer term is sacrificed to short-term political advantages.

### Regional Egotism Driving Subsidies

Hamburg DIE ZEIT in German 17 Oct 86 p 36

[Article by Hans Otto Eglau: "Rastatt is Everywhere. EC Commission Will not Longer Tolerate Government Subsidies Like Those for Planned Daimler Plant"]

[Text] The managers of Gutehoffnungshuette, the former Ruhr concern, had been planning to relocate their company headquarters from Oberhausen to Munich when a high-ranking official of the Bavarian state government telephoned. The wives of the firm's "transferees," who work as teachers, need not worry about finding a new teaching job in the free state, the caller said early this year. Those persons would be taken care of, quickly and unbureaucratically.

Land and local governments make the seemingly impossible possible if it is a matter of attracting financially strong companies. To what extent the investors are given the red-carpet treatment, was demonstrated by a DKP functionary two years ago when he introduced himself to municipal and communal directors, in the best Wallraff manner, as location advisor to an American concern that allegedly planned to construct a DM3 billion plant in the FRG.

The communist's impersonation hoax revealed what a large coalition of interested parties conveniently hides under the veil of discretion. Not only did the town fathers offer developed industrial sites at no charge--the larger the prospective investor, the more willing they are--, but also special improvements such as additional road connections or stabilized ground foundations--if desired, for free. Land ministers, regardless of their political party, even managed in the shortest possible time to secure preferential rates for electricity and gas from regional energy suppliers.

In their Sunday sermons, on the other hand, the same politicians are preaching the retreat of the state from the private economy. However, with increasing joblessness, it is difficult to stop competition by way of so-called gray subsidies. This is understandable since politicians of a federal land with a two-digit unemployment rate are hardly impressed by reasonable arguments. For instance, Bremen, which is particularly hard hit by the steel and shipbuilding crisis, is providing public subsidies that cut the price of industrial real estate by 50 percent. Frequently, enterprises which--like Daimler Benz--need assistance least, manage to obtain the largest concessions.

Officially, the Bremen Senate paid some DM24 million in real estate subsidies for the new Mercedes plant between 1978 and 1981. Including all additional concessions, the Daimler factory probably cost the city state about DM400 million. And when the Stuttgart automobile company, which definitely is not short of money, looked again for space to build another plant, Baden-Wuerttemberg's Minister President Lothar Spaeth generously offered them DM 140 million in public assistance, if they would select Rastatt.

Support to large firms that is so large that medium-sized businesses can only dream of it, is politically extremely questionable. However, it is difficult to make officials, who are in charge of public funds, understand this. For instance, the city manager of Peine, Willy Boss, whom the impostor negotiator of the American firm took for a ride, did not even attempt to deny his offer, after it became known that he offered a 1.2 square kilometer building site free of charge. The subsidy, officially estimated at DM30 million--that's how much the site would have cost--would have been an excellent deal because of the expected tax revenue, he argued. "We would have already recovered the money during the construction phase," noted an official of the iron and steel town, which suffers from an almost 15 percent unemployment rate.

No wonder it was a challenge for the investors to play off one Land and community against the other, courting their favor. When the competition comes up with a better offer, firms frequently change to another location without much ado. If sites at give-away prices and attractive energy rates still won't do the trick, politicians can often be persuaded to defer business taxes for several years. Most towns do not even wait until the investment plans of individual firms are known, before they make lucrative and tempting offers to industry which cover almost the entire panoply of benefits. "No week passes by when we don't receive attractive offers," says Ditzingen's machine-tool manufacturer Berthold Leibinger (Trumpf).

Even Bonn is somewhat powerless vis-à-vis this type of unrestrained wooing by laender and communities at taxpayers' expense. There is no way for the federal government to put effective controls on the costly subsidy nonsense, without which the same plant would presumably be built anyway. Only the EC Commission can do this on the basis of Article 92 of the Treaty of Rome which prohibits government support of business which distorts fair competition in the European Community.

For years, Bonn had to listen to charges from Brussels that the Germans are doing more than is good. One major thorn in the Commission's flesh is the kind of regional promotion we are practicing here. The joint task of "improving the regional economic structure," which is funded by the federal government and the laender on a 50:50 basis, is rooted in the constitutional requirement to "maintain uniform living conditions" in the FRG. Companies expanding or establishing new plants--in border areas whose economic strength is way below average or which have sector-specific structural weaknesses--are eligible for subsidies in the amount of 8.75 percent of the investment total. Including additional Laender programs, assistance in problem regions often comes to 25 percent.

#### New Candidates Standing in Line

The federal government and the states determine which of the 179 labor-market regions may be subsidized with Brussels' blessing. This is done on the basis of a complicated catalogue of criteria, and the wage- and salary rate per employee, in addition to the unemployment rate, is the primary criterion. However, very rarely do the economic ministries of the Laender stop promoting

a development area, once it has been established as such. At the same time, new candidates are standing in line: while in the early days, it was primarily a matter of stimulating the industrialization of rural areas, it is now increasingly the congested areas affected by the demise of antiquated economic sectors that scramble to get into the paradise of subsidies. For example, since agreement was reached this year after a great deal of bargaining on the need to restructure assisted areas, Dortmund as well as Gelsenkirchen are now in the privileged camp.

For a long time, Bonn has been able to keep EC supervisors calm who pushed for a significant cut in the number of assisted areas by promising that a satisfactory solution will be reached. However, the states' thirst for aid has shattered all hope. While nine oases were taken off the list, 18 were added. This is vberly embarrassing to the federal government because it likes to urge Brussels to dismantle the EC subsidies. "The Commission can be expected to initiate a review of numerous labor-market regions," believes August Ortmeyer of the Federation of FRG Chambers of Industry and Commerce who is in charge of regional assistance.

Irish EC Commissioner Peter Sutherland's protectors of competition leave no doubt that they will subject the pork barrel of German subsidies to careful scrutiny. According to their calculations, 64 percent of the entire FRG, with 45.3 percent of its population, are now assisted areas. There is a lot here that does not make sense. For instance, Baden-Wuerttemberg was able to get a "defense" zone on a strip of land with 100,000 inhabitants, which borders the Bavarian development region of Ansbach and Nordlingen, in "compensation" for the loss of its last assisted enclave, the Oderwald's labor-market region of Buchen. The Bavarians, no doubt masters in the art of tying up entire subsidy packages, have long been a strong attraction for their firms near the border, much to the dismay of the Stuttgarters.

#### Open-handed Prince of State

The fact that Lothar Spaeth, whose Land has the lowest jobless rate, will hardly be able to count on Brussels' mercy--because of his state's open assistance to business--has not made this clever economic promoter to throw in the towel. He has long since switched from regional development to intensive support for industrial research and technology. Spaeth simply changed the DM140 million he recently promised Daimler-Benz for the construction of a new truck plant at Rastatt into--permissible--structural assistance.

But the people in Brussels are unwilling to let the open-handed prince of state get away with it. Based on detailed information requested from Stuttgart, they want to find out whether the subsidy to the automobile concern is so large that it did not only cover expenditures for public structural jobs such as road connections, energy supply and site drainage, but also a solid subsidy for the purchase of the nearly 2 square kilometer site. Since Rastatt is not a development area, Daimler-Benz would not be entitled to such direct assistance within the framework of the EC program.

Although Bonn merely passed Stuttgart's counter-arguments on to Brussels without comments, secretly Economics Minister Martin Bangemann would not have been unhappy if the Commission had given a clear signal this time. There was a reason why his Parliamentary State Secretary Martin Gruener, who hails from Baden-Wuerttemberg, underlined the effects on truly needy regions when "structurally and financially healthy Laender, regions and communities abuse their greater financial strength" to press forward with unchecked competitive subsidization. Brussels expects to reply in the near future. Insiders believe the EC protectors of competition will approve only part of the generous assistance. This, indeed, would not be surprising. Because DM5.00-10.00 per square meter of a completely developed building site is not a market price. After all, the Stuttgart automobile concern paid DM100 per square meter several years ago when it enlarged its manufacturing plant for small transport vehicles.

7821

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ECONOMIC

GREECE

BRIEFS

COOPERATION WITH CAMEROON--The Work of the Greek-Cameroon Joint Ministerial Committee ended on 14 November with the initialling of an agreement on economic, scientific, and technical cooperation between the two states. The agreement provides for an increase in commercial transactions: cooperation in the small and medium enterprises sector by the establishment of joint companies; and technical and educational cooperation. Ioannis Papandoniou, deputy minister for national economy, headed the Greek delegation. The Cameroon delegation was led by Sale Paba, minister delegate at the Ministry of Foreign Affairs. [Text] [Athens Domestic Service in Greek 1230 GMT 14 Nov 86 NC] /12624

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ECONOMIC

SPAIN

# GOVERNMENT DENIES REPORTS OF LOWER INCOME TAXES FOR 1987

Madrid EL PAIS in Spanish 9 Sep 86 p 41

[Article by Gustavo Matias]

[Text] Madrid - Government representatives at the talks held this week with the Spanish Confederation of Business Organizations (CEOE) and the General Union of Workers (UGT) on the general budget for 1987 have reported that the government has no intention of lowering personal income tax rates, a project studied this summer in the context of simplifying tax brackets.

The Executive Power has explained this decision basing its position on the thesis that fiscal revenues have done less well than expected this year because the personal income tax may collect 100 billion pesetas less than anticipated, and because the surplus from the fuel tax will be barely 200 billion pesetas. The CEOE and the UGT, the entities closest to the social pact [an agreement regulating salaries since the death of Generalissimo Franco] are planning to ask for a cut in income tax rates. Both entities think the estimates are deliberately pessimistic.

## 34 Brackets

The simplification of the 34 tax brackets presently in force in the income tax law, so as to reduce them to less than half that, and to lower the rates, has been a cause of disagreement between the Economy Ministry, which wants to raise roadblocks to an increase in economic activity, and the Treasury, which is more concerned about not allowing the tax to lose its revenue-raising power. If there are indeed no projects in this regard at government level the Council of Ministers may have discarded this measure, unless the Executive Power plans to leave the matter as one of the possible counterparts to its social agreement with employers and unions.

In its first official contact with its social pact interlocutors, according to spokesmen for the latter, the government - represented by ministers Carlos Solchaga and Manuel Chaves - said that the income tax will bring in 100 billion pesetas less than the amount that was budgeted. After the rates went down for the first time a year ago for the lower tax brackets, the 1986 budget only anticipated an 8 percent increase in revenues over 1985.

In the opinion of the CEOE and the UGT, this information, together with the information that the IVA [value added tax] might not even attain the 1.3 trillion pesetas budgeted for the first year, and that the surplus on the petroleum tax would be barely 200 billion, could be deliberately pessimistic. For this reason, and in the absence of other incentives with regard to other taxes for 1987, the two organizations have made known their intention of asking for a cut in tax rates. The UGT thinks rates should be reduced again in the lower brackets. The employers' organization wants a general lowering compensating for the effect of inflation on tax rates, as a large number of experts have recommended and as seemed appropriate also to personalities such as former Economy and Finance Minister Miguel Boyer.

The budget of government income for 1987 apparently has not taken into account either the lowering of income tax rates. Overall it anticipates a total increase of 7.2 percent over the goals set for the current year, amounting to 5.8 trillion pesetas. But these figures are based on non-fiscal revenues, such as proceeds from the sale of goods, profit-sharing and capital transfers, being reduced by nearly 23 percent.

If only budgeted revenues are counted, the increase included in these areas would be 21 percent (to a total of 5.362 trillion pesetas) because indirect taxes would grow by 23.6 percent. Over the amount budgeted for 1986 and direct taxes would increase barely 2.4 percent. However budgeted fiscal income, whether through a shortfall or excess, hardly ever comes out 100 percent as predicted. The Finance Ministry's inspectors have estimated that in 1986 the figure will be 97 percent of budgeted revenues. The estimates of the comptroller of the currency are usually more reliable, but they have not been published yet.

12856/12851  
CSO: 3548/86

ECONOMIC

SPAIN

## NEW PHASE OF URGENT REINDUSTRIALIZATION ZONES BEGINS

Madrid MERCADO in Spanish 19 Sep 86 p 24

[Text] The ZUR [Urgent Reindustrialization Zones] are beginning a new phase. The official term to start the first three (Madrid, Cadiz, and Asturias)--18 months--is over and now it is time for Barcelona, Nervion, and Galicia. These six will again seek new jobs during another 18-month period. None of them is expected to fail, especially after the Madrid ZUR survived the danger of not being renewed after our country entered the EEC. FEDER, the community organization that watches over regional development, has understandably never promoted the capital of member countries. However, Madrid obtained it although it will still have to survive the last screening in Brussels.

