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18 September 1981

West Europe Report

(FOUO 47/81)



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TERRORISM

ITALY

CGIL-CISL-UIL LABOR DECISION ON FACTORY TERRORISM

Milan EL MONDO in Italian 7 Aug 81 p 27

[Text] It will be a kind of labor union antiterrorism. Six persons, whose names are kept secret, are working on it on the national level: a federation secretary and an official for each organization. Task: to coordinate labor unionism's initiative to fight against factory terrorism. This is the most important decision made on Wednesday 22 July by the unified secretariat of the CGIL-CISL-UIL [Italian General Confederation of Labor-Italian Confederation of Labor Unions-Italian Union of Labor] federation that met to discuss precisely the presence of Red Brigades in factories, after the Friday 17 July meeting in Milan (IL MONDO, No 30) and after the controversies that broke out as a result of Enzo Mattina's statements on the relationship between labor union struggle and terrorism. All the initiatives of labor unionism on the subject will come to this new working group that is also to handle relations with the police (Luciano Lama, Pierre Carniti and Giorgio Benvenuto met with the minister of Interior, Virginio Rognoni, a few days ago. Three initiatives have already been decided on.

1. A meeting of delegates from the three plants in which terrorists seem to be most present: Alfa Romeo in Arese, Petrochemical in Marghera and FIAT. The objective is twofold: to intensify the analysis already made in the Milan meeting on the new phase of terrorism, centered in factories, and to give renewed trust and support to the delegates who are in the front line and who "are going through a serious moment of mistrust," as they recognize in many in the labor union movement.
2. Establishment of a central labor union file. This will primarily be the task of the officials of the working group established at the federation level. On its own account, the UIL has already started this work meanwhile. And Benvenuto himself is devoting a good part of his time to studying documents, periodicals and pamphlets of the Red Brigades and associated organizations. The UIL has made advance announcement of the publication, in September, of a real file consisting precisely of the analysis of this material. Meanwhile, one thing has already emerged clearly from a study of this material: the Red Brigade strategic guidelines correspond in detail, at times, with whole statements made textually in the pamphlets distributed openly in factories by autonomy groups. This demonstrates that the two areas once divided, that is to say the armed area and the one operating in the open, have merged. And another hypothesis is gaining strength: that is to say that the terrorists can count on connivences and complicity also among technicians and perhaps even among executive personnel in the factories.

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3. A meeting of the unified executive committee focusing on terrorism called for September. The problem of the functioning of councils and the methods for electing delegates will be on the agenda. According to what IL MONDO is told, the assumption is that a kind of electoral and regulatory statute will be launched for the democratic functioning of assemblies and for the election of delegates. In order to really ensure expression of the will of the rank-and-file secure from possible intimidation by violent minorities. And in order to have greater certainty of the democratic loyalty of those workers who take on labor union responsibilities.

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ECONOMIC

BELGIUM

DROP IN EXPORTS IN EARLY 1981 ANALYZED

Brussels POURQUOI PAS? in French 30 Jul 81 pp 33-34

[Article by Jean Pourbaix: "Collapse of Our Exports"]

[Text] The results of our commercial trade with other countries during the first quarter of 1981 are not good; they are even frankly disturbing.

In January of this year, we exported 143.38 billion francs worth of goods, compared with 159,102,000,000 francs in January 1980. The figures for February 1981 are 156,988,000,000 francs, compared with 173,251,000,000 for February 1980; and for March 1981, 174.08 billion compared with 176,026,000,000 in March 1980.

Total exports for the quarter were 474,449,000,000 francs instead of 508,379,000,000 for the same period in 1980.

The drop, on the order of 6.7 percent, may appear insignificant at first sight, but it is less so when one considers two factors, to wit:

First, during the first three months of 1980, our exports had risen 30.4 percent compared with the first quarter of 1979, when they totaled nearly 390 billion francs. The counterperformance of the first quarter of 1981 attests to the profound collapse in our trade.

Second, and without bothering with too many statistics, we see that during that same quarter of 1981, our imports -- which normally include a large quantity of materials to be used by our industries -- remained practically steady at the rather high level of 563,407,000,000 francs.

Foreign Trade of UEBL [Belgium-Luxembourg Economic Union] for First Quarter of Years 1979 to 1981 (in millions of francs)

Exports

1979	389,993	-
1980	508,379	+ 30.4 %
1981	474,499	- 6.7 %

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Imports

1979	416,097	-
1980	571,996	+ 37.5 %
1981	563,407	- 1.5 %

Annual Trade Deficit of 300 Billion

While movements of exports and imports give rise to legitimate concern about the present and future state of our economic activities, above all, they carry a heavy threat to the trade balance and therefore, to the soundness of the franc.

Actually, each of the first three months of 1981 was marked by a substantial trade deficit, which amounted to 31,484,000,000 francs in January, 30,777,000,000 francs in February, and 26,697,000,000 francs in March.

This makes a quarterly total of some 89 billion, compared with an overall figure of 63.6 billion for the January-March period of last year.

Given this growing deficit in the trade balance, there is scarcely any wonder that one member of the government recently estimated that the surplus in imports over exports "will undoubtedly reach 300 billion by the end of 1981."

This estimate of 300 billion comes from Minister of Foreign Trade Urbain, who recently spoke about the appointment of the director of the Belgian Foreign Trade Office. The minister's figure even seems very modest to us. If each of the four quarters of 1981 were to have a deficit comparable to that of the first three months, the estimate could not fail to be surpassed.

Already for the year 1980, our trade balance showed a deficit of 210 billion, compared with 123 billion in 1979.

Distribution of Losses and Rare Gains

Regarding exports, the regression of the first quarter of 1981 represents some 34 billion francs compared with the corresponding period of 1980.

Classified by major geographic zones, our sales abroad are as follows for each of the two quarters examined:

Exports in Millions of Francs

	<u>3 Months 1980</u>	<u>3 Months 1981</u>	<u>Difference in Percent</u>
European Economic Community (EEC)	368,366	337,518	- 8.4
Economic Free Trade Association (AELE)	39,443	34,973	- 11.3
European CEMA countries	10,003	10,019	+ 0.2
Other European countries	6,915	7,640	+ 10.5
Africa	21,004	24,306	+ 15.7
America	27,424	24,899	- 9.2

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(cont.)

Asia	30,857	29,919	- 3.0
Oceania	1,233	1,135	- 8.0
General Total	508,379	474,449	- 6.7

Three months of sales:

Belgium to Japan	2,559,000,000
Japan to Belgium	15,967,000,000

A few details, hidden in the overall categories, should be brought out, particularly the following:

Under our exports to countries in the European Economic Community, the 30.2-percent drop in our sales to the United Kingdom (36,347,000,000 during the first quarter of 1981 compared with 52,101,000,000 during the first quarter of 1980).

Free trade zone: a drop of 20.4 percent in Belgian and Luxembourg sales to Switzerland (15,368,000,000 instead of 19.31 billion).

Among the European CEMA countries, Russian purchases, already up 20.9 percent in 1980, increase again by 30.6 percent during the first quarter of 1981, reaching 5,774,000,000 francs, compared with 4,421,000,000 during the first three months of 1980.

In Africa, new and strong expansion of our sales to the Republic of South Africa: up 53.1 percent in three months, or 2,294,000,000, compared with 1,499,000,000.

In America, imports from the UEBL going to the United States drop 14.2 percent, totaling (still after three months) 16,982,000,000, compared with 19,781,000,000, which contrasts with the 40.3-percent advance achieved during the first quarter of 1980. On the other hand, there was a net resumption of our sales to Canada: a 45-percent increase in 1981, or 2,052,000,000, compared with 1,415,000,000 in 1980.