Now the ZUR will begin a phase in which they will change their primary *raison d'etre*. In addition to creating jobs for the Job Promotion Funds for which they were established, they will also provide employment for other workers who do not belong to enterprises that participate in the Funds. They have actually combined the two tasks. The enterprises that have been established in the ZUR have gained employees through one of these two ways and have even hired first-time workers. the only difference is that now this becomes an official task.

The commissions of the six ZUR--there will definitely not be any more--have approved 280 projects so far, according to information provided by the Council of Ministers. These entail an investment of 87,835,000,000 pesetas and the creation of 9,472 jobs. Of these, 4,698 correspond to the Job Promotion Funds. The official subsidy for those projects totals 14,272,000,000 pesetas, about 14 percent over the total investment.

These figures do not include the "gigantic" projects of Tabacalera (about 13 billion in Cadiz), Sener Turbo Propulsion (15 billion in Nervion), and ATT Microelectronica (32 billion in Madrid). The commissions have also approved new projects that will go to the Council of Ministers later. Therefore, there are already more than 300 projects which fulfills the plans of the Ministry of Industry. In this new phase, the ZUR can go well beyond this figure without too much difficulty.

7717  
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ECONOMIC

SPAIN

# REVISION OF REGIONAL FINANCE LAW ANNOUNCED

Madrid EL PAIS in Spanish 24 Sep 86 p 19

[Article by Andreu Misse; first paragraph is EL PAIS introduction]

[Text] Barcelona--The new model for financing the autonomous communities presented by the government at the last meeting of the Tax and Financial Policy Council held on 16 September continues the current differences in per-capita resources that the different communities receive. The main reason for this disparity in per-capita revenue based on the region is the low weight given to population (69.1 percent) when calculating the resources that will go to the region and the excessive weight given to area and the so-called residual limit which depend on the number of provinces (29.1 percent).

In the two models drawn up by the government last April, the weight of the population was 86 percent and 82 percent, respectively, while area and the so-called residual limit were 11 percent and 15 percent, respectively. According to experts, the new model continues the different per-capita resources in the current system although these differences had been noticeably reduced in the April models.

Both in the current system as well as in the latest model, Andalucia and Canarias receive 40 to 50 percent more in per-capita financing than Valencia and Cataluna. The April models drawn up by technicians from the Ministry of Economy reduced these differences to about 20 percent. The experts from the Ministry of Economy observed the main defects during the provisional period. Concretely, they made a clear distinction between financing for transferred services--which should be the same for all citizens independent of the autonomous community to which they belong--and the regional policy whose main objective is to decrease regional inequalities.

This meant granting a higher weight to population because this factor is the most decisive one in the calculation of the most expensive services like education. However, according to the experts, the political criteria seem to have influenced the latest proposal more than technical and legal criteria as evidenced by giving a weight of 15 percent to an indicator like the so-called residual limit which is not mentioned in LOFCA [Organic Law for Financing the Autonomous Communities] or in the statutes of autonomy.

# 1) NUEVO SISTEMA DE FINANCIACIÓN

## 2) (MILLONES DE PESETAS)

| 10) CCAA               | 3) Financiación actual      |                  |                    | 4) Financiación nueva       |                  |                    | 5) Incrementos de financiación |                             |  |
|------------------------|-----------------------------|------------------|--------------------|-----------------------------|------------------|--------------------|--------------------------------|-----------------------------|--|
|                        | 6) Competencias comunes (*) | 7) educación (*) | 7) Total 3 = 1 + 2 | 6) Competencias comunes (*) | 7) educación (*) | 7) Total 6 = 4 + 5 | 8) Absoluto 7 = 6 - 3          | 9) Percentual 8 = 7 - 6 - 3 |  |
| 1) Cataluña            | 29.523,8                    | 124.328,9        | 153.852,7          | 37.479,5                    | 130.329,1        | 167.808,6          | 13.955,9                       | 9,1                         |  |
| 2) Galicia             | 26.703,9                    | 86.596,6         | 93.300,5           | 27.445,6                    | 66.596,7         | 94.042,2           | 7.147,7                        | 0,8                         |  |
| 3) Andalucía           | 63.879,8                    | 163.419,7        | 227.299,5          | 63.980,0                    | 165.202,0        | 229.182,1          | 1.882,6                        | 0,8                         |  |
| 4) Asturias            | 9.957,9                     | 0,0              | 9.957,9            | 12.005,7                    | 0,0              | 12.005,7           | 2.047,8                        | 20,6                        |  |
| 5) Cantabria           | 5.806,8                     | 0,0              | 5.806,8            | 7.525,5                     | 0,0              | 7.525,5            | 1.718,7                        | 29,6                        |  |
| 6) La Rioja            | 3.776,5                     | 0,0              | 3.776,5            | 5.313,5                     | 0,0              | 5.313,5            | 1.537,0                        | 40,7                        |  |
| 7) Murcia              | 7.362,8                     | 0,0              | 7.362,8            | 9.054,2                     | 0,0              | 9.054,2            | 1.691,4                        | 23,0                        |  |
| 8) Valencia            | 20.826,9                    | 78.555,0         | 99.381,9           | 26.272,4                    | 80.305,3         | 106.577,7          | 7.195,8                        | 7,2                         |  |
| 9) Aragón              | 18.992,1                    | 0,0              | 18.992,1           | 19.043,5                    | 0,0              | 19.043,5           | 51,4                           | 0,3                         |  |
| 10) Castilla-La Mancha | 25.141,3                    | 0,0              | 25.141,3           | 26.506,0                    | 0,0              | 26.506,0           | 1.364,7                        | 5,4                         |  |
| 11) Canarias           | 12.649,7                    | 44.412,5         | 57.062,2           | 13.420,8                    | 44.412,5         | 57.843,3           | 781,1                          | 1,4                         |  |
| 12) Extremadura        | 16.567,5                    | 0,0              | 16.567,5           | 16.622,1                    | 0,0              | 16.622,1           | 54,6                           | 0,3                         |  |
| 13) Baleares           | 6.164,0                     | 0,0              | 6.164,0            | 6.236,9                     | 0,0              | 6.236,9            | 72,9                           | 1,2                         |  |
| 14) Madrid             | 35.283,5                    | 0,0              | 35.283,5           | 41.020,6                    | 0,0              | 41.020,6           | 5.737,1                        | 16,3                        |  |
| 15) Castilla y León    | 40.866,6                    | 0,0              | 40.866,6           | 42.009,3                    | 0,0              | 42.009,3           | 1.142,7                        | 2,8                         |  |
| Total                  | 321.301,1                   | 477.312,7        | 800.613,8          | 353.945,5                   | 486.845,5        | 840.791,1          | 40.175,2                       | 5,0                         |  |

\* Estas restricciones corresponden a cada comunidad y competencias. Fuente: Dirección General de Coordinación con las Haciendas Territoriales.

\*These restrictions include the 0.25 FCI corresponding to each community and jurisdiction.

Key:

- |                           |                                   |
|---------------------------|-----------------------------------|
| 1. New Financing System   | 6. Common Jurisdictions           |
| 2. Millions of Pesetas    | 7. Education                      |
| 3. Current Financing      | 8. Absolute                       |
| 4. New Financing          | 9. Percentage                     |
| 5. Increases in Financing | 10. CCAA [Autonomous Communities] |

LOFCA establishes that, in the final stage, calculation of the percentage of the autonomous community's participation in state revenue will be negotiated based on certain things. The law mentions population, the coefficient of fiscal effort in the IRPF [Personal Income Tax], the inverse relationship to real income, the proportional contribution of the autonomous community for the services and general taxes that the state continues to assume, and other criteria including the shortage of services and the relationship between per-capita costs for social services for the community and for the entire country.

Cataluna, Madrid, and Valencia are especially hurt by the new model although in the chart they appear to benefit the most. In the latest model that includes an increase of 40 billion in 1986 pesetas, these three autonomous communities receive 13.955 billion, 5.737 billion, and 7.195 billion pesetas, respectively. In other words, these communities receive a greater increase in absolute terms. However, these figures are much lower than those planned in the previous model which included an increase of 65 billion in 1986 pesetas with Cataluna receiving some 32 billion, Madrid receiving 7 billion, and Valencia receiving 10 billion pesetas.

Actually, the difference is even greater. The financing is for 1987 and the 1986 figures and sizes are only taken as a frame of reference. The experts calculate that the real increase in 1987 will be about 80 billion pesetas. For example, in the latest model Andalucia will receive some 2 billion pesetas more with this frame of reference but this will increase another 16 billion in 1987 as a consequence of the financial effect (difference between the rate of growth of state revenue and the cost of the transferred services). In Cataluna's case, the financial effect is barely perceptible so the increase in financing in 1987 will be very small.

#### Neither IVA Nor IRPF

The new model has practically ended the debate on tax reciprocity. Outside of the tax on legal documents, concession of the IRPF and the IVA [Value Added Tax] has been eliminated.

The argument about the provisional nature of the so-called final system, that had been recognized by top officials in the administration, seems to be closed. The government wants a fixed percentage of participation for the next 5 years.

One positive aspect is that the autonomous communities that include territories called assisted zones can propose FEDER projects and have up to 30 percent of their respective FCI [Interterritorial Compensation Fund].

7717

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ECONOMIC

TURKEY

# ASSOCIATION SUGGESTS MEASURES AGAINST IRAN TRUCKING RESTRICTIONS

Istanbul TERCUMAN in Turkish 21 Sep 86 p 6

[Article by Unal Tanik: "Let Retaliation Be Made Against Iran"]

[Text] The International Truckers' Association (ITA) has asked that swift measures be taken against Iran's decision not to allow into the country vehicles not bearing a "TIR card" as of 23 September.

ITA President Saffet Ulusoy stated that in 1985, 235,000 vehicles carried loads to Iran, that of this number, 190,000 did not have TIR cards, and that all of these 190,000 vehicles belong to Turkish companies. He said:

"These figures show that the TIR card restriction is aimed totally at not allowing Turkish vehicles into the country. The imposition of this restriction must be prevented by taking swift action with high level government officials of the Islamic Republic of Iran."

## Four Problems With Iran

Stating that shipping has been made a bargaining issue and concessions have been granted for the sake of short-term gains, which are the aim of our export policy, ITA President Ulusoy said that for this reason four points have begun working completely against us with Iran. He enumerated these points in this way:

1) As of 23 September, no Turkish vehicle not bearing a TIR card will be able to enter Iran. Of approximately 200 [figure as printed] Turkish vehicles that carry goods to Iran, only 4,000, and only those bringing goods exclusively from Europe, have TIR cards. Of the shipments from our country to Iran, 90 percent are accompanied by trucks and open trailers, in other words, by vehicles that would not qualify for the TIR card system.

It is anticipated that vehicles without TIR cards will be unloaded at the Bazargan customs station located across from the Gurbulak border gate. But the Bazargan customs does not have adequate space, storage, and technical facilities for this unloading and loading. This restriction will result in the formation of long lines and a great loss in the shipment of export goods due to transfers at the gate.

If this restriction of Iran's cannot be prevented, the TIR restriction must also be enforced as of 23 September for Iranian vehicles passing through our country or entering our country for the purpose of picking up or delivering loads.

2) Since 1 June 1985, our vehicles going to Iran carrying more than 400 liters of diesel fuel have had their tanks drained. In contrast, Iranian vehicles with tanks holding 3,000 or 4,000 liters full of diesel fuel purchased in their country for 10 liras a liter transit Turkey en route to Europe. These vehicles can return to their country without ever stopping to refuel.

Looking at travel costs, it is impossible for a Turkish vehicle buying diesel fuel at 200 Turkish liras a liter to compete with an Iranian vehicle using fuel purchased at 10 Turkish liras. And this is the fact underlying the Iranians' draining the tanks of Turkish vehicles on various pretexts.

It is therefore urgently necessary to prevent unfair competition by immediately and without delay causing the tanks of all Iranian vehicles trying to enter Turkey with fuel supplies exceeding 400 liters to be drained, and also to obtain a competitive environment under equal conditions, as the liberal economic model requires.

3) Under an agreement reached in January 1985, the Iranians may ship up to 15 percent of the goods they import from Turkey on an FOB basis in their own vehicles. But as a result of this restriction's not being applied, in the first 6 months of 1986, 70,000 of the 200,000 tons of goods exported to Iran were shipped in vehicles belonging to that country. Thus the 15 percent shipping proportion stipulated in the accord has risen to 35 percent. If it is not possible to remove this concession which was granted, the shipping proportion should be held to the 15 percent limit stated in the accord.

4) Iran, which has for a long time been attempting to displace Turkey as a transit route and has been shifting to alternative routes, is now imposing the condition that the goods it purchases from Europe be shipped either by its "own or by Bulgarian vehicles." This matter must also be dealt with among other economic matters between the two countries. And some opportunity for shipping must be secured for the Turkish truckers, who delivered their needed items to them in the most difficult days and under dangerous conditions.

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CSO: 3554/37

ECONOMIC

TURKEY

# REALISM SAID NECESSARY IN EEC RELATIONS

Istanbul HURRIYET in Turkish 21 Sep 86 p 19

[Article by Coskun Kirca in column "In Politics": "Be Realistic With EEC"]

[Text] During the most recent meeting of the Turkish-EEC Association Council, the EEC issued a memorandum listing its demands from Turkey. A few of the points in the memo are of great importance when considering relations with the EEC.

While its relations with Turkey are being normalized, the EEC will first require that the Supplementary Protocol be faithfully adhered to. According to the Supplementary Protocol, in 1986 Turkey was supposed to phase out its customs duties for the 12-year goods list, and reduce them to 40 percent for the 22-year goods list. However, up until 1986 Turkey had reduced its customs taxes for EEC goods only twice, by 20 percent for the 12-year list and by 10 percent for the 22-year list.

Turkey explains these delays as being protective measures. Likewise, the EEC cites this as the reason for the measures it has taken against our textile products in particular.

Turkey was not content to stop at this; after the Motherland Party came to power, additional import taxes began to be imposed for the funds that were being established. It is certain that this measure was in violation of the Supplementary Protocol.

This mutual scenario demonstrates the difficulties of bringing the Turkish market and the Common Market into harmony with each other and especially the necessity for protection which exists on both sides. Both Turkey and the EEC must overcome this necessity. It will only be possible for Turkey to overcome those necessities by committing itself wholeheartedly to the goal to be attained and resigning itself to applying the discipline this requires.

It is not sufficient to want to normalize our relations with the EEC, let alone to want to be a full member of the EEC. And it is not possible to view the EEC as primarily a political organization, because the EEC sees itself as primarily a customs union.

Despite all these facts, it is also true that since the 1960's Turkey has complained about the various restrictions of the EEC--often with justification--but has never seriously considered embarking upon this kind of planned discipline.

Since the 1960's, those within the government bureaucracy in favor of strengthening our relations with the EEC have always thought the agreements we would make with the EEC would serve to impel our government and private sectors towards such a system of discipline. But the 20-year performance record has proven that even the agreements were not sufficient to cause us to adopt such a discipline.

This discipline does not exclude the possibility of protecting developing industries and services within reasonable limits. The agreements with the EEC also adopt this principle. But if Turkey does not give priority to the principle of opening up to the outside, with its small scale unproductive industrial structure, it is doomed one day to find itself isolated in world trade and economic relations.

And so the basic issue is to get it into our heads that this discipline is imperative. Our success in our relations with the EEC depends on this. Even if we give up EEC membership, our progress and prosperity depend on this.

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ECONOMIC

TURKEY

#### PRIORITY DEVELOPMENT GETS ONE-SIXTH OF INVESTMENT INCENTIVES

Istanbul DUNYA in Turkish 30 Sep 86 p 9

[Text] Ankara (ANATOLIAN AGENCY) - One-sixth of the investments set to take advantage of incentive measures by the SPO [State Planning Organization] Incentive Implementation Office in the first 8 months of this year consists of projects to be carried out in priority development zones.

According to information obtained, incentive certificates were given to 300 projects, with a total cost of 606.578 billion liras, in these areas in the January-August period. In all, the Incentive Implementation Office issued 1,741 incentive certificates having a total cost of 3.9 trillion liras during that period.

The target for job openings created is 15,720 upon completion of the investments scheduled for priority development zones.

The projects in these areas concentrate on the manufacturing and service sectors, it is noted. Priority in sectors subsidiary to the manufacturing industry went to "baked clay and cement materials" with 59 projects and "food-beverage" with 26 projects. However, the highest investment cost in the manufacturing subsectors went to 3 projects in "iron-steel," with 122.7 billion liras.

In the services subsectors, communications took first place with 119 projects at 341 billion liras.

The 300 projects in priority development zones require \$375 million in foreign exchange to finance machinery and equipment to be used in the projects.

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CSO: 3554/47

ECONOMIC

TURKEY

#### AMENDMENTS TO INSURANCE LAW REPORTED

Istanbul DUNYA (Supplement) in Turkish 29 Sep 86 p 4

[Text] Draft Law on the Amendment and the Repeal of Some of the Articles of Law No. 7397, Enacted 21 December 1959, on the Supervision of Insurance Companies and the Addition of 8 New and 4 Provisional Articles to This Law:

Article 1. The title of Law No. 7397 has been changed to: "Insurance Supervision Law."

Article 2. The 1st Paragraph of Article 1 of Law No. 7397 has been amended as follows:

"Insurance and reinsurance companies, insurance and reinsurance brokers, insurance experts and other individuals and corporations whose activities are regulated by this law shall be supervised by the Ministry of Industry and Trade in accordance with the provisions of this law."

Article 3. Article 2 of Law No. 7397 has been amended as follows:

"Article 2. In order to engage in insurance business in compliance with the provisions of this law, a firm must be a 'joint stock' company. Insurance and reinsurance companies must have a paid-up capital of at least 500,000,000 Turkish lira. This capital must be verified in cash at the time of establishment of the company. Insurance and reinsurance firms which are in operation at the time this law goes into effect can use their noncash assets as part of their capital.

"The Council of Ministers is empowered to increase the required capital amount by any amount whenever necessary and to determine the time frame in which the additional capital must be raised."

Article 4. The heading and Section (d) of Article 3 of Law No. 7397 have been amended, and three paragraphs have been added to the said article as specified below:

[New heading] "Terms for the Issuance Licenses to Insurance Companies; Other Reserves"

"d) [Insurance companies] are required to obtain licenses and to register and declare themselves in appropriate departments after receiving the approval of the Ministry of Industry and Trade for schedules pledging to set aside premium reserves for each period of insurance on company balance sheet dates and showing the maximum retainment rate for each category of insurance. The premium reserves to be set aside for insurance categories other than life insurance must not be less than 40 percent in fire and supplementary risk insurance, 50 percent in cargo vessel insurance, 25 percent in container insurance, 25 percent in cargo and shipping insurance, 50 percent in traffic and other financial liability insurance, 50 percent in building and assembly insurance, 25 percent in other accident and mechanical breakdown insurance and 25 percent in agricultural insurance."

[Added paragraphs] "Beside the premium reserves specified in Section (d), insurance companies may set aside additional reserves for uncertain damages for damages which have occurred but which have not been reported, in an amount to be determined by the companies, though not more 50 percent of the uncertain damages for that year. This reserve amount may be deducted from income subject to the Corporations Tax.

"Insurance companies must deposit the retained portion of their earthquake insurance premiums in a collateral account for 20 years and may deduct the said amounts from income subject to the Corporations Tax every year for the said period of time.

"Depending on their premiums and reserves, insurance companies are required to retain an average minimum of 30 percent of their total insurance accounts in Turkey. This amount is 60 percent for reinsurance companies. Premiums for 'extreme risks' are not counted in the computation of these rates. The Ministry of Industry and Trade is empowered to change these amounts and to determine extreme risks after consultations with the Association of Turkish Insurance and Reinsurance Companies. The said ministry can suspend the operations of insurance and reinsurance companies which do not raise their retained reserves to the specified amounts within the stipulated time frame."

Article 5. Article 4 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Other Principles of Operation"

"Article 4. Other procedures and principles relevant to the establishment and operation of domestic and foreign insurance and reinsurance companies, which will operate in Turkey as joint stock companies, shall be regulated by a governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade."

Article 6. Article 5 of Law No. 7397 has been amended as follows:

"Article 5. After examining the documents which indicate that a company is in compliance with the conditions specified in Article 3 and ensuring that it is

also in compliance with other requirements stipulated by the governing statute mentioned in Article 4, the Ministry of Industry and Trade may issue the necessary permission for the operation of that company.

"Separate licenses shall be issued for each independent insurance category for which a fixed security deposit amount has been established. The licenses shall be for indefinite periods. Insurance companies are not required to obtain separate licenses for branches they open within the country."

Article 7. Article 9 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Agencies"

"Article 9. Insurance companies are not required to obtain licenses for the agencies they choose as their representatives in the country.

"However, individuals who are appointed agents must submit to their respective insurance firms documents obtained from a Republican Prosecutor's Office stating that they have not declared bankruptcy, that they have not endangered general security and that they have not been convicted of fraud, theft, delinquency of debt, embezzlement, bribery, corruption and forgery. Corporations which are appointed as agents must present to their respective insurance firms documents obtained from the trade register stating that they have not declared bankruptcy and that they have no record of breach of contract. Other requirements sought from prospective insurance agencies and the guidelines governing their establishment, modes and manner of operation and supervision shall be regulated by a governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade.

"The limits and the scope of the functions to be assigned to insurance agencies shall be registered and declared at appropriate departments by the respective insurance companies before the agencies begin operating.

"Agencies cannot begin operating until these procedures are completed.

"Individuals and corporations who work as insurance agents (other than banks) cannot engage in any other business. The Ministry of Industry and Trade shall suspend the operation of agencies which do not comply with the provisions of this law within 3 years after the governing statute mentioned in the 2d paragraph is published. The said governing statute shall specify the conditions and procedures whereby banks can act as insurance agencies. Insurance agencies are required to be members of professional organizations."

Article 8. Article 10 of Law No. 7397 has been amended as follows:

"Article 10. Any changes in the provisions of Articles 2, 3 and 4 of this law must be reported to the Ministry of Industry and Trade within 1 month.

"Changes that are subject to approval can become effective only with the approval of the Ministry of Industry and Trade.

"The Ministry of Industry and Trade may request the institution and declaration of amendments whenever it deems necessary."

Article 9. Article 12 of Law No. 7397 has been amended as follows:

"Article 12. As collateral for their liabilities arising from the insurance contracts they write, insurance companies are required to put at the disposal of the Ministry of Industry and Trade a fixed and a variable security deposit.

"1. Fixed security deposit:

"30,000,000 Turkish lira for fire insurance;  
"30,000,000 Turkish lira for shipping insurance;  
"40,000,000 Turkish lira for accident insurance;  
"40,000,000 Turkish lira for life insurance;  
"10,000,000 Turkish lira for machinery and assembly insurance;  
"5,000,000 Turkish lira for hail insurance;  
"5,000,000 Turkish lira for livestock insurance.

"The Ministry of Industry and Trade is empowered to determine new independent insurance categories and their respective fixed security deposit amounts.

"Reinsurance firms are required to pose twice the security deposit amounts specified above.

"The Ministry of Industry and Trade can increase fixed security deposit amounts to up to five times the amounts specified above.

"2. Variable security deposit:

"a) For the life insurance category, a company's variable security deposit is the sum of the uncertain life insurance claim settlements, the accrued profit margins and the total reserves set aside at the end of each accounting year on the basis of the net premiums collected on life insurance policies in Turkey minus the loans given out on life insurance policies and the portion of the unmatured annual-basis premiums in the arithmetic reserve account.

"In view of the special importance of life insurance policies which are executed in the current year, the Ministry of Industry and Trade can at any time ask the insurance companies to update their variable security deposit accounts.

"b) For other insurance categories, a company's variable security deposit is at most 20 percent of the sum found by subtracting from the company's total premiums the premiums paid for Turkish policies which are cancelled during the last accounting year. The Ministry of Industry and Trade is authorized to alter the variable security deposit rate provided that it not exceed this maximum rate.

"Except the life insurance category, the variable security deposit for any insurance category cannot be less than 50 percent of the fixed security deposit for that category.

"The distribution of the premiums among several reinsurers has no effect on the computation of variable security deposits."

Article 10. Article 13 of Law No. 7397 has been amended as follows:

"Article 13. Insurance companies must post and update their variable security deposits, including the additional surcharges resulting from price changes to be determined by the Ministry of Industry and Trade, by the end of the 5th month after the latest accounting year. In the event the Ministry of Industry and Trade determines any deficiencies in the variable security collateral amounts, the company in question must correct and make up the deficiency within 1 month after it is notified by the Ministry.

"The Ministry of Industry and Trade may, if necessary, invoke the provisions of Article 20 against companies which do not make up their deficiencies.

"If the funds posted are more than the required security deposit amounts, the Ministry of Industry and Trade may permit the release of the extra funds."

Article 11. Article 14 of Law No. 7397 and its heading have been amended as follows:

[New heading] "The Utilization of Security Deposits"

"Article 14. The security deposits constitute a collateral against the liabilities owed to the insured.

"In the event an insurance company is liquidated, the security deposit is primarily used to pay the insured in each insurance category. If there is any amount left over from any one category it is added to the security deposits in other categories.

"If an insurance company decides to end its activities in one or more insurance categories--or in all categories--its security deposits in the respective categories are released by the Ministry of Industry and Trade provided that all insured parties are paid what is owed to them.