In Asia, our business with Japan remains stagnant with respect to exports, which, for the first three months of this year, dropped to 2,559,000,000 francs compared with 2.64 billion in 1980 (down 3.1 percent). These mediocre figures pale alongside the rise of Japanese imports into Belgium: up 62.8 percent in 1980 (three months) compared with 1979 and up 70.8 percent in 1981 compared with 1980. Japanese exports to our country rose from 9,347,000,000 francs during the first quarter of 1980 to 15,967,000,000 for the same period in 1981.

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ECONOMIC

ITALY

ENI'S MACROECONOMIC STUDY ON FUTURE TRENDS

Milan IL MONDO in Italian 7 Aug 81 p 78

[Article by Marino Varengo: "How Much a Barrel of Oil Will Increase"]

[Text] Gloomy times for Italy's economy. ENI [National Hydrocarbons Agency] also joined in the chorus of pessimists recently with a study on the future evolution of the principal Italian macroeconomic aggregations. According to the ENI experts who used the econometric models of Data Resources and Prometeia, productive activity in Italy should be substantially stagnant for the second half of this year and for all 1982, with timid signs of recovery just at the end of next year. At the end of 1981, the gross domestic product will have increased 1 percent in comparison with the previous year, but the increase is due almost primarily to the results of the first half of the year. Growth is already slowing down now and the system will remain in a stage of almost absolute stagnation in all 1982 (the gross domestic product will rise 0.1 percent).

This stagnation will have two special aspects: among the components of the aggregate demand, family consumer goods will remain almost stable (and this will prevent the system from entering an out-and-out recession), while a definite drop will be taken by investments, especially investments in industrial equipment and machinery, which will decrease 10.7 percent in 1982, choked by high interest rates, by phenomena of credit rationing and by gloomy market forecasts. Naturally, stagnation will also have consequences on the cost of living. Again, the prevalent component for all 1981 will, however, be depreciation of the lira with regard to the dollar. Therefore, the increase in prices of consumer goods in 1981 will be 20.4 percent. But starting in the first months of the following year, the effects of stagnation will begin to make themselves felt. Therefore, inflation will go down to 16.9 percent in 1982. Stabilization of the lira on the foreign exchange markets will contribute to this decline.

Bad news continues concerning accounts abroad. After an apparent recovery in the first months of this year, caused primarily by the sharp depreciation of the lira, exports will undergo a slowdown between the end of 1981 and the first months of next year. Then, however, world demand should pick up again. Imports will decrease during the whole last half of 1981 (-12.2 percent), but will go up again.

The result of these developments will be a balance of trade strongly in the red (9,8 trillion lire deficit in 1981 and 10.4 trillion in 1982), only partly balanced again by a more favorable trend in the services sector.

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The last macroeconomic fact shown by the ENI study is unemployment. The unemployment rate will continue to go up: from 7.6 percent in 1980 to 8 percent in 1981 and to 8.5 percent in 1982. Then, employed workers will not come out of the crisis so badly. Pay per employee will show a 23.3-percent increase in 1981 and 19 percent in 1982, thus exceeding the inflation rate. The reason for this improvement in real terms is primarily a sharp increase in actual wages because of company bargaining in 1981 and the increases provided by renewal of the many labor contracts expiring next year. On the other hand, profits will decrease, because forecasts speak of a 20-percent increase in the cost of labor per product unit in these two years.

But what interests ENI mostly is, naturally, the future trend of the price of a barrel of crude oil imported into Italy. Forecasts, assuming that Italy will continue to import Middle Eastern oil (predominantly of the light Arabian type) primarily and that, therefore, there will be no effects of substituting heavier crudes (costing less), are that the average price per barrel will increase from \$31.94 in 1980 to \$36.94 in 1981 and \$40.12 in 1982 (with a peak of \$42 at the end of the year), with increases amounting, respectively, to 15.7 percent and 8.5 percent. These increases expressed in lire are still more appreciable. Between 1981 and 1980, the increase amounts to 45.9 percent, while in 1982, a further increase of 5.6 percent is anticipated.

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ECONOMIC

ITALY

STATUS OF MANUFACTURING INDUSTRY FOR FIRST HALF 1981

Milan IL MONDO in Italian 17 Jul 81 pp 120-123

[Article by Giancarlo Bussetti, Cristina Jucker, Gilberto Milano, Domenico Ravenna:
"Almost Normal Temperature"]

[Text] Olivetti has exceeded its budget forecasts. Pharmaceutical companies are exporting more and, among the textiles, Zucchi and Eliolona are thinking about the stock market. In the last 3 months, many positive signs indicate that there is a small recovery.

It has always been a company showing good profits. But the 62-percent increase in turnover achieved by Bassetti in the first 5 months of 1981, in a recession phase for many sectors, surprises first of all the executives themselves of the company producing household white goods. And this kind of positive data concerning the activity of the manufacturing industry is showing up in constantly larger numbers on the tables of institutes surveying the current state of affairs and of group associations. In short, on passing the buoy of the first half of the year, the situational survey pointer seems to be wavering around "variable," after having indicated a sharp recession for over 6 months (fourth quarter of 1980 and first quarter of 1981), with a decline of industrial production amounting up to 12 percent (it must be pointed out, however, that the first quarter of 1980, with which the first quarter of 1981 is compared, had an exceptionally positive trend). On the other hand, according to forecasts by the research center of CONFINDUSTRIA [General Confederation of Italian Industry], the levels of industrial activity should increase by 1.5 percent in the next 3 months (in comparison with the third quarter of 1980). Is it basically possible to speak of a trend reversal? Are we actually at the eve of a production recovery? IL MONDO asked this of about 50 companies in nine production sectors. The checkup of the companies surveyed substantially confirms the results of the situational surveys, although it brings to light a large number of contradictions in the status of companies. The result is a very uneven map of production activity, with appreciable differences between sectors and within a given sector.

"As of the end of May, our turnover amounted to 526 billion lire, with a 23.7-percent increase, which exceeded the budget forecasts," Carlo De Benedetti, vice president and managing director of Olivetti, stated. But, in contrast with the positive trend of the Ivrea firm and, in general, of the data-processing sector (+10 percent in real terms), there is the disastrous situation of the electronic components industry for which ANIE [National Association of Electrical and Electronic Industries],

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the group association of electrical and electronic companies, has asked for a state of crisis. In the textile sector, which still has a negative situational trend although with some symptoms of recovery (-6.9 percent in the second quarter of 1981 and -2.3 percent in the third quarter with regard to production), there is the household white goods sector that is experiencing good times. For example, Zucchi, according to what the president and managing director of the company, Giordano Zucchi, told IL MONDO, will soon be quoted on the stock exchange. This is an obvious sign that the company's good trend should enjoy the confidence of savers. A similar statement can be made for the chemical sector, suffering from a reduction in industrial activity greater than the manufacturing average (11-percent decline in second quarter production, with a trend reversal in the third quarter of up to +10 percent). On the other hand, the pharmaceutical sector is moving more vigorously, owing to exports. And, in the rubber sector, production of tires and technical items shows an appreciable crisis that the mild trend of the electrical cable industry does not succeed in putting back in balance. "Production capacities are underutilized owing to the falloff in demand and very soon we shall be forced to request the unemployment fund," Renato Martinotti, managing director of CEAT told IL MONDO.