"The security deposits cannot be used as part of bankruptcy or liquidation assets or to pay off creditors until all insured parties are paid what they are owed."

Article 12. Article 15 of Law No. 7397 has been amended as follows:

"Article 15. The fixed and variable security deposits can only be in the form of the following instruments:

"a) Cash in Turkish currency;

"b) Government Domestic Borrowing Debentures, Treasury Bonds and public partnership profit dividend certificates;

"c) Bonds and stocks of municipalities and corporations whose capital is wholly or partly owned by the government and which are quoted in the securities exchange market;

"d) Bonds and stocks of Turkish corporations listed in the stock exchange market, in forms and amounts to be specified and approved by the Ministry of Industry and Trade;

"(However, the total value of a firm's stock shares and bonds cannot be used as collateral for more than 10 percent of the total security deposits.)"

"e) Immovable property in Turkey.

"(Provided that the value of the total immovable property used does not exceed 50 percent of the total security deposits.)"

Article 13. Article 19 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Monies Not Claimed by Beneficiaries"

"Article 19. If the monies that must be paid on life insurance policies conditional on life and death are not claimed by beneficiaries within 10 years after the occurrence of the event which makes payment necessary, then within 6 months after the new year's day following the 10th year,

"If no beneficiaries file any claims during liquidation and bankruptcy proceedings, the insurance companies must submit to the Turkish Central Bank and put at the disposal of the Undersecretariat of the Treasury and Foreign Trade the monies that are owed to the beneficiaries, with the proviso that the beneficiaries may be paid when they file a claim, and a table showing the latest known names and addresses of the beneficiaries before the company's last balance sheet was prepared and the amount of money they are entitled to."

Article 14. Article 20 of Law No. 7397 has been amended as follows:

"Article 20. If the financial status of an insurance company does not provide sufficient security to pay for the claims of the insured and other beneficiaries, the Ministry of Industry and Trade shall specify a time period to the company to take the steps needed to rectify this situation. To that end, the Ministry may:

"a) Call a special meeting of the company's executive organ or organs;

"b) Extend the deadline for making up the variable security deposit;

"c) Stop the payment of dividends, issuance of loans and payment of interest on life insurance policies and payments from the reserve accounts."

Article 15. Article 21 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Revocation of Licenses"

"Article 21. The Ministry of Industry and Trade shall revoke the licenses of insurance companies which are found to be unable to improve their financial situation in order to pay the claims of the insured and other beneficiaries, even if they take all the steps specified in Article 20 or despite the steps specified in Article 20."

Article 16. Article 22 of Law No. 7397 has been amended as follows:

"Article 22. Insurance companies whose licenses are revoked, or who are declared bankrupt or whose operations are halted for any other reason shall be subject to the supervision of the Ministry of Industry and Trade and shall be liquidated in accordance with the provisions of relevant laws.

"A decision about the bankruptcy of an insurance or reinsurance company can be taken only at the request of the Ministry of Industry and Trade.

"If necessary, the Ministry of Industry and Trade may request the replacement of the liquidation and bankruptcy administration officials.

"During the bankruptcy and liquidation procedures, the Ministry of Industry and Trade shall take the necessary measures to ensure that the company's security deposits are first allocated for the settlement of claims by the beneficiaries.

"In the event of liquidation, 1 year after the last declaration to that effect is published, fixed and variable security deposits are returned to the appropriate parties after it is determined that all obligations have been settled.

"The Ministry of Industry and Trade shall announce the status of insurance companies whose licenses have been revoked, whose operations have been suspended or which have been declared bankrupt, 4 times in 15 day intervals in 3 newspapers one of which must be the Official Gazette.

"The insured shall participate as creditors of third rank in bankruptcy settlement proceedings for the portion of their claims which are not settled by the security deposits."

Article 17. Article 25 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Payment of Premiums and Prohibition of Rebates and Discounts"

"Article 25. The entire insurance premium, or the first installment of the premium if an installment agreement has been reached, must be paid in cash at the time the policy is delivered. The payment of the premium in installments shall be governed by guidelines to be laid down by the Ministry of Industry and Trade. The insurer's obligations begin on the date the premium or the first installment of the premium is paid. The delivery of the policy before the premium is paid does not mean that an installment agreement has been

reached. In the event the installments to follow the first installment are not paid, the obligations of the insurer end on the date the installment was due. Any agreements signed in violation of these guidelines are invalid. The schedule of installment payments and the provisions of this paragraph must be written on the front page of the policy.

"The payment of life insurance policy premiums are subject to separate technical guidelines.

"Insurance companies and individuals and corporations who provide insurance brokerage services cannot offer direct or indirect rebates or discounts of any form, or omissions, rate reductions or other benefits of this type to the insured or to those who order insurance in connection with new policies, renewals, additional policies or other similar transactions.

"Insurance companies are required to post variable security deposits, using instruments specified in Article 15, totaling 15 percent of their total receivables from their insured customers or agents as shown in their year-end balance sheets. Promissory notes or cheques are not counted in the computation of this amount."

Article 18. Article 26 of Law No. 7397 has been amended as follows:

"Article 26. Insurance companies cannot offer any amount of payments or benefits to insurance agents or brokers other than procurement and incentive commissions and establishment and training expenses.

"The maximum commissions and the maximum establishment and training expenses that can be paid to insurance agents and brokers and the premium payment and collection terms shall be regulated by a governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade.

"Any payments in connection with formalities concerning these terms, rates and amounts are prohibited.

"Procedures and contract provisions which violate this article are invalid."

Article 19. Article 27 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Company Receivables from Insurance Agents"

"Article 27. The premiums collected by insurance agents and brokers are considered money in escrow and must be paid to the appropriate insurance company at the end of the month following collection within the framework of guidelines to be laid down by the Ministry of Industry and Trade.

"The Ministry of Industry and Trade shall suspend the operation of insurance agencies which do not pay the premiums they collect in accordance with the terms established by the Ministry. In the event this offense is repeated

(within the same year), the offenders shall be barred from operating as insurance agencies forever."

Article 20. Article 29 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Mandatory Insurance"

"Article 29. All individuals and firms residing or doing business in Turkey can buy their insurance only in Turkey and from licensed insurance companies operating in Turkey.

"Subject to guidelines to be laid down by the Ministry of Industry and Trade, insurance for export shipping; insurance for ships bought with foreign credit, up to the amount of the outstanding loan and until such time as the loan is repaid; liability (club) insurance for ships; life insurance; and personal injury and motor vehicle insurance for persons who travel overseas can be bought from overseas insurers.

"The Council of Ministers may make certain types of insurance mandatory for the benefit of the general public and in order to build a security reserve against any professions or activities which may pose a hazard to individuals or the community. For individuals and corporations selling such insurance, the Ministry of Industry and Trade is empowered to set commission rates that are lower than those for other types of insurance after consulting with the Association of Turkish Insurance and Reinsurance Companies. The variable security deposits for mandatory insurance categories can be placed in special debentures or other securities to be determined by the Council of Ministers."

Article 21. The 1st paragraph of Article 30 of Law No. 7397 has been amended as follows:

"The Insurance Supervision Organization and Its Revenues"

"The Ministry of Industry and Trade shall audit and supervise the various activities of insurance and reinsurance companies, insurance and reinsurance agencies and brokers, insurance experts and other individuals and corporations whose activities are governed by this law through the Insurance Supervision Council or, if necessary, the Ministry Auditing Council."

Article 22. Article 32 of Law No. 7397 has been amended as follows:

"Article 32. Insurance and reinsurance companies, insurance and reinsurance agents and brokers and insurance experts are required to provide any information and all accounts, records, books and documents--except the names of the buyers of life insurance and their beneficiaries--to be requested by the Ministry of Industry and Trade in connection with the implementation and enforcement of this law."

Article 23. Article 35 of Law No. 7397 has been amended as follows:

"Article 35. The functions, powers and modes of operation of the Insurance Supervision Council and the Rate Committees shall be regulated by a governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade.

Article 24. Article 36 of Law No. 7397 and its heading have been amended as follows:

[New heading] "The Association of Turkish Insurance and Reinsurance Companies"

"Article 36. Within 3 months after this law goes into effect, a professional organization named 'Association of Turkish Insurance and Reinsurance Companies' shall be established to develop the insurance industry, to ensure cooperation among insurance and reinsurance companies and to institute and to implement measures to counter unfair competition. This association shall be headquartered in Istanbul, shall be subject to special legal provisions in all its operations and shall have corporate status.

"The by-laws regulating the guidelines and modes of operation of the association shall go into effect with the request of the Ministry of Industry and Trade and the decision of the Council of Ministers.

"All insurance and reinsurance companies operating in Turkey are required to become members of the association 3 months after they are established and obtain their licenses.

"Insurance and reinsurance companies are obligated to comply with the provisions of the association by-laws and to implement the decisions of the competent organs of the association.

"Whenever necessary, the association will be consulted with on international and bilateral arrangements concerning the insurance industry and legislation regarding insurance and related matters.

"For the purpose of developing the insurance industry, the association may form its own affiliated organizations with corporate status to deal with insurance or training issues and can join domestic or overseas professional organizations specializing in insurance.

"The share of each member company in the association's expenses shall be determined in accordance with each company's annual revenues from premiums collected in Turkey and in accordance with the guidelines laid down by the association's by-laws. If a company does not pay its share of expenses within 3 months after it has been notified to do so, the amount shall be collected through court action."

Article 25. Article 37 of Law No. 7397 and its heading have been amended as follows:

[New heading] "Insurance Producers and Reinsurance Brokers"

"Article 37. Individuals or corporations who are not directly employed by any insurance or reinsurance company, who negotiate and explain as brokers the terms of an insurance policy in various insurance categories, who have the authority to prepare insurance proposals depending on the nature and characteristics of risk and who employ themselves by receiving commission for their efforts are known as insurance producers.

"Individuals or corporations who work as producers cannot engage in any other business.

"Insurance producers are required to join professional organizations.

"All insurance producers are required to maintain books to be determined by the Ministry of Industry and Trade and must post with their respective insurance companies security deposits which shall be determined by the said ministry and which shall not be less than 100,000 Turkish liras.

"It is prohibited to employ insurance producers who have not posted their security deposits.

"Individuals or corporations who specialize on reinsurance matters, who act as intermediaries in reinsurance procedures and negotiations without being affiliated with any company and who receive commissions on the transferred premiums from the company which underwrites the reinsurance are known as reinsurance brokers.

"The qualifications, modes and terms of operation and the supervision of insurance producers and reinsurance brokers shall comply with the governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade as specified in Article 9."

Article 26. Article 38 of Law No. 7397 has been amended as follows:

"Article 38. Individuals who determine losses and damages with reference to insurance matters, who assess the causes and the scope of these damages and who compute the monetary value of these damages as well as other matters and who execute similar other procedures as part of their profession are known as insurance experts.

"The qualifications, the modes and terms of operation and the supervision of insurance experts shall comply with a governing statute to be prepared by the Association of Turkish Insurance and Reinsurance Companies and to be implemented by the Ministry of Industry and Trade."

Article 27. The following paragraph has been appended to Article 39 of Law No. 7397:

"Balance sheets and profit-loss statements which are determined to be untruthful, deceptive or inaccurate by the Ministry shall be published in their correct form in newspapers where the previous statements appeared within 7 days after the company in question is notified about the matter."

Article 28. Articles 42 through 51 and articles 53 through 56--entitled "Punitive Sanctions"--of Law No. 7397 have been amended as follows:

"Article 42. Those who engage in insurance practices without obtaining a license in violation of the requirements set by the relevant articles shall be subject to fines ranging from 2,500,000 to 50,000,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to prison terms ranging from 3 months to 1 year and monetary fines of up to twice the amounts stated above.

"Those who engage in insurance practices with a license but without registering and declaring themselves in the appropriate departments shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira.

"Article 44. Those who do not comply with the requirement of reporting changes as specified in Article 10 and who implement changes not approved by the Ministry shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira.

"Article 45. Those who intentionally do not post the fixed and variable security deposits or who intentionally reduce its amount or post a reduced deposit shall be subject to fines ranging from 5,000,000 to 25,000,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to prison terms ranging from 6 months to 3 years and monetary fines of up to twice the amounts stated above.

"Article 46. Those who do not comply with the requirements stipulated by the 2d paragraph of Article 13 and articles 16 and 17 shall be subject to monetary fines ranging from 1,000,000 to 5,000,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to monetary fines of up to twice the amounts stated above.

"Article 47. Those who violate the provisions of Article 19 shall be subject to fines ranging from 500,000 to 5,000,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to monetary fines of up to twice the amounts stated above.

"Article 48. Those who violate the provisions of articles 25, 26 and 27 shall be subject to fines ranging from 2,500,000 to 12,500,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to monetary fines of up to twice the amounts stated above.

"Article 49. Those who breach the prohibitions stipulated by Article 28 shall be subject to fines ranging from 500,000 to 5,000,000 Turkish lira.

"If the said parties repeat the same offense a second time they shall be subject to monetary fines of up to twice the amounts stated above.

"Article 50. Those who violate the provisions of Article 29 shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira. However, the fine levied cannot be less than 10 times the premium paid.

"Article 51. Those who engage in acts which may hurt or blemish the reputation of insurance companies or who propagate baseless rumors to this effect shall be subject to prison terms ranging from 1 month to 3 months and monetary fines ranging from 250,000 to 1,000,000 Turkish lira.

"If this offense is committed through a publication medium specified in the Press Law or the radio and the television, the perpetrators shall be subject to prison terms ranging from 2 to 6 months and monetary fines of 1,000,000 to 2,500,000 Turkish lira.

"Article 53. Those who do not comply with the requirement of Article 32 and the prohibition of Article 47 shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira.

"Those who obstruct supervisory and audit officials from performing their duties or who intentionally mislead them shall be subject to prison terms ranging from 1 month to 1 year in addition to the penalties specified above.

"Article 54. Those who violate the provisions of articles 9, 36, 37 and 38 and the by-laws and governing statutes specified in these articles shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira.

"Article 55. Those who do not comply with the requirements of Article 39 shall be subject to fines ranging from 500,000 to 2,500,000 Turkish lira."

Article 29. Article 59 of Law No. 7397 has been amended as follows:

"Article 59. The Council of Ministers is empowered to subject to partial or complete mandatory reinsurance the balance of the reserves insurance companies retain for themselves for all categories of insurance they sell in Turkey, in compliance with the retainer schedules approved by the Ministry of Industry and Trade."

Article 30. Article 63 of Law No. 7397 has been amended as follows:

"Article 63. The governing statutes stipulated by this law shall be prepared and put into effect within 1 year after this law becomes effective.

"Until the new governing statutes take effect, all formalities and procedures shall comply with existing provisions."

#### Repealed Articles

Article 31. Articles 7, 8, 11, 40 and 60; the 2d paragraph of Article 39; and provisional articles 1, 2, 3 and 4 of Law No. 7397 have been repealed.

Article 32. The following supplementary articles have been appended to Law No. 7397:

"Supplementary Article 1. Insurance companies engaged in the category of life insurance are required to conduct and to document procedures related to this category completely separately and independently from procedures in other insurance categories within 1 year.

"The Ministry of Industry and Trade shall revoke the life insurance licenses of companies which do not comply with the requirements of the 1st paragraph.

"Supplementary Article 2. Insurance and reinsurance companies, insurance and reinsurance agents and brokers and insurance experts are required to comply with corporate laws and principles, to avoid any activities which may imperil the rights and interests of the insured, to act in accordance with the rules of the insurance business and the principles of good will and to settle in a timely manner insurance claims which need to be paid.

"The Ministry of Industry and Trade may take any measures it deems necessary to ensure that the individuals and corporations mentioned in the 1st paragraph comply with these rules. Those who do not comply with the measures taken by the Ministry shall be subject to the penalties specified in Article 49.

"Supplementary Article 3. The Ministry of Industry and Trade is empowered to take any and all measures to ensure the growth and development of insurance and reinsurance companies operating in Turkey within the bounds of their technical and financial means in a way that will create resources for the country's economy and to take steps to enable the insurance and reinsurance companies to participate in the entire Turkish insurance portfolio and to have their share of this portfolio.

"Supplementary Article 4. The Ministry of Industry and Trade shall revoke the licenses of insurance companies which do not raise their capital to the required limits within 2 years.

"Supplementary Article 5. The phrase 'repeating the offense a second time' in the 'Punitive Sanctions' section of this law means repeating the offense a second time within 5 years after a conviction is finalized or after a monetary fine is paid at the instructions of the republican prosecutor.

"Supplementary Article 6. The phrase 'insurance company' in articles 3, 6, 16, 23, 24, 31, 39, 41, 51 and 56 and Supplementary Article 4 have been replaced with the phrase 'insurance and reinsurance companies,' and the phrases 'trade proxy' or 'proxy' in articles 6, 16, 18, 23, 24, 28, 30, 31, 33, 34, 35, 39, 58 and 61 have been replaced with 'the Ministry of Industry and Trade,' and the reference to 'Law No. 3656' in Article 30 has been replaced with 'Law No. 657.'

"Supplementary Article 7. The expenses of the Insurance Supervision Council and the Rates Committees shall be paid by members of the Association of Turkish Insurance and Reinsurance Companies in accordance with guidelines to

be laid down after consultations with the association and to be approved by the Ministry of Industry and Trade.

"Supplementary Article 8. Provisions of other laws violating the provisions of this law shall not be implemented."

Article 33. The following provisional articles have been appended to Law No. 7397:

"Provisional Article 1. Insurance and reinsurance companies licensed to operate in Turkey are required to raise their capitals to the amounts specified in Article 2 and to post the security deposits specified in Article 12 within 2 years after this law is published.

"The licenses of insurance and reinsurance companies which do not comply with the provisions of the 1st paragraph shall be invalidated." [Provisional articles 2, 3 and 4 omitted as published]

9588

CSO: 3554/50

ECONOMIC

TURKEY

BRIEFS

IMPORT SURCHARGE PHASE-DOWN--Reduction of the 9-percent surcharge on imports to 7 percent will begin on 1 October. The 7-percent surcharge will apply during October and November. According to information obtained, the surcharge, introduced for the purpose of restricting imports, was raised from 3 percent to 9 percent in the government's savings measures imposed in July, but will be reduced in stages to 5 percent by the end of the year. The import surcharge will thus be 7 percent in October and November and 5 percent 1-31 December 1986. According to the new practice to apply as of 1 October, those who request import permits next month and November will pay a surcharge of 4 percent of the foreign exchange cost in addition to the 3-percent now in effect. This rate will also apply in cases not currently assessed in the import regime. However, imports destined for NATO and the Izmir International Fair will be exempt from the surcharge. [Text] [Istanbul DUNYA in Turkish 29 Sep 86 pp 1,9] 8349

DOMESTIC DEBT LIMIT APPROACHING--The Treasury is approaching the domestic borrowing limit of 1.65 trillion liras imposed by the 1986 annual program. The Treasury has borrowed 1,283.6 billion liras in the form of bonds and securities in the first 9 months of the year. Bonds and securities totaling 1.808 billion liras were offered for sale in the first 9 months. Approximately two-thirds of them were sold. Meanwhile, the total domestic debt for last year was surpassed in the first 9 months of this year. Total sales of bonds and securities in 1985 were 1,247.1 billion liras. The records show that the largest share in this year's sales went to 6-month Treasury bonds. Of 940 billion liras in 6-month Treasury bonds offered for sale in the first 8 months, 833.4 billion liras' worth was sold. The Treasury also sold 275.5 billion liras' worth of the 635-billion-lira offering in 1-year state bonds during the period. Two-year state bonds attracted the least interest of the securities offered. Of a 98-billion-lira offering, only 24.1 billion liras' worth was sold. Meanwhile, 9-month Treasury bonds were among the most popular. The Treasury offered 9-month Treasury bonds only three times during the 38 weeks in which securities were sold this year. Of the 163.9-billion-lira offering, 150.7 billion liras' worth sold. [Text] [Istanbul DUNYA in Turkish 29 Sep 86 pp 1,9] 8349

CSO: 3554/47

MILITARY

EUROPEAN AFFAIRS

IISS YEARBOOK FINDS NATO, PACT FORCES EQUAL IN STRENGTH, RISK

NATO Air Power Said Superior

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 31 Oct 86 p 6

[Commentary by Siegfried Thielbeer: "NATO Air Superiority--Comparative Strength and Propaganda"]

[Text] As far as air power is concerned, the accent in the West has always been on quality. The East Bloc, on the other hand, had the big numbers. But how large is this superiority? The "military balance" analysis prepared by the London Institute for Strategic Studies [IISS] has now provided an accurate breakdown of the Soviet air force by categories which was probably coordinated with British intelligence. German Luftwaffe experts have termed the findings correct. According to the analysis, the air force of the Group of Soviet Forces in Germany [GSFG] consists of some 320 fighter bombers, i.e. SU-17 "Fitters," MiG-27 "Floggers" and a small number of SU-24 "Fencers" as well as 300 MiG-21 and MiG-23 fighters. In addition, there are some 50 SU-17 and MiG-25 reconnaissance aircraft; two dozen electronic aircraft and a handful of transport planes. There are said to be no Soviet fighters deployed in Poland; but this IISS contention must be disputed because other sources report deployment of "Fencer" aircraft at three different locations. In addition, other fighters and fighter bombers could quickly be moved forward into Poland from the western military districts of the Soviet Union--the Baltic region, White Russia and the Carpathians. Particular concern is expressed with regard to the SU-24 "Fencers" which are even capable of striking Western territory from bases inside the Soviet Union. Of the almost 700 such aircraft a part has been assigned to the strategic air armies.

This air power is opposed by some 1,400 combat aircraft in hardened bases in the area of the Baltic Approaches NATO Command, the 2d Allied Tactical Air Force, the 4th Allied Tactical Air Force (excluding the British Strike Command) in the area of the central front. A surprise strike against NATO and the annihilation of Western air power is therefore rendered almost impossible. Forward deployment of additional Soviet air units, however, would be detected by American AWACS early warning planes which are capable of tracking even low-flying aircraft as far east as the Warsaw area.

Only when all the aircraft of the East Bloc nations and the Soviet Union in Europe are added together does one arrive at the comparative figures listed by NATO, i.e. of 2,250 Warsaw Pact fighter bombers as against 1,960 for NATO and the disturbing figure for fighters, i.e. 4,195 for the Warsaw Pact and 795 for NATO. (The Pentagon report on "Soviet Military Power," for that matter, lists 500 less aircraft for the East Bloc in Europe.) So as to protect oneself against the arbitrariness of the NATO figures (where the intelligence community is not always able to prevail over the propagandists), it might be useful to keep the overall combat aircraft figures of both sides (13,000 for the Warsaw Pact as against 11,000 for NATO) in mind and to pay heed to a sentence which, it is said, was inserted in the report with some difficulty: "To a large extent, NATO air power is in a high state of readiness and is superior to that of the East Bloc in terms of training quality and weapon systems." Only someone who analyzes Secretary Weinberger's reports to Congress very carefully will take note of statements such as that "Western air superiority is being eroded." Anyone who occasionally visits the GDR knows that not as large a number of low altitude flight exercises are conducted there as in the air space of the FRG.

The NATO report emphasizes that "a large proportion" of the East Bloc fighter aircraft can also be used as fighter bombers. For the central front, the comparative figures given are 1,555 fighter bombers on the Warsaw Pact side as against 1,345 on the NATO side and 2,635 fighters as against 500 and the report states that "some" of these fighters can also be used for attack purposes. According to the experts, a good 1,000 of the 4,195 fighters can be used as fighter bombers but they also point out that the pilots have not received the appropriate training.

#### The Reinforcements from America

What the NATO comparison does not include are the 450 French fighters and fighter bombers although French air defenses--integration or no--are closely tied into the NATO system; the computers of the radar and early warning systems are linked; American and French fighters conduct joint exercises and France's tactical air force regularly takes part in maneuvers in the skies over the FRG. Only inferentially can one determine that the 1,800 American fighter bombers and fighters which would be moved to Europe in case of emergency are not included. The Soviet Union is unable to bring up similar reinforcements without exposing the Far East where it would have to contend with the Japanese and the Americans (including their naval air power)--not to mention the Chinese.

In all, the Pentagon figures cited in "Soviet Military Power 1986" are more accurate. There, the "ready" strength figures for fighter bombers in Europe are 1,400 for the Warsaw Pact and 2,100 for NATO. In other words, NATO is one-third stronger although here again French and Spanish forces are not included. Once reinforcements are brought up by both sides, the

fighter bomber ratio is 2,300 for the Warsaw Pact as against 3,450 for NATO. The pre-reinforcement figures for fighters are 2,800 for the Pact and 900 for NATO. After reinforcement, the figures are 3,850 as against 1,170.

Compared to the United States, the Soviet Union is faced with a substantial geographic asymmetry which works to its disadvantage. The forward stationed American bombers and fighter bombers are capable of reaching Soviet territory; but only a small number of Soviet long-range bombers are capable of striking the United States. That is why the United States and Canada can afford to rely on a relatively small number of fighter squadrons to protect their territory. A large proportion of their fighter bombers can therefore be moved either to Europe or the Far East. Since almost all American aircraft can be refueled in midair, this type of deployment is not difficult and is part of regular training exercises. Modern aircraft like the F-16 or F-18 can even be shifted without midair refueling, if need be. The number of American aircraft is only limited by the available space at European air bases.