The contradictions between the various sectoral and company situations is also reflected in the numerous problems with which enterprises are faced at this time. Positive signs are not lacking. Relations with workers' labor unions are satisfactory ("we are going through a good period in industrial relations," the cop executives of Tonolli, the large semifinished metal products industry in Milan confirm, for example). Production capacities of companies have benefited from this climate, achieving a utilization ranging between 75 percent (Riva Calzoni, for example) and 90 percent (Zucchi). But the bite of tight credit and of the high cost of money (with average rates around 25 percent for ordinary loans) have made themselves felt on the financial structure of every enterprise. "Although many banks, especially foreign banks, like Barclays, for example," Corrado Elmi, managing director of Caleppio, said, "are helping enterprises draw on foreign capital markets."

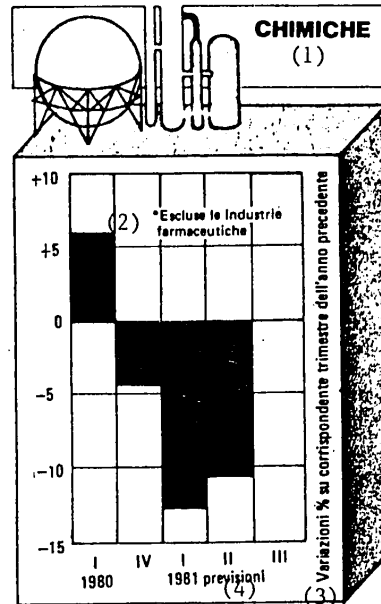
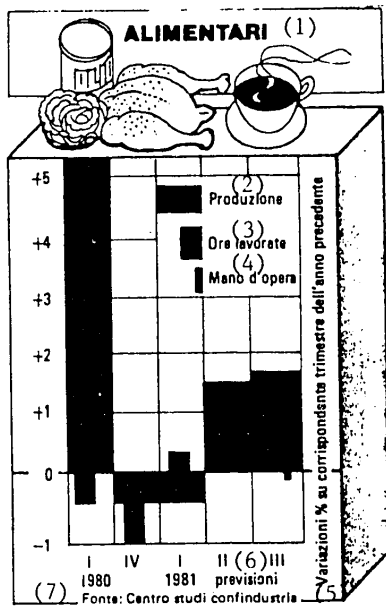
This, in summary, is the situational trend of the leading enterprises in various sectors, with special attention to these factors: turnover, utilization of production capacity, labor union situation, exports (with possible consequences of the changed lira-dollar exchange ratio), cost of labor, investments and financial structure (effect of tight credit).

Foodstuffs. The average increase in turnover of companies in this sector (whose production should increase +1.6 percent in the third quarter of the year) ranges around 7-10 percent in real terms in the first 6 months of 1981 and the end of the fiscal year forecasts do not deviate much from these values. There are rather many companies that are doing well. For example, Chiari & Forti believes, on the basis of the results for the first half-year (+10 percent turnover), that it can close the fiscal year with a good profit by winning slices of the market from competitors. Naturally, there is no lack of problems. For example, the financial structure of the enterprises has been weakened owing to a lengthening of customers' payment terms. Primo Vismara, managing director of Francesco Vismara, Incorporated, a delicatessen producer, says that "the volume of our credits increased 10 percent, on the average, in comparison with the same period last year." With regard to labor costs, an increase included between 20 and 25 percent is recorded, but, in some cases, it has been possible to keep the increase at appreciably lower levels (18 percent in Vismara). In general, the consequences of the lira-dollar exchange are

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slight. "In order to avoid the consequences of the changed foreign exchange rations," Giulio Malgara, managing director of Chiari & Forti says, "we tried to take shelter in other European currencies. But there still are grave concerns for the future."



Key: 1. foodstuffs; 2. production; 3. hours worked; 4. labor force; 5. percent variations from the same quarter of the preceding year; 6. forecasts; 7. source: CONFINDUSTRIA Research Center.

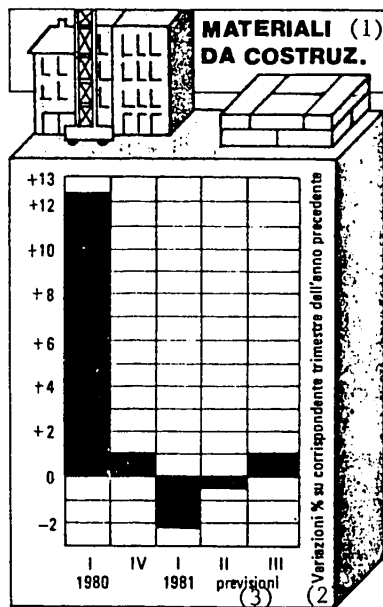
Key: 1. chemicals; 2. excluding pharmaceutical industries; 3. percent variations from the same quarter of the preceding year; 4. forecasts.

Chemicals. This sector shows much unevenness in its various divisions. In the first 3 months of 1981, Montedison's turnover amounted to 2,013,000,000,000 (aggregate turnover 2,928,000,000,000), marking a 4.4-percent increase. The small size of the increase is due primarily to the negative trend of production of pastic materials (counterbalanced by the positive trend of pharmaceutical products and fertilizers). In MAXFIN, the largest Italian group in the production of paints, headed by Montedison and the Varasi family, it is maintained that "the reduction in the production of paints should decrease in percentage during this year."

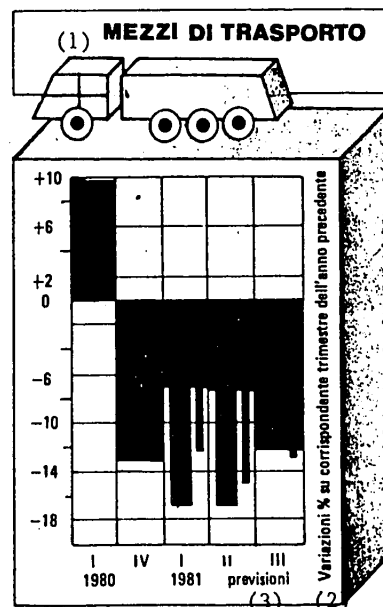
On the other hand, the trend of the activity of Mira Lanza (Bonomi Group), which recorded a 30-percent increase in comparison with the same period last year with prospects of improving still more by the end of the year, is different. A factor that has contributed much to this trend was the change in the exchange ratio between lira and dollar, which constituted a definite increase in exports for Mira Lanza. "We are at levels not far from double, although relative amounts are involved," one of the company's executives told IL MONDO. The situation of Boston of Bollate (Milan) is less happy than the above, but with stable results in terms of turnover that have enabled the company to recover from inflation. "We operate in the sector

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of glues and adhesive tapes," Francesco Guzzetti, financial manager of the company, told IL MONDO. "While prospects are for an increase in volume in glues, in adhesive tapes there is some crisis owing to the proliferation of small companies that have doubled the sector's production capacity, while the market absorption capacity has remained unchanged." On the whole, the sector has a satisfactory labor situation for the companies and excessive consequences have not been observed with regard to the credit squeeze. Investment programs are not large and are directed toward a strengthening of existing structures.



Key: 1. construction materials; 2. percent variations from the same quarter of the preceding year; 3. forecasts.



Key: 1. means of transportation; 2. percent variations from the preceding year; 3. forecasts.

Construction. Public building (10-year plan, Law 25, program for rebuilding Naples and areas hit by earthquakes) is moving at a moderate pace. On the other hand, private building is at a standstill. According to CRESME, a center for research on the building market, the 235,000 housing starts in 1981 come mostly from public building. On the whole, the production trend of construction enterprises should go from a -0.5 percent in the second quarter to a +1 percent in the third.

Some comforting prospects come from the foreign market. "A rather strong recovery has been observed precisely in these last few months by the presence abroad of Italian companies in this sector," Vincenzo Comito, financial manager of CMC, the powerful cooperative of masons and cement-workers in Ravenna, confirmed. Also there is no concern for the companies involved in international markets with regard to terms of payment. "Our foreign customers," Comito stated, "pay punctually at the times agreed on." Concern in this connection comes, rather, from the domestic market in which public agencies, traditional customers of the companies in the sector, still delay payments for extremely long times. The effect of the lira-dollar exchange ratio seems to be negligible. "Our company," Comito says, "has credits

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and debts in dollars and in the long run a kind of compensation mechanism is achieved." On the other hand, a negative trend is recorded in the tiles sector in which exports underwent a sizable 23-percent decline, in the first 3 months of 1981, in comparison with the same period last year. "The cause of this worrisome trend," Giorgio Saltini, head of ASSOPIASTRELLE, maintains, "is the unstoppable increase in our costs that are now double the costs of our leading competitors."

Electronics. This sector has quite a different trend within it. With the exception of data processing, all the other divisions represented, in the first months of 1981, the negative trend of 1980 (-0.5 percent for the whole sector), with more or less wide variations. The electronic components division is the one hardest hit. But consumer electronics (audio, video and illumination) are also experiencing difficult times. "In terms of value," Oscar Cecchinato, personnel manager of Philips, told IL MONDO, "we are two points below the turnover in the first half of 1980."

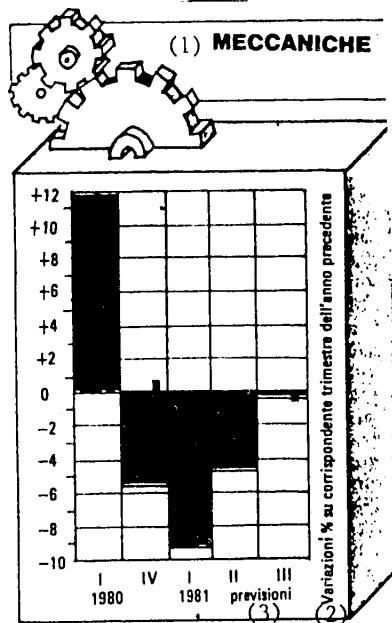
Among the major problems affecting the electronics sector as a whole is the problem of a structural excess of manpower, owing to the introduction of new technologies. The labor union situation is affected by this phenomenon and, especially with regard to consumer electronics, it is recording alarming tensions. There are many cases of unemployment fund and many companies are under supervised administration or in bankruptcy status. "We are very pessimistic on a recovery of the sector in the short term," the say in ANIE. Another market that is going through a negative period is the semiconductor market. "General forecasts are that the market will remain depressed for the whole year," Pasquale Pistorio, managing director of SGS-ATES, maintains. "An anticipated improvement should take place in the last quarter of 1981. An appreciable recovery in 1982 and a boom situation in 1983 are forecast."

Pharmaceuticals. News of an increase in the price tag on medicines is only a few days old. "This will give rise to an immediate considerable contraction in sales," the say at ISF, one of the largest Italian pharmaceutical houses, and this forecast is also confirmed by other companies. This fact comes at the conclusion of a seminar during which the physicians' strike, which lasted several days, severely affected sales of pharmaceutical products. "This fact," they say at Pierrel, "will involve a 20- to 30 percent reduction in turnover with regard to the 1981 budget." At Farmitalia-Carlo Erba they observe that "after a favorable start (+4 percent), demand decreased appreciably, also affecting the use of nonprescription products. The analysis division also felt the effect of a lack of laboratory analysis prescriptions. Consequently, there was an increase of only 11 percent in comparison with the previous year (while a 22-percent increase was forecast)." Prospects seem rather good, however. "The market is stable," the say in ISF, "in spite of the fact there has been a little witch-hunting in this sector." Moreover, the change in the lira-dollar ratio represented a substantially positive variant, because imports in dollars are very limited for all, while exports of raw materials, especially antibiotics, are increasing. For example, this year, it is estimated that Farmitalia-Carlo Erba will close the fiscal year with a positive balance with regard to the balance of trade, that is to say the difference between imports and exports, by over 100 billion lire.

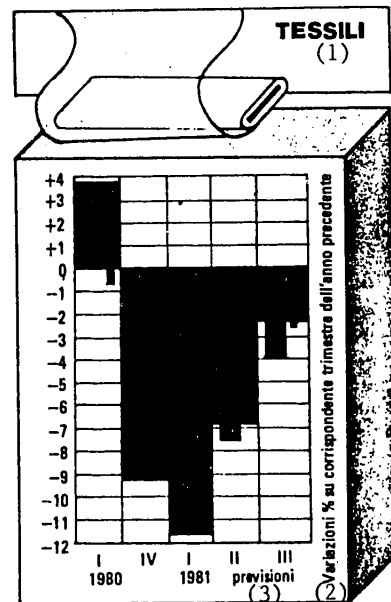
Rubber. "The situation of the sector is extremely difficult, especially with regard to automobile tires," Marinotti told IL MONDO. "Turnover in the first

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5 months of 1981 was 76 billion lire for the electrical cable sector (with a 13-percent increase in quantity) and 66 billion for the tire sector, with a 17.9-percent increase in comparison with the same months of the previous year, with an increase due solely to the increase in prices. The situation of electrical cables is slightly better, in spite of delays in payments by ENEL [National Electric Power Agency] and delays in issuing orders on the part of SIP [Italian Telephone Company]." Then with regard to investments, "in view of the present cost of money," Marinotti went on to say, "it is not at all advisable to make any (except in the south, where it is still possible to have financing facilities)." Elmi is of the same opinion. "Today the cost of money," he says, "discourages any initiative. It is impossible to have easy financing anywhere in the north." The turnover for these first months was not especially brilliant for Caleppio either (compared with last year's turnover) and the greatest difficulties pertaining to exports covering 54-56 percent of production. "For the next few months, the situation appears to be stagnant," Elmi adds. "Consumption of plastic material has generally decreased by 16 percent, not only in Italy, but also all over Europe. Moreover, Italy's high inflation rates in comparison with the other European countries are making us lose the ability to compete every year."



Key: 1. machine-building; 2. percent variations from the preceding year; 3. forecasts.



Key: 1. textiles; 2. percent variation from the preceding year. 3. forecasts.

Machine-building and metalworking. This sector underwent a different production trend, in the first half of 1981, in its various subdivisions and an uneven trend in some of them. Overall, production recorded a positive trend that can be estimated at 6 percent in the first 3 months of 1981. The automobile crisis, which experienced a sharp drop in registrations (-6 percent) in May and June, after a positive first quarter, came about to check this sector's positive trend.

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"There are great fears for the future," they maintain at Alfa Romeo, in Arese. "If the recession that has hit the sector all over Europe persists, it is believed that the Italian sector will also continue to remain affected." Confirmation of a crisis situation in the automobile sector was also received from the president of FIAT, Gianni Agnelli, who stated, during the shareholders assembly held on Friday 3 July, that the 240-billion-lira deficit recorded by the company in 1980 must be attributed to automobiles and industrial vehicles.

The crisis of the automobile sector has also involved other sectors like the electrical-mechanical instrument sector in which there are, however, several different situations. "We anticipate having, for 1981, a turnover definitely larger by at least 20 percent in comparison with 1980," they say at Riva Calzoni. The trend in other companies, like Franco Tosi and Ansaldo, a public industry reporting profits on its statement for a couple of years now, is positive, although to a smaller extent. On the other hand, Marelli Magnetos and Italian Tecnomasio Brown Boveri are experiencing serious problems. "We are forecasting that the turnover at the end of the year may contain a figure 10 percent lower than the 1980 turnover," they say at Tonolli. "But we anticipate a slight recovery by the end of the year."