Since most types of Soviet fighters are relatively short-range, the Soviet Union must rely on widely scattered deployment of a large proportion of its fighter squadrons so as to be able to protect at least the most important strategic targets in the vast reaches of the Soviet Union from Western attacks whose main thrust cannot be known beforehand. Shifting the 270 strategic fighter aircraft from the Archangel air defense district would be absurd, if Moscow were to expect an attack by the American strategic bomber fleet or by carrier-based aircraft. The fact that the air units in the north are being equipped with the most advanced aircraft such as the MiG-31 on a priority basis (the first aircraft capable of attacking low-altitude targets) indicates that the Soviet Union is at least trying to protect Moscow against a cruise missile attack by way of the polar access route. In individual instances, this may even succeed. The American goal of placing an additional burden on the Soviet air defense system seems thus to have been achieved by and large.

Even though most of the aircraft of the Soviet Union's allies are old and of poorer quality, one of the main concerns of the West is that these planes might be used in the first waves of an attack in order to breach Western air defenses. What could happen is that "Roland," "Hawk" and "Patriot" missiles might be fired at these targets of lesser importance and that a shortage of ammunition might ensue--at least in some sectors--once the main Soviet forces began to strike.

For close air support against ground targets, the Soviet Union can call on some 900 attack helicopters, which can be reinforced by another 50, according to "Soviet Military Power." Some 560 of these are stationed in

the GDR, 105 in Czechoslovakia and 120 in Poland. We might mention in this connection that NATO has 650 attack and antitank helicopters and that their number increases to 1,250 after reinforcement--although a comparison with the "Hind" armored helicopter gunship cannot really be made. (The new American "Apache" helicopter is even capable of flying directly to Europe with stopovers in Greenland and Iceland.) "Soviet Military Power" points out that transport helicopters which can be outfitted with automatic cannons were not included. The reason for this is easy to see. In transport helicopters, the ratio is 1,850 for the Warsaw Pact as against 1,950 for NATO --with the ratio climbing to 1,950 for the Warsaw Pact and 6,000 for NATO after reinforcement. Here again, the French (700) and the Spanish (200) helicopters were not included in the total.

Western air force commanders are not so much concerned about the figures produced by the White Book jugglers but about the qualitative improvements on the other side which call for an improvement of their own air defenses and better protection for air bases. Once the Soviet Union develops the capacity to destroy airstrips by conventional means thanks to greater precision of its missiles, then a missile defense capability will have to be developed. For another thing, care will have to be taken that the high quality of its aircraft does not tempt the West to make do with less than the minimum necessary to fulfill its mission.

#### Conventional Forces Approximately Equal

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 6 Nov 86 p 4

[Article by Th.: "London Strategic Institute: Approximate Parity Between East and West--Conventional Strength and Risk of Attacker"]

[Text] Frankfurt, 5 November--While the Soviet arms modernization program is continuing at a steady pace, military growth in the United States has now reached its highest point. But the future of the American arms program is uncertain because of budgetary restrictions. Overall, there is strategic balance. Each side has advantages and disadvantages due to the asymmetries in their military establishments. These are the findings of the London International Institute for Strategic Studies [IISS] as contained in its just published report "Military Balance 1986/87." Both the Soviet and the U.S. programs for the modernization of their strategic potential have resulted in substantial improvements in the precision, reliability and survivability of their strategic missile arsenals.

Summarizing its findings, IISS says: "During the past year there has been no change in the numerical balance of conventional forces in Europe." As in years past, IISS notes that the Warsaw Pact is ahead in conventional armaments--particularly in the numbers of the most important weapon systems. The report goes on to say that "the qualitative gap may narrow fur-

ther" (i.e. the Western advantage). Nevertheless, in comparing relative strength there are so many unknowns that it would be "highly unwise to predict the outcome of a war in Europe. NATO would not suffer defeat under all circumstances and the Warsaw Pact might not necessarily view its numerical superiority as being sufficient to risk an attack."

The Institute points out that warning time (and the use made of it) could be of decisive importance. The trend is still dangerous, the report continues, which makes it incumbent on the West to improve the situation--particularly in view of the fact that a personnel shortage is in the offing. General military aggression remains a high-risk venture for both sides in view of the overall balance of conventional forces. Neither side is sufficiently strong to be assured of winning. For an attacker, the consequences are unforeseeable and the risks--especially of nuclear escalation--are incalculable.

In the section dealing with the superpowers, the report states that the United States has begun deploying the first of its MX missiles and has activated the first squadron of 19 B-1 bombers. The reequipping of the older B-52s with cruise missiles is proceeding. The soon to be expected conversion of the 131st such aircraft will lead to a U.S. violation of the limits prescribed under SALT II unless the number is reduced by other means, e.g. the decommissioning of submarines. The number of "Ohio" class submarines equipped with Trident missiles was raised from six to presently eight during the course of the past year.

The Soviet Union, too, has introduced major new systems, i.e. the new SS-25, a mobile solid fuel missile with one warhead has been deployed and the SS-24 multiple warhead missile is undergoing further testing. The SS-N-23 10-warhead missile is replacing the old SS-N-6 two-warhead missile in the Soviet underwater fleet. The "Blackjack" long-range bomber is still being tested and has not yet been put into service. The Institute believes that the Soviet Union is undertaking roughly the same efforts in the field of strategic defense as the United States. During the past year, U.S. expenditures for SDI have doubled to \$2.7 billion.

IISS lays stress on strategic asymmetry. The Soviet Union enjoys superiority in the number of ground-launched long-range missiles; but the United States has a two-to-one edge in submarine missiles and a four-to-one edge in long-range bombers. In view of the limitations on the MX missile, these ratios are likely to remain constant. "Overall, in our view, the strategic forces of the Soviet Union and the United States are in approximate balance and the data do not support the contention that American forces overall are inferior to those of the Soviet Union."

The report goes on to say that both sides are also upgrading their conventional forces. Under the Reagan administration, the amount of procurements has doubled. Modernization has benefitted all branches of service; but this uptrend is now over. Cuts are anticipated in view of the budget deficit and this may have an effect on readiness and staying power. The Soviet Union is introducing more of the new T-80 tanks although overall numbers have hardly changed. There has also been a slight increase in the number of the new MiG-29 and MiG-31 fighter aircraft. The long-range cruise missiles are still in the testing stage.

Generally speaking, the Soviet Union is continuing to pursue its arms programs. This has led to a steady improvement in quality. In an evaluation of the impact of the policies of the new leadership under Gorbachev, the report states that higher investments in the civilian sector will have only a marginal impact on the arms program over the next few years. The Soviet Union, the report says, is in a position to continue pursuing its vigorous military modernization program through the end of this decade without additional investments even while expanding and improving the civilian sector at the same time.

The NATO countries are faulted in the sense that "even the better ones" among them, e.g. the FRG and Great Britain, have experienced a minus growth rate in arms expenditures in real terms since 1986 instead of the promised growth rate of three percent. It is unlikely that a substantial increase will yet take place. Nevertheless, there have been some successes, e.g. in the deployment of modern weapon systems, particularly of combat aircraft. Budgetary restrictions, IISS finds, are forcing the NATO countries to make renewed efforts to coordinate their arms programs.

The data provided by the reputable, independent London institute are considered exceptionally reliable--particularly as regards the detailed reports on the armed forces of the individual nations. It is therefore all the more irritating to discover minor errors, e.g. that there are no Soviet combat aircraft in Poland or the distinctly inflated figure of 5,000 American battle tanks supposedly stationed in the FRG.

9478

CSO: 3620/51

MILITARY

DENMARK

DEFENSE NEEDS MORE DRAFTEES, MORE MATERIEL, AMMUNITION

Copenhagen BERLINGSKE TIDENDE in Danish 26 Oct 86 p 11

[Article by Nils Eric Boesgaard and Ole Dall]

[Text] The Defense Minister and Defense Chief reject the idea that the Armed Forces would be on the verge of a collapse, but more draftees, new materiel and more ammunition supplies will be needed to maintain the credibility.

"Unless the Armed Forces receive increased funds after 1987, it will not be possible to maintain the efficiency at the present level," says Defense Minister Hans Engell.

In a comment on a number of statements on the present situation and financial needs of the Armed Forces from Foreign Minister Uffe Ellemann-Jensen as well as Col. P.J. Jørgensen, Chief of Staff of the Jutland Division, the Defense Minister adds:

"It is not true that the Armed Forces are on the verge of a collapse, but it is no use believing that the Armed Forces will be able to manage by means of clever solutions or by using the same funds several times. That does not increase the efficiency," says Hans Engell, who desires an increase in the defense budget by 6-800 million kroner."

"It is not merely a question of the credibility of the Armed Forces among ourselves but also a question of credibility among our NATO allies.

Col. Jørgensen, of course, is right that the Armed Forces have certain fundamental problems, which have accumulated as a result of the lack of funds for the Armed Forces for many years," says the Minister of Defense, adding:

"I find the main problems to be the quality of the mobilization forces, the quality of the materiel and the ammunition stockpiles.

When Knud Damgaard (Social Democratic Party) says that he does not want to spend more funds on the Armed Forces, my question will be why Denmark's security is less important to the Danish Social Democratic Party than the defense of Norway is to the Norwegian Social Democratic Party. The population

of Norway is smaller than that of Denmark, but they have a defense budget which is between 2 and 3 billion kroner larger," says Hans Engell.

Svend Auken, deputy chairman of the Social Democratic Party, does not advocate increasing the funds for the Armed Forces. "On the other hand, we do not support the proposal on the part of the Socialist People's Party to carry through cutbacks," he says, adding: "There is a need for rationalization measures. In other areas, the state has collected the gains. Within the defense sector, the Armed Forces themselves ought to spend the funds gained by way of rationalization."

#### The Defense Chief

"The Armed Forces are not on the verge of a collapse, but it is true that in order for the Armed Forces to be able to maintain their efficiency at its present level, it will be necessary to increase the defense budget," the Defense Chief, Admiral S.E. Thiede, states.

Col. Jørgensen describes it as parasitic toward our NATO allies for the Armed Forces to refrain from calling up sufficient numbers of recruits. The day when things really come to a head, it will be 35,000 Americans, Englishmen and West Germans who will be defending Denmark. Against that background, it is unreasonable for only 5,400 recruits to be called up, while 22,000 escape being called up," Col. Jørgensen says, adding that in order for the defense agreement of 1984 to be fulfilled, the grants will have to be increased by 6-800 million kroner for the purchase of new materiel and ammunition.

How bad things really are, as far as the size of the Armed Forces is concerned, was seen recently when, in connection with the Bold Guard NATO maneuver, the Jutland Division moved into Schlesweig-Holstein with only 4,800 soldiers out of the prescribed combat force of 18,000 soldiers. The Danish soldiers were praised by their German allies, but it was pointed out constantly that they were far too few.

The mobilization units are not all of them as aged and helpless as maintained by Col. Jørgensen. BERLINGSKE TIDENDE recently visited a battalion from the third Zealand combat group during a maneuver at Jægerspris. The conscripts of 5-6 years ago function quite well, as pointed out in the JOB section today.

#### More Conscripts

"We need more conscripts to be trained. We need to modernize our material within all three services, and we need to build up our stockpiles," says Admiral Thiede, adding:

"Our problem of holding on to our personnel is a complicated matter. Col. Jørgensen points out that many of the young officers do not feel that they receive the needed support. But there are also economic problems. There are moving problems, and there is a thriving business sector which can utilize our well-trained young officers. That is the reason why we have a larger number of resignations than we might desire. But that is, incidentally, no special Danish problem. We share it with Norway and Sweden," Admiral S.E. Thiede says.

MILITARY

DENMARK

# ENGELL TO PROPOSE NEW DEFENSE AGREEMENT IN EARLY 1987

Copenhagen BERLINGSKE TIDENDE in Danish 6 Nov 86 p 8

[Article by Carl Otto Brix]

[Text] In January-February of next year, Defense Minister Hans Engell (Conservative Party) will present the government's proposal for a new defense agreement with the Social Democratic Party, and the large opposition party will thus be placed in another dilemma.

Circles within the party find that it will be best to conclude the defense agreement before a parliamentary election. In the opinion of the said circles, a calmer atmosphere is thus produced about the question of the Armed Forces not only in the election campaign but also after it. This will be beneficial, they find, irrespective whether the Four-Leaf-Clover government continues or is replaced by an SDP/SP coalition or a Social Democratic minority government supported by the Socialist People's Party.

Other circles within the party are of the opposite opinion. These circles find that the Social Democratic Party cannot enter into such an important agreement with its main opponent on the eve of an election. They, moreover, find that an agreement will hamper the cooperation with the Socialist People's Party.