Textiles. According to very recent data, it is seen that, insofar as spring and summer are concerned, the clothing business has had definitely better sales this year than last year. It is a small sign leading to a hope for the possibility of new orders for the next season. For the rest, the situation of the textile sector is still critical. Nevertheless, "rather than lack of a market," they say at FISAC, a textile industry in the INVEST Group, "what is causing restriction on supplies is the fact that Italian manufacturing companies, FISAC's customers, are suffering from the lack of money availability. The market in itself would still be rather active." In addition, the cost of the dollar, whose consequences are still difficult to evaluate fully, represents a severe blow to the nation's textile industry, in spite of the fact that it partly protects from the importation of textiles bought in the dollar area," Zucchi, whose company increased its turnover in the first half of 1981 by 14 percent in comparison with the same months in 1980, told IL MONDO. According to what they say at Bassetti, the domestic market is "in a wait-and-see position, but not one of collapse. There is no phenomenon that is dramatic in itself." The estimates and the forecasts by the research center of CONFINDUSTRIA also speak of a slowdown in the negative trend in the coming months. The household white goods sector, for which there were some perplexities in recent weeks, is more favored. "Personally, I am rather optimistic concerning an increase in consumption," Zucchi maintains. "In the last 2 years, in fact, annual spending per inhabitant increased from 14,000 lire in 1979 to 20,000 lire in 1980, levels still 40-50 percent lower than in the United States and other European countries."

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POLITICAL

FEDERAL REPUBLIC OF GERMANY

SPD LOSING SUPPORT IN WORKER-ORIENTED CITIES

Hamburg CAPITAL in German Jul 81 p 14-15

[Article: "SPD Election Losses"]

[Text] All the government buildings in Bonn were flying their flags at half staff, but nobody really knew why. Usually well-informed journalists attending the bock beer fest at the Lower Saxony representation were asking each other the same question. At length, one of them came up with a likely answer. "It must be because Hans-Ulrich Klose resigned today," he said. That was on 25 May; the real reason for the official show of mourning was that the President of Ecuador had been killed in an air crash. But there was no one there who thought it inconceivable that the Schmidt government might have had the flags lowered on account of the sad events in Hamburg.

The SPD, in fact, has good reasons for mourning. On the heels of Munich, Frankfurt and Berlin there now is the clearly visible split in the Hamburg SPD which raises the threat that the last major bastion of social democracy in Germany might fall. To be sure, the Hamburg SPD retained its absolute majority in the city council elections 3 years ago --both in terms of seats and the popular vote-- but it did so only at the expense of the FDP which had gone through a process of self-mutilation and did not elect any deputies to the council. Another reason for the victory was that the bourgeois, boyish image of "Uli" Klose was still untarnished in the minds of many SPD voters even if did not correspond to Klose, the politician, any longer. Meantime, as it happens, the clean-cut mayor, who still gives the appearance of being a kind of national Mr. Clean, has veered far to the left from which position, it may be assumed, he will soon be leading the intra-SPD opposition to nuclear power, to NATO and above all to Helmut Schmidt.

Klose's metamorphosis is tied to the Brokdorf issue. He himself originally supported and voted for the nuclear power project on the Lower Elbe but is now fighting it tooth and nail. This has greatly enhanced his standing among the aggressive and intolerant left wing of the SPD whose members chanted their "atom splitters into the Elbe" slogan both inside SPD party headquarters in Hamburg and in front of the building on the evening he resigned. No doubt about it: the Hamburg SPD itself is split, with one of its wings fight-

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ing the other acrimoniously. Four of the SPD wards in the city are for Klose and three are against him. No one will really win; the SPD will be the loser in any event. In Munich, in Frankfurt and most recently in Berlin, the local social democrats have provided an object lesson over the years of how a party, victorious for a long time, can be taken to the edge of the abyss and finally into it.

Munich, for example, was solidly SPD in the fifties and sixties. Folksy lord mayor Thomas Wimmer and his then youthful successor, Hans-Jochen Vogel, saw to it that the CSU, a mighty force in Bavaria otherwise, stayed in the minority in the state capital. Vogel's resolute decision to bring the Olympic Games to Munich in 1972 helped the Bavarian metropolis obtain the most beautiful sports facilities in the FRG and an infrastructure complete with underground and above-ground mass transit that might otherwise not have been built for another 10 years, if indeed at all. In 1966, Vogel realized an impossible dream: the SPD got 58.4 percent of the vote in Munich. But the party regulars, dominated by leftwing intellectuals even then, did not appreciate the policies the voters had so strongly supported. The years of wrangling with the left-wingers took their toll, finally causing the mayor to quit Munich and move to Bonn. Georg Kronawitter, his successor, kept up the fight; but time had almost run out by then. The voters elected CSU politician Erich Kiesl as mayor. In the most recent elections in 1978, the SPD managed to get only 37.5 percent of the vote.

In Frankfurt, for instance, the good old days under famed mayors Walter Kolb and Werner Bockelmann were soon forgotten once Rudi Arndt took over the job and began to transform the staid banking and stock exchange center into a community that seemed to be run by women and children. "Dynamite Rudi," as he was called for his announced plan for blowing up the remains of the old opera house, a representative of South Hesse, a leftwing SPD stronghold, was a kind of victim of the Hesse syndrome which befell the Hessian voters as a consequence of an endless series of socialist reforms, particularly in the field of education. From one election to the next, more and more voters turned thumbs down on the SPD. Finally, 4 years ago, Frankfurt elected Walter Wallmann of the CDU as lord mayor. He did such a good job that the SPD received only 34 percent of the vote --16 percent less than 9 years ago-- in the most recent municipal election which took place in the spring of 1981.

In Berlin, for example, Willy Brandt was elected lord mayor in 1963, obtaining 61.9 percent of the vote. At that time, the way to city hall seemed closed to the CDU for the foreseeable future. Today, Richard von Weizsaecker of the CDU is at the helm, albeit governing with the aid of a minority coalition. Meantime, the social democrats have lost a good third of the vote they obtained in 1963. A tangled web of party and state interests that surfaced in numerous scandals, most recently in the Garski credit affair, have

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contributed to the party's downfall. Unlike Munich, Frankfurt and Hamburg, the Berlin SPD, under its new leader Hans-Jochen Vogel, has not been taken over by the leftwingers. Thus, the SPD is most likely to regenerate itself as an opposition party in Berlin.

In Hamburg's case, there is little hope of that. In fact, ex-mayor Klose takes pride in having purged the Hamburg SPD, an erstwhile solid labor party, of the taint of the "CSU within the SPD." This particular exercise can be termed an unqualified success but only in the sense of the SPD's having lost both the mayoralty and political power as well in Hamburg.

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POLITICAL

SPAIN

AP LEADER FRAGA HOPEFUL OF COALITION WITH UCD

Madrid CAMBIO 16 in Spanish 17 Aug 81 pp 28-29

[Article by Antxon Sarasqueta: "Fraga Says Coalition, Coalition!"]

[Text] On his way to Perbes beach, the AP [Popular Alliance] leader had a fall which hurt one of his feet rather seriously--the left foot, it is reported--and fortunately, his daughter, a young, attractive, medical doctor, looks after him "very well," in the words of her father, Manuel Fraga. But not even adversity can prevent the secretary general of the Popular Alliance from hurrying early to fish in the Betanzos inlet: "Today I have caught 20 Mackerel" he noted.

But even while on vacation Fraga's true goal is to ally himself with Calvo Sotelo. "A UCD-PSOE [Democratic Center Union-Spanish Socialist Workers Party] majority would be artificial because involved are people with different programs and, additionally, when the voters had cast their ballots for Adolfo Suarez the latter exclaimed: 'For God's sake, let Socialism not come!' However, those who voted for the UCD are fairly similar to those who voted for us, whatever Fernandez Ordonez or my former secretary Seara may say on the matter."