The government hopes that it will be possible to conclude a defense agreement, even if it will not be possible to reach an understanding with the Social Democratic Party on the security policy in a broader sense. Consequently, they do not expect either that there will be any "election campaign proposal" but a weak statement, expressing the hope that it will be possible to extend the cooperation by another 2-3 years.

Within the government, it is regarded as a firmer line on the part of the Social Democratic Party that Karl Hjortnæs has replaced Knud Damgaard as defense policy coordinator. On account of his age, Knud Damgaard has not been renominated and will be leaving the Folketing at the next election.

That may create difficulties for the government, for even though relations between the government and the Social Democratic Party have not been too warm, both partners have done what was necessary to make the agreement work.

The current defense agreement was concluded between the four coalition parties and the Social Democratic Party with the silent support of the Progressive Party. It will expire on 1 January 1988.

The Defense Minister has repeatedly stated his desire for more conscripts to be called up for the Armed Forces. In this way, a larger force may be mobilized, and the appreciation of the significance of the Armed Forces will become more widespread among the population.

In addition, the Defense Minister has repeatedly pointed out the danger to Denmark and other minor NATO countries caused by the rapid development of arms technology, as a result of which purchased systems are soon rendered obsolete, while new systems become far too costly.

The negotiations, therefore, will presumably concentrate on the number of conscripts and arms technology. The negotiators will be certain to evaluate the situation which would arise if the intentions from the Reykjavik meeting to reduce the number of medium-range nuclear weapons in Europe were implemented. Foreign Minister Uffe Ellemann-Jensen (Liberal Party) thus stated in BERLINGSKE TIDENDE that more conventional weapons will be needed if things go this way, which, incidentally, has repeatedly been desired by the Folketing majority in various resolutions.

All things considered, that means larger expenditures for the Danish Armed Forces.

7262

CSO: 3613/20

MILITARY

FEDERAL REPUBLIC OF GERMANY

# BUDGET CONSTRAINTS LIMIT GROWTH OF ARMY'S HELICOPTER FLEET

Bonn WEHRTECHNIK in German Sep 86 pp 85-89

["Text" of speech by Brigadier General Kurt-Josef Veerer: "Army Aviation-- Today and Tomorrow"; first two paragraphs are WEHRTECHNIK introduction]

[Text] Brigadier General Kurt-Josef Veerer is a native of Rheinland-Pfalz, born in 1930. After finishing secondary school, insurance salesman; entered army in 1956. After officer and helicopter training, assigned as flight safety officer. General staff training was followed by assignments as a battalion commander, commander of an army aviation transport regiment, in AFCENT headquarters as acting general of army aviation, commander of an armored brigade, and commander of the army aviation weapons school. General of army aviation and chief of Section VII of the General Army Office since 1 October 1985.

In the opening speech at the 16th International Helicopter Forum, Brig Gen Kurt-Josef Veerer, general of army aviation and chief of Section VII of the General Army Office, expressed some thoughts about army aviation planning. Here he stated that army aviation must introduce the PAH-2 antitank helicopter by 1995, equip part of the VBH liaison helicopters with STINGER missiles, keep the UH-1D and CH-53 helicopters deployable until at least the year 2000, and, on the basis of the envisaged goals for the army's air mobility, to begin the planning for and to define the requirements necessary for providing the army with a combat-ready army aviation force.

Military requirements are to be examined in response to the following question:

What threatens us and how can we meet this threat?

It is the conviction of all Western nations which have both the proper conceptions and the material that the qualitatively high and numerically superior threat, especially from tanks and attack helicopters, can be met only with one's own high mobility combined with high firepower. For this reason, the general of army aviation concentrated during his presentation at the 15th International Helicopter Forum in 1984 upon the PAH-2 antitank helicopter to be developed jointly by the FRG and France, presented thoughts about arming the VBH liaison helicopter in order to defend against attack helicopters, and

pointed to possible developments which could make the components of airmobile firepower and helicopter-borne airmobile combat units into an independent instrument for airmobile conduct of operations. The United States and France have already taken important steps in this area: I refer to the U.S. concept "Air Land Battle 2000" and the French concept "Rapid Reaction Force (FAR)."

We have to consider here that we, unlike our American and French comrades, do not have to concern ourselves with worldwide options, but only to concentrate our planning upon deployment in our own country and the defense of our homeland. I can however hardly imagine the use of antitank helicopters at the operational level without infantry units. The infantryman can make contact with the enemy much more effectively than can a helicopter crew.

#### Where Do We Stand Today?

For the FRG Army presently, it is a matter of obtaining by not later than the middle of the 1990's an antitank helicopter which can unrestrictedly carry out its mission of antitank defense--even under the conditions of the year 2000. We know that the PAH-1 antitank helicopter has its clear limitations.

The basic requirements for the new weapon system are broadly known. In spite of this, I will briefly summarize the most important ones:

- Optimization of the antitank mission through the type of weaponry;
- High stability under load, ability to carry out its mission, and survival capability, including self-defense weaponry;
- Full capability for night operations;
- Long period of operation;
- Growth potential for third-generation weapons for combat missions past the year 2000.

The agreement between the governments of France and the FRG for joint development of a basic helicopter from which the different combat variations are to follow was signed 2 years ago. It is no secret that there have since then been certain difficulties and delays in connection with development of the specifications. In my opinion, this is almost normal at the beginning of such a complex and ambitious program and can actually surprise only one who either is an incurable optimist or has had little involvement with international cooperation. These initial difficulties have subsequently been overcome--successfully, I can say--and the precisely specified helicopter has evolved into a slightly larger, slightly heavier, and more expensive one than originally planned. Even this development should not surprise us very much. In the meantime, possibilities for lowering costs could be found--through technical simplifications, mind you, without deletions from the basic requirements.

I now hope that the overall development can be pushed forward rapidly and that at least part of the delay can be made up. For I openly confess that the delayed introduction of the PAH-2 causes a great deal of concern for me as representative of the user, and not just because of the inevitable cost increase but also mainly because of the increasingly widening gap caused by the delay between anticipated threats and our potential for defense.

#### How to Counter the Attack Helicopter?

If one evaluates the combat capabilities of helicopters on the battlefield today according to the criteria of the airmobile threat, which has become an omnipresent one over our territory because of the large number of attack helicopters, then one reaches the conclusion that operations by our helicopters without their own airmobile protection cannot be carried out with adequate hope for success.

The attack helicopter plays an extremely important role for Warsaw Pact forces. Its mission is both immediate fire support from the air and also the destruction of enemy helicopters which threaten their combat troops, especially the antitank helicopters. The importance which the Warsaw Pact places upon the completion of this mission becomes clear through:

- The steadily increasing number of attack helicopters;
- The development of the HAVOC helicopter, which is optimized for antitank defense;
- The development of the HOKUM helicopter, which is optimized for air combat and escort duty.

These helicopters have at their disposal an effective weapons mix of unguided air-to-ground missiles, tube weapons, and air-to-air missiles, which cover a range of 3,000 meters and more very well. The Warsaw Pact will reportedly by 1988 attain full night-fighting capability and, as a result, also full capability to support uninterrupted operations.

Similar weaponry is absolutely necessary in order not to have to discontinue our operations upon arrival of an enemy attack helicopter, but also to be able to continue operations even against them. The request made in 1984 to equip the VBH liaison helicopter with air-to-air weaponry has recently resulted in a positive decision. Army aviation will equip some 50 VBH liaison helicopters each with 4 launch devices for the STINGER 2 infrared-guided antiaircraft missile. What is needed now is:

- To adapt the STINGER to the liaison helicopter;
- To determine the necessary reorganization of the unit; and
- To provide the necessary personnel (second helicopter pilot).
- Delivery to army aviation cannot take place before 1990/92.

The adaptation for the VBH liaison helicopter consists not just of the installation and mounting of the launch devices, but is more comprehensive. Here I am thinking about the vision systems for reconnaissance, target acquisition, and target engagement. The liaison helicopter/STINGER combination will be used mainly during daylight in defense of PAH-1 antitank helicopter operations. However, it will also have the capability of providing escort protection for airborne operations. Army aviation thereby accomplishes the additional, if also smaller, step of combining firepower with the mobility already provided by helicopters.

#### Increases in Combat Effectiveness

For army aviation, procurement is already underway for new image intensifier-helmet glasses with third-generation tubes. For transport helicopters, a ground-independent navigation system including a map device is being introduced. The map device will also be purchased for the Bo-105 liaison helicopter. In addition, the material planning and procurement procedure was begun for a radar altimeter, which is necessary for deployment of the liaison helicopter under night vision conditions.

Many other necessary, or at least desirable, measures for maintenance of combat effectiveness or else improvement of combat effectiveness of our transport helicopters are falling victim to our limited financial resources.

In addition to the above-mentioned actions, the following are also being taken:

#### UD-1D

- Installation of a night vision-compatible cockpit;
- Technical/logistic improvements in the helicopter system;
- Mounting of a cable-operated hood arrangement.

#### CH-53

- Mottled camouflage;
- Installation of an improved seat for the on-board engineering officer;
- The exterior fuel tanks will still be required.

The command/control capabilities of helicopters will be improved through procurement of high-frequency radio sets and the cryptosecure SEM 91.

## Outlook

The equipping of army aviation with helicopters and their organization in the future are dependent upon the following basic conditions and allowances:

The operating area of army aviation remains the forward battle zone, which is identical to the corps area. There our helicopters are especially threatened by air defense forces of all types and by attack helicopters. The highest density of threat is at the Forward Edge of Battle Area and in its vicinity. The lines are often fluid and cannot be defined precisely. The battle will often have an island-like character, so that one must count upon unexpectedly running into undetected enemy forces even deep in one's own territory.

Improved ammunition--toward smart ammunition, also for small calibers, with great lethality--and high-performance reconnaissance sensors will make it possible, to a greater extent, to attack targets in depth.

The future financial and personnel situation leaves one very little room to maneuver.

Which conclusions are we to draw from this?

### Limited to Only the Most Necessary

The tight financial situation makes it necessary that all equipment requests based upon threat analysis be considered from the viewpoint of cost-benefit analysis. The formulation of the question must be, whether the desired goal can be attained only with this equipment or whether it can be attained through some simpler, cheaper method. The limitation to only the most necessary material with which the goal can be reached will be the rule. In some area, it will surely have to mean doing without.

### Tradeoffs Resulting From Savings in Personnel

In spite of the negative personnel developments to be expected starting in 1990, the inventory of aircraft must remain equally high. The goal is to operate helicopters with only the absolutely necessary number of people. The allegedly expected savings must be achieved mainly through other measures such as serious deletions in the aircraft-related technical area. In future helicopter development, the personnel factor must be considered as well as the financial resources.

That has effects upon the requirement for ease of maintenance and simpler, less labor-intensive repair. Helicopter systems must be so designed that:

-- Critical parts will be especially well protected;

-- Bullet-resistant materials, at least against small calibers, will be widely used;

-- Air-safety and mission-critical systems will be laid out in redundant fashion;

-- A simple maintenance and repair system based upon modular construction will be possible.

Here, industry is requested to point out simpler, cost-effective, low-labor-intensive methods.

We will not--at least now--follow the U.S. Army's consideration of the "one-man cockpit." I do not believe that a helicopter pilot who is flying a combat mission is capable of simultaneously carrying out both his flying duties and his combat mission under modern battlefield conditions. In the FRG Army, we will stay basically with the "two-man cockpit."

#### Future Equipment

The future mission of army aviation will be determined and described in the envisaged goals for the army's air mobility. The equipping of army aviation with helicopters is to be derived from this mission.

It is still too early to describe in detail the intentions for planning past the year 2000. The combat mission can possibly be totally expanded. However, the first priority will still be the battle against armored forces in cooperation with our own mechanized forces.

The air-to-air capability must be expanded. The PAH-2 will be equipped with air-to-air missiles, and thus be capable of self-defense. Nevertheless, another component will be necessary for intelligence, reconnaissance, and defense--especially against enemy air weaponry. These missions should not have to be carried out by the PAH-2, because this would reduce antitank capabilities. In this case, one would consider an escort helicopter.

Our UH-1D and CH-53 transport helicopters will still have to be used for a long time. Only after the year 2000 is replacement to be considered. Additional and more expensive measures to maintain combat effectiveness can become necessary.

A light transport helicopter (LTH) and a medium transport helicopter (MTH) will be necessary in the future. This results from the diverse mission requirements. The successor model for the LTH UH-1D will have to be in the 2-ton class; for the CH-53, consideration will have to be given to transport helicopters with a payload of 6 to 8 tons. Payload and cargo space must correspond to the main piece of equipment for airborne forces which can be air landed with transport helicopters. We will have to examine whether our transport helicopters will have to be equipped with a self-defense weapon system, or whether defense against an airborne threat will require either a specially-equipped escort helicopter or an all-purpose helicopter which is equally suitable for both attack and transport missions.

Army aviation must:

- Introduce the PAH-2 by 1995;
- Equip part of the liaison helicopters with the STINGER air-to-air missile;
- Carry out additional measures to maintain the combat effectiveness of the UH-1D and the CH-53, so that they can continue to be used past the year 2000; and
- On the basis of envisaged goals for army air mobility, conduct the planning and define the requirements necessary to make sure that, in the future as well, the army will have a combat-ready army aviation force at its disposal.

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MILITARY

FEDERAL REPUBLIC OF GERMANY

## DEFENSE CONTRACTORS FACE LEAN YEARS, HARD CHOICES INTO 1990'S

### Orders Lagging, Exports Problematic

Frankfurt/Main FRANKFURTER RUNDSCHAU in German 15 Oct 86 p 13

[Article by Leonhard Spielhofer: "German Armaments Firms Gradually Getting Their Powder Wet--No New Large-Scale Orders in Sight Through the Middle of the 1990's--Exports Are Also Lagging--Not Much Thought Being Given to Retooling for Civilian Products"]

[Text] It is precisely Turkey, which is more readily characterized as a developing nation rather than an industrial nation, which is expected to come to the aid of the German armaments industry at this time. As has become known during the past week, an unusual exchange transaction calls for Bonn to send, among others, some 150 older Leopard I tanks, valued at DM 150 million, to the Bosphorus so that no additional Turkish workers will come to the Federal Republic once their country becomes a full member of the European Community and once these workers can freely select a workplace within the community.

This suits the German armaments industry. Because this exchange transaction at least holds prospects for domestic tank factories for more orders for the more modern Leopard II--as replacements for the shipments to the Near East. The armaments industry needs such additional orders urgently. A lack of activity is discernible because the large-scale orders of the Bundeswehr of the past years have been completed and new orders are not to be expected so quickly.

In its search for "export activities," the German armaments industry has thus far not been overly successful. On the contrary. This year, it has missed the target completely once. Now it is even threatened by a second failure. While in early summer India had surprisingly decided to refurbish its artillery not with German but with Swedish tank guns, a military hardware order worth billions, which involved Saudi Arabia and appeared to be in hand, is now looking wobbly. The mammoth business transaction valued at many billions of DM, which had been announced a year ago and which, among others, involved the construction of a large munitions factory, does not seem to want to advance. There is an obvious shortage of cash in the once richly endowed oil cash register.

The bustling competition does not find this inconvenient and is attempting to muddy the German-Arab military connection. Favored by the worldwide growth of excess capacities, which has existed for several years, pressures are being exerted to the detriment of the competitors and to the joy of the arms buyers with respect to prices and delivery conditions.

In the international weapons market, the customer is once more king because the demand boom of the 1970's has stopped as a result of the shortage of funds in developing countries as well as crisis regions and even German technology, including the Leopard II combat tank is no longer necessarily the sole objective of those wishing to arm and rearm.

New competitors such as Israel or Brazil, but also North Korea and Taiwan, have recognized the trend in time. They are lobbying in the antechambers of governments which have retained their hunger for weapons even though they are having financial problems and are making life difficult for the established Western firms--not with high technology but "with cheap, robust, and simple-to-handle weapons which appear to be better matched to the conflicts and the economic situations in Third World countries," according to Herbert Wulf of the Institute for Peace Research at Hamburg University.

Domestic military technicians are already feeling the effects. Along the north German coast, the large navy wharves are threatening to drown as a result of a shortage of additional military demand. In southern Germany, aircraft manufacturers are sailing into a dead calm because the end of the "Tornado" manufacturing run is at hand but additional demand from Bonn has not seen to providing new wind. Between north and south, the fires are threatening to go out in the tank forges--the Leopard II series production is soon to end.

The large Bundeswehr programs are almost completed. The planners at the Bonn Ministry of Defense do not plan to resume in full until the middle of the 1990's. That will mark the beginning of the innovation offensive involving the "third generation of weapons." Officially, in today's prices, some DM 240 billion have been set aside for this program. In estimates made by the Institute for Peace Research, the volume will likely run to at least 300 billion. The Hamburg institute accuses the armaments strategists of having, for the most part, made some thoroughgoing errors in their calculations.

The long dry spell in German military technology appears to be programmed. Even the additional order for 250 Leopard II tanks which Bonn is now planning will not help, neither will the additional 30-40 "Tornado" combat aircraft. Critics regard the purely politically motivated three-way transaction between Bonn, Ankara, and the German armaments industry only as an effort to buy off an additional influx of Turkish guest workers into the Federal Republic. Polemically expressed: German tanks paid for with Turkish unemployment. And the orders for three frigates placed with German wharves by Portugal, Herbert Wulf notes, only became a sure thing when Bonn helped Lisbon by providing DM 400 million.

In the opinion of the Institute for Peace Research, the crisis in the armaments industry, which currently employs around 290,000 individuals, cannot be stopped. For individual branches, the institute forecasts a shrinking of orders and turnover of between 30-40 percent. Dismissals, short workweeks, and even plant closings are not impossible.

In cooperation with the IG Metall Enterprise and the Hans Boeckler Endowment of the DGB [German Trade Union Federation], the Hamburg institute attempted to find out over a period of 2 years whether the armaments industry is in a position of switching over to civilian production. That way, the constantly fluctuating demand of the military, which is connected with the constant threat to jobs, would be eliminated in the future.

The results sound thoroughly optimistic: The reorientation of the armaments industry does not founder because it could not produce any product other than weapons. Technically, most firms are in a position to do so. Consequently, there is also a sufficient number of alternative products which the state could order in place of weapons: products for environmental protection, for energy supply, for education, or for public commuter transportation. The researchers also did not confirm the widely held opinion which holds that armaments specialists are not usable for producing civilian products. They would be fit to do so following even "limited retraining."

Conversion from military to civilian goods, in the opinion of both researchers Herbert Wulf and Peter Wilke, is all the more readily conceivable, since pure armaments firms in the Federal Republic are the exception anyway. Of the 30 largest German producers, only 12 obtain more than half of their total turnover from weapons.

Yet, "despite the technical and economic doability of it," the researchers are "more pessimistic." They justify their skepticism with three arguments as follows:

First, the will to disarm and to dismantle armaments production is generally lacking throughout the world. On the contrary: It is currently a specific goal of the governments to promote existing capacities so that contact with the technological peak in armaments not be lost.

Secondly, the "enterprise decision structures" prevent the adoption of alternative concepts which are submitted, for example, by trade union circles. Naturally, it is said that the yardstick of "social utility of the product" which is very often applied "frequently fails to meet conditions of market economy logic."

Thirdly, economic policy and the "crisislike economic situation" provides little stimulus for change and diversification. Because of organizational policy considerations, enterprise managements rejected state intervention with respect to conversion although the armaments industry, like no other industry, was dependent on state intervention.

These tendencies are favored by the growing concentration within the industry. In 1980, for example, the 10 largest armaments establishments accounted for 37 percent of all specific orders. In 1985, Daimler-Benz (with AEG and MTU) as well as MBB (with Krauss-Maffei), the two enterprises which had in the meantime advanced to become the largest weapons forges in the Federal Republic, together accounted for about one-third of all orders.

The move of the armaments industry toward civilian production in other countries is also more of a rarity. As proof, the peace researchers used the United States. The curtailed military spending following the war in Korea and the Vietnam war caused the majority of military manufacturing concerns in the United States to react more with dismissals and capacity restrictions rather than engaging in laborious conversion. And where civilian diversification did take place, it did so--like currently in the Federal Republic--through the acquisition of firms or through a totally new beginning with another firm.

#### MBB Banking on Aerospace

Munich SUEDEUTSCHE ZEITUNG in German 29 Oct 86 p 32

[Article by sza, Bonn: "MBB Has Wind Blowing Into Its Face--Airbus, Helicopter, and Rail Vehicles Are the Problem Areas"]

[Text] The aviation and space concern of Messerschmitt-Boelkow-Blohm GmbH (MBB) at Ottobrunn near Munich clearly is having great trouble in closing its current business year in the black. Prospects for 1987 are also not considered to be rosy. Internal appeals for conservation, a type of hiring freeze, as well as the announcement of a reduction in force permit the conclusion that the actual earnings developments have remained behind expectations. Special problem zones have proven to be the Airbus participation, the helicopter sector, and the area dealing with rail vehicles. In the foreground of a board of directors meeting in the middle of November and a meeting of the board of trustees, set for 6 December, there is talk of a "long dry spell" which could last awhile yet.

Internal enterprise rumors that the management would like to dismiss up to 4,000 employees in 1987 (approximately 10 percent of the total number) prove upon closer examination to be theatrical thunder in front of the Bonn subsidy scenery. However, what is a fact is that "at first" 600 jobs are to be eliminated within the framework of normal attrition and through offering an early retirement program. The fact that consideration is being given to ways of lowering personnel costs--that is to say in clear language, additional personnel cuts--is not being denied.

#### Profit Worries

"Considerations" are also in hand as to whether the amalgamation of central entrepreneur sectors might result in cost savings. This column includes the sector of rail vehicles. On the other hand, as far as the manufacture of rolling stock is concerned, this sector is considered a candidate for sale. It is said that in the long run, rolling stock manufacture cannot prevail from

the standpoint of cost structure. The solution would have to be a "specialization" project.

Seen from the profits side, the Airbus is considered to be the "chunk of wood in the leg." Some weeks ago, on the occasion of the meeting of the federal chancellor with some industry chiefs as well as with Franz Josef Strauss, there was talk that the development of the dollar exchange rate--from more than 3 marks to now around 2 marks--was resulting in losses with respect to the Airbus in the hundreds of millions. As early as 1985, MBB was suffering exchange rate-based losses of around DM 90 million. Since that time, the developments have even sharpened. Although the Airbuses, particularly the new Model A-30, are selling right well at the moment, the sales practices of the American Boeing competitors, as well as the exchange rate-based profit losses, are causing considerable worries.

With respect to the third problem area--helicopters, MBB chief Hanns Arndt Vogels, whose diversification concept was also accompanied internally by considerable skepticism--has appointed a so-called "task force." The special staff is charged with finding out which factors are responsible for helicopter sales lagging far behind expectations, particularly in the civilian sector. Even military business is not moving properly, particularly the German-French project of a joint battle helicopter. As far as MBB is concerned, the lack of decisions by both defense ministers (prior to the German elections in January) is responsible. From the standpoint of the defense ministries, conflicts between the MBB enterprises and Aerospatiale are said to be one of the principal reasons for delays and the resulting cost increases in the project.

Even the fighter aircraft for the 1990's is causing problems. Although the fabrication lines in Augsburg and Manching can be kept operating longer than anticipated thanks to additional orders but reduced production runs, some years need to be bridged until the Fighter 90 is a fact. Added to this is the circumstance that then--because of Spain as the additional partner, because of smaller production runs, and because of the requirement to let Dornier participate, the MBB share of the pie will be smaller than with respect to the German-British-Italian "Tornado."

The space area then remains as the "profit center." In this area, MBB is placing great hopes on the "Hermes," the space gliders "Saenger" and "Hotol." Naturally, the actual sums are still completely open.

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ENERGY

TURKEY

OIL IMPORTS UP 48 PERCENT

Istanbul CUMHURIYET in Turkish 30 Sep 86 p 11

[Test] Ankara (ANATOLIAN AGENCY) - Turkey's crude oil imports have increased by 6.5 million tons since 1980. According to information obtained by an AA correspondent, crude oil imports were 11.5 million tons in 1980 and are expected to reach 17 million tons in 1986. Turkish Refinery Corporation authorities reported that crude oil imports for the first 7 months of the year amounted to 9 million tons, and the purchase of 8 million more tons is expected by the end of the year. The rate of increase in Turkey's crude oil imports for the 7-month period is 47.8 percent. The amount of foreign exchange which Turkey spent on crude oil imports, meanwhile, was significantly less in 1986. Turkey paid an average of \$32.90 a barrel for crude oil in 1980 but paid an average of \$16 a barrel this year, based on the figures for the first 7 months.

Though the foreign exchange paid per barrel for crude oil had been declining since 1981, it was the large price reductions that appeared on world oil markets in late 1985 that significantly reduced Turkey's crude oil bill.

Turkish Oil Imports

| Year            | Amount (ton) | Barrel Price (\$) |
|-----------------|--------------|-------------------|
| 1980            | 11,507,112   | 32.9              |
| 1981            | 11,601,751   | 37.9              |
| 1982            | 13,862,085   | 34.4              |
| 1983            | 14,259,424   | 30.7              |
| 1984            | 15,465,959   | 29.4              |
| 1985            | 15,505,103   | 28.9              |
| 1986 (7 months) | 8,987,342    | 16.0              |

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END