Our interview took place in a modern and unpretentious living-room attached to the old, rambling house built 22 years ago when Fraga fell in love with the place and gradually began to acquire the land which now embraces his property down to Perbes beach itself, quiet even in mid-August.

It is not known whether this is so by virtue of strategy or conviction, but what is certain is that Fraga says, regarding the agreement on autonomies which the AP did not sign, that he has the impression that among the major forces "a consensus is taking shape which we do not perceive clearly, a political pact." Does Fraga suspect, then, that a coalition agreement is in the offing? "We have not said so but obviously there has been a desire by the two parties to move ahead and to leave the other issues behind. This seems incorrect to us and, to tell the truth, appears as even a worse alternative than those of Adolfo Suarez, which is already saying a lot."

In other statements by Fraga one nevertheless notices a conciliatory attitude on his part vis-a-vis Prime Minister Calvo Sotelo and we told him so. This gave Fraga grounds to assert that "I am a more conciliatory individual than any Spanish politician up to the point where the interests of Spain oblige me not to be conciliatory with any of them."

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Having said this Fraga was to add later, on mentioning the level of opposition against Prime Minister Calvo Sotelo, that he hopes that he would do it "less badly."

"Up to now," Fraga noted, "Calvo Sotelo's words have been appropriate, but his deeds so far have been practically nil. We have maintained a certain degree of hope but we believe that his obligation--he who has more means than anyone else--is to help form that natural majority." And after gazing momentarily at the ceiling he immediately shifted his eyes on his interlocutor and said: "And we shall not forgive his not doing so...naturally of course."

Fraga denied that any type of agreement existed with the people of the Galician UCD in light of the regional elections, among other things "because they are not in agreement among themselves either, and yet first there has to be an internal consensus among the currents of the UCD." So far what has been operative has been a pact at the parliamentary level with the government, which in the words of the AP leader "represents the most significant progress in the last few months."

For Fraga, a center-left policy from the right is a danger for democratic stability. He analyzed this as follows: "If there is a desire to consolidate a political system there is a need for a system of a few and highly responsible parties with moderate leanings, and this is something which the left has practically achieved here whereas on the other side it has not been done, basically because so far the UCD has not wished to do so."

Fraga continued with his analysis: "This attempt to cover the spectrum of the right with the left and of playing with the votes of the right at being the center-left--which is what Adolfo Suarez said and continues to do--will some day have to end or else the system will not hold up."

Fraga believes that the ideal thing would be a united party of the right such as Britain's Conservative Party or the Republican Party in the United States, but "one should not impose conditions and make a thing more difficult when it in itself already has many difficulties. What can you expect. And if the easier system for the time being is that of factions and coalition, we would not oppose it." On this point the question came up immediately: If a level of instability continues on the right during the next fall months, up to what point can the malaise increase among our armed forces?

"Look, this subject does not involve me. The politicians have the obligation to create circumstances where these issues do not arise. As far as I am concerned the way in which we and the government can collaborate is the one I have mentioned in this interview and I believe that, as long as this is not being done, unnecessary risks are being taken."

The words are serious: "I believe that the government would be mistaken if it continued to go it alone or reached an agreement with the left. As soon as that large moderate faction of the democratic right, or no matter how we wish to designate it, would be formed, those problems would become much smaller. Anyone would understand this."

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Fraga called for a coalition government. "I believe that nothing wrong would come from a UCD-AP coalition government until the elections or later if such coalition is planned as of now." One of the keys in the pact which Fraga proposes to Calvo Sotelo and which the latter does not seem to understand at all judging by his lack of response is the reform of the electoral law. "I propose that the German model be taken as a basis because it is the least undesirable among those in effect in Europe since it allows for a certain degree of proportional representation but at the same time, because of the electoral law's limitation provisions, the minor extremist parties are barred."

Fraga wishes to establish an electoral system which would impose floors of 5 percent at the national level and 20 percent at the regional level to qualify a candidate to hold a parliamentary seat. He would increase the number of seats from 350 to 400, the additional 50 to be placed on a list whose votes would be apportioned by provinces. In Fraga's opinion, this would enable the provinces to have a larger representation. All of this is summed up in one word for Fraga--stability.

We discussed the issue of the adulterated olive oil, a case likely to result in over 100 fatalities. "The government is absolutely responsible for what is happening. At least five ministers are implicated. A change of government? Let us say that the government should have considered which of its departments have failed to function properly and assigned responsibilities. This case will have political consequences or will have repercussions in another, more profound way, in distrust in the system."

It is frequently said about Fraga that he is an impulsive individual and that his internal fire works against him. Still, that is the image he projects, the one which he likes to have. The truth is different. Fraga is a man with a cool head who thinks sufficiently ahead before making any move and who takes advantage of his warm personality.

Fraga spoke enthusiastically about Ronald Reagan, the American president, because he feels that Reagan has acted consistently with his ideas. Consistently with one's own ideas is a quality most highly valued by Manuel Fraga.

"There is a tendency to scorn the political class in general," he said. "However, first, one would have to take into account the circumstances of discontinuity in which this situation exists and, second, part of this contempt comes from the same political class."

Fraga added: "It seems very respectable to me that Mr Tamames should become a communist and then stop being so, but what does not seem to be so good to me is that he should now seize the opportunity to pick a quarrel with the parties. As far as I know democracy cannot function with clubs, which are also lacking, by means of foundations if three or four serious parties--even though, I have always held that two would be sufficient--do not function."

Fraga said that neither is it possible to treat all politicians as equal and that the people have to begin distinguishing among individuals and programs; at this point he seized the opportunity to humorously relate the anecdote of the politician who, asked if he would accept the post of minister, immediately answered yes but then asked "minister of what?"

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In the meantime Fraga called for something to nibble on and we drank appetizer walking through the garden of his summer house ("achieved through the effort of many years"). Fraga talked of the individual who helps the family look after the plants and flowers--"Manolino is a delightful individual"--of the games of domino that he plays there near the house with his usual friends, and of his brother Juan.

In the daytime, if the weather is good, he takes two swims. He reads the newspapers less than when he is in Madrid despite the fact that on the top of the old desk of the famous movie producer Samuel Bronson which Fraga's wife acquired at an auction, the incoming papers are stacked up.

Fraga has his own vineyards and in his wine cellar he stores the spirits that he makes. Additionally, he has to take care of the political visitors who come to see him from the entire region, assigns 2 days every week to political-cultural-festive activities to each of the provinces, and is planning a strong campaign for the regional elections in October.

Fraga is indefatigable even during his vacations.

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MILITARY

FEDERAL REPUBLIC OF GERMANY

EXPANSION OF WEAPONS EXPORT POLICY

Bonn EUROPA ARCHIV in German 26 Jun 81 pp 363-372

/Article by Joachim Krause, Research Institute for International Policy and Security, Ebenhausen near Munich: "Arms Export Policies of the Federal Republic of Germany"7

/Text/ Since late 1980 FRG arms export policy has once again been the subject of lively discussion resulting in the main from objections raised within the SPD to plans for selling two submarines to Chile and from the disclosure that Saudi Arabia had expressed an interest in purchasing a quantity of Leopard II tanks in addition to other German war materiel. Politicians of various persuasions, industrialists, labor union leaders, media personalities, scientists not to mention the churches have made their views on this subject known in a multitude of declarations, resolutions and position papers. The government has made every effort to promote this process and is in fact working for a discussion of the principles surrounding arms export policy which is divorced from the Saudi Arabian and Chilean sales controversy and which helps formulate a new set of political guidelines.

Such a discussion is called for, since the last previous government decision on arms exports dating from 1971 has turned out to be problematical. The lofty pretensions of the 1971 guidelines dedicated to a policy of peace and providing for no German arms shipments to areas of tension outside NATO as well as the difficulties involved in carrying them out have given rise to repeated criticism.¹ Furthermore, the debate on security policy in the FRG being tough enough as it is might be additionally burdened down by the emergence of a "credibility gap" in the arms export field.

Ideals and Realities of Existing Policy

In debating the issue, the impression is conveyed at times that there was no arms export policy prior to the government's 16 June 1971 decision on political guidelines governing the export of weapons and other war materials. In fact, however, the grounds for such a policy were laid as early as 1949 when the FRG Basic Law, under the influence of events in World War II, provided (in

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Article 26/I) for a ban on any acts whatever that might disturb the peaceful coexistence of peoples and prepare the conduct of a war of aggression. In Article 26/II, the Basic Law further decreed that war weapons could only be produced, shipped and sold with the approval of the government. In 1961, these constitutional provisions were complemented and put in concrete terms with the passage of the war weapons control law and the foreign trade law.

The war weapons control law of 20 April 1961 contains a strict proviso on the production, purchase, sale and shipment of war weapons. It only applies to those weapons enumerated in a supplement, the so-called "war weapons list" which mostly includes heavy weapons such as tanks, armored vehicles, missiles, warships and warplanes in addition to artillery, anti-tank and infantry weapons. All arms not included in this list (such as pistols and rifles) as well as much military equipment and industrial products with military applications are covered by the somewhat less stringent foreign trade law of 28 April 1961 which provides for possible restrictions on the sale of such goods.

Both of these laws set down the conditions under which the sale of arms and war materials could be disapproved or prohibited in somewhat vague terms (e.g. "disturbance of the FRG's foreign relations;" "threat of promoting activities detrimental to peace;" "preparing a war of aggression," etc.) This allowed the government a great deal of elbow room which, however, raised a number of problems in the years that followed.

Starting in 1961, the FRG, which had not figured prominently as an exporter of arms until then, began to use arms exports as an instrument of foreign policy. It provided aid in the form of equipment and training as well as surplus Bundeswehr materiel to several African countries and to India, Jordan and Iran.² These measures were taken against the political background of the attempt of the then American government to encourage its allies to step up their efforts to contain communism in the Third World. In addition, the FRG government hoped thereby to attain its political goal of propagating its position on the German question among the young nations of Africa and Asia.³

The FRG was also being pressured by its Western allies to lend military support to the weaker NATO countries as part of sharing the burdens of the alliance. The FRG started to comply in 1964 by extending military aid to Turkey and to Greece. The secret arms shipments to Israel, instituted in 1962 and reaching a volume of some DM 150 million by 1965, constituted a special case. Greece, Turkey and Israel primarily received weapons and armaments from Bundeswehr stocks in addition to some new military supplies.

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The foreign policy debacle which followed the disclosure of the arms shipments to Israel as well as the problems arising from the linkage to all-German political goals⁴ led to a hasty revision of arms export policies in 1965. In February of that year, the Erhard government decided not to undertake or to approve any further arms shipments to areas of tension.⁵ Due to its vague language, this particular decision was by no means undisputed. Generally speaking, however, it did fulfill the purpose of not making the simultaneous discontinuation of arms shipments to Israel appear discriminatory and it pointed to a more modest and more cautious approach to foreign policy.

But the decision of the government did have consequences. Between 1965 and 1966, equipment aid to non-NATO countries declined from DM 135.9 million to DM 30.2 million and has remained at that level since. There was a like decline in the volume of Bundeswehr surplus sales to foreign countries and the discontinuation of military aid to Greece also contributed to a decline in arms exports. But the sale of arms produced in Germany, which had been insignificant until then, registered a marked increase after 1966. By 1967, the transfer volume of these exports had already grown to twice the size of all military aid programs combined. Mostly, these arms sales went to NATO countries and European countries friendly to the West; but some did go to Third World nations.

These developments gave rise to criticism of the policies adopted particularly within the SPD; after the change of government in 1969 far-reaching measures were taken the most important of which was the cabinet decision of 16 June 1971. In it, the government complied with the general demand for setting political guidelines to govern the export of offensive weapons and other war materials; but the problematical concept of "areas of tension" was retained and given prominence. The decision stated that approval would be given in principle to the exportation of offensive weapons and military materials to NATO countries provided that their ultimate use was clearly defined. All other countries, however, should receive no offensive weapons whatever; but the sale of other war materials was left open. Countries located in areas of tension should receive no offensive weapons and, for that matter, no other materiel, if there is reason to fear that the peaceful co-existence of nations and the foreign relations of the FRG might be upset thereby.⁶

Despite this decision which constituted a clear affirmation of the greatest possible restriction of West German arms exports to the NATO area commercial arms sales to the Third World nonetheless rose in subsequent years. Between 1964 and 1973, West German arms deliveries to the Third World made up about 26 percent of total sales; between 1973 and 1977, they had risen to about 70 percent.⁷ According to an American government study, the FRG, which had ex-

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ported weapons and armaments valued at no more than DM 100 million a year primarily to the Western world in the early seventies, effected arms deliveries to the Third World totaling DM 2.39 billion between 1974 and 1979. Thus, the FRG is fifth on the list of the arms exporters to the Third World, close behind France and Great Britain and ahead of Italy.

But as compared to France, Great Britain or even Italy, it must be noted that the FRG has attained no share of the market --or merely a very small part of it-- in major offensive weapons sold to the Third World. What German arms have been sold to the countries of Asia, Africa or Latin America have been small arms, submarines, patrol boats as well as a relatively small number of light transport and liaison planes. Warships made up the largest part of the exports. In most instances, the government mechanism for approval of offensive weapons exports was in conformance with the legal provisions and with political considerations, since the relatively small German submarines and PT boats are hardly suited for "up-setting the peaceful coexistence of nations" or for preparing wars of aggression.

The large West German volume of arms sales to the Third World can be readily understood once the "indirect" offensive weapons and arms exports are included which have risen considerably during the seventies. In the main, this is due to the industry's availing itself of legal "loopholes." A major way in which this is done is by German firms entering into cooperative arms ventures with manufacturers in other Western countries. Another way in which the stringent export regulations can be circumvented is by locating German arms production facilities abroad or by selling production plans, production facilities and weapons components to Western countries or directly to the Third World. In a review prepared by the economics ministry, which was made public as a result of media indiscretion, there were 67 countries listed in 1979 which had received weapons components (including spare parts), production facilities and construction plans originating in Germany.⁸ The FRG, it may therefore be assumed, has since become a major licensor of small and heavy arms production processes, ordnance items and weapons components for the Third World.

Although the foreign trade law specifically states that the export of parts, of production plans and arms production facilities is contingent on official approval the government is less strict in granting such licenses for export than in its treatment of similar commercial ventures under the offensive weapons control law. In this way, it was possible to effect "indirect" exports of German offensive weapons to several Third World countries which should not have received them under the political provisions laid down in 1971.

During the past few years, the government's willingness to approve the sale of offensive weapons to Indonesia, India, Iran, Ghana, Nigeria, Abu Dhabi, Argentina and Chile has been the cause of some public indignation. Above all, it was the way in which the question

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was decided as to whether a given country was situated in an area of tension gave rise to considerable opposition. For some time, the government did not really come to grips with the problem and it was the Saudi Arabian request which at length brought about the discussion of basic principles.

Conflicts of Priority in Arms Exports

Summing up, it can be said that the government's arms export policy did only partial justice to its restrictive pretensions in the seventies. Compared to the United States, the Soviet Union, France, Great Britain and other exporters such as Italy, Israel or Brazil, the FRG may be characterized as quite reticent to be sure. But the effects of indirect exports make up for the difference in part as well as the government's recognizable inclination to relax the all-too-rigid restrictions imposed by the cabinet decision of 1971.

Critics of the government feel that the reason for it is that the armament industry has succeeded in "swaying the government with its arguments based on commercial considerations."⁹ At first blush, this line of reasoning may sound convincing and may even be understandable in view of the actions of some German arms manufacturers. But looking at the problem more closely, it becomes apparent that it is in fact rooted in a number of unresolved and hitherto scarcely perceived conflicts involving differing political priorities.

First of all, there is the problem of arms production itself. Ever since the inception of German rearmament, all German governments have stressed their commitment to the development and maintenance of the potential for developing, producing and servicing weapons and armaments in the FRG. On the one hand, this was meant to guarantee that the costs of developing, equipping and maintaining the Bundeswehr would accrue to the German economy; on the other hand, arguments on military-logistic and technological-economic grounds were always being propounded as for example the retention of "judgmental capability with regard to complex questions of arms technology."

There was a deliberate decision not to establish state-owned arms production facilities patterned after the French, British or Italian model. In fact, all German governments were intent on getting private industry to take on arms contracts and on achieving the greatest possible spread among the various branches of the industry in the process. These efforts were crowned with success: by the early sixties, total employment in the arms industry had already hit 250,000. The arms industry's share of total industrial income has since hovered around 2 percent and arms output has been climbing steadily. Furthermore, the share of domestic contracts let by the Bundeswehr for research and development and for supply and maintenance has risen to 80 percent.

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But this policy has also raised ancillary problems which have an adverse effect on the restrictive arms export regulations. The fact that the market economy is involved in the development and production of weapons and armaments inevitably creates a commercial interest on the part of industry to expand its circle of potential customers. Beyond that, Bundeswehr needs are not as sizable as to guarantee German arms production at continuously high levels. But since it is necessary to maintain much of the research and development capability as well as the production of weapons and armaments for reasons of security policy and the economics of arms production, the question of operating at full capacity remains. Aside from managerial options and interim government aid, exports point to a way out. Under the circumstances, arms sales to NATO countries have consistently been welcomed and supported by the government, if for no reason than that they enhance the efforts toward standardization. On the other hand, we have seen that some branches of industry, such as shipbuilding, still cannot operate at full capacity even though they do export to other Western countries.

Thus, there are two problems confronting any arms export policy oriented to highly restrictive practices. First, how to avoid a situation in which arms production becomes uneconomical for industry as a result of unacceptable arms export restrictions and which causes it to turn to some other sector of production instead? Second, how to achieve a practicable distinction between a legitimate interest in exports (based upon the need to operate at capacity) and the purely commercial aims of the arms manufacturers?

There is another conflict of priorities which stems from the international interrelationships of German arms production. Once again, since the inception of German rearmament, all governments have stressed the need for close cooperation in the production of weapons and armaments between the FRG and its Western allies. In the early years, this was imperative in order to catch up with advances in military technology. Subsequently, all-European considerations and alliance policy motivations took on greater prominence. Presently, the government is hoping that arms cooperation will be a primary aid in advancing NATO standardization.

In terms of arms export policy, this presents a practical problem, if the foreign partner wishes to sell jointly produced weapons to countries which, under German law, are not entitled to receive them. In this manner, a number of Franco-German anti-tank rockets have wound up in Syria and Iraq over the past few years. The Alpha Jet fighter, jointly developed with French firms, is slated for export to several African countries and there are buyers from outside Europe who have already expressed an interest in the Tornado fighter as well. As a rule, the German government has come out on the side of arms cooperation in such conflicts of interest in the past by not exhausting available opportunities for intervention on the

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basis of either the cooperation agreements or the regulations embodied in the offensive weapons control law or those in the foreign trade law applying to the export of weapons components to foreign countries.

A third type of priority conflict arises if and when the decision not to supply arms to extra-European countries runs counter to vital political interests of the FRG. Ever since the 1973-74 oil crisis, safeguarding an unhindered oil supply could be viewed as one such vital interest which, for that matter, the FRG shares with most other Western countries as well as Japan. Under these circumstances, supplying weapons and armaments may become necessary in view of the need to maintain special relations to moderate Near Eastern governments and the need to counter the expansion of Soviet influence in the area which is being promoted by mostly military means. Although this particular job has in years past been taken care of mainly by the United States, France and Great Britain, the FRG, too, has repeatedly been asked to supply arms. The most noteworthy examples were the Shah's efforts to obtain Leopard tanks and warships and Saudi Arabia expressed desire to purchase armored vehicles. But offensive weapons deliveries of this kind would be incompatible with the 1971 provisions, since the Near East is an "area of tension."

Basic Elements of a New Policy

The self-imposed restriction contained in the 1965 and 1971 policy decisions not to export weapons to areas of tension is a problem today most of all because both the domestic and the foreign policy aspects of arms export policy have changed. In the mid-sixties, the German armament industry was mainly concerned with filling domestic orders; cooperative ventures with France and other West European allies were still in the planning stage or just beginning, and outside Europe, no acute threat to vital interests as yet existed. If an arms export policy adhered strictly to the spirit and the letter of the 1965 and 1971 policy decisions would bring about a lowering of arms production capability, an end to cooperative arms ventures with other members of the alliance and the relinquishment of opportunities to safeguard vital interests. It would therefore be illusory to assume that one need merely apply the limitation of weapons shipments to NATO countries strictly enough in order to set things right once again.

Any revision of the principles governing the export of arms will most likely have to back away from the areas of tension concept. But this need not spell the end of a cautious arms export policy by any means; restrictive approval procedures can still be maintained even if justifiable exceptions are granted at the same time.

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If anything, such a policy would be suited to export approval procedures involving complete offensive weapons or spare parts or offensive weapons components. The 1971 policy guidelines could be retained in the sense of approving offensive weapons exports to NATO countries (or countries equally constituted) provided proof of final use is presented. By the same token, weapons exports to countries appearing on the so-called COCOM list should be disapproved. As far as offensive weapons shipments to other countries are concerned, a procedure analogous to the "equalization of goods" principle known to jurisprudence might be followed. In other words, arms exports would be permissible if (1) they would help solve production capacity problems in industry at least for a time or (2) help promote important foreign policy aims of the FRG and (3) would not be in violation of the offensive weapons control law.

That would mean that a decision would have to be made in each individual case as to which political consideration should be given priority status. Other points to be considered would be the military consequences of any such shipments (with a view to the stability of the recipient nation and the region), the human rights situation in the recipient nation, the danger of damage to the FRG's foreign policy image, etc.

Deciding each case on its own merits, makes it least likely that arms exports would lead to the development of additional industrial facilities to produce offensive weapons for export which in turn would inevitably lead to problems of operating at full capacity. Arms exports must not be made to serve as a means of maintaining high employment or a healthy economy. The yardstick to be used must always be security-political requirements and the demands of the armament economy itself.

In case the German government decides to approve an arms export deal on the basis of foreign policy interests, it should, if possible, coordinate the move with its Western partners. This would be advisable among other things with a view to politically sensitive consequences arising from arms exports such as the need to send additional supplies to the recipient country in case of war or possibly to provide it with military advisers. Such coordination is all the more important, if a country such as Saudi Arabia, which has also requested arms deliveries from the United States, Great Britain and France, expresses a desire to purchase weapons from the FRG. This would help guarantee that the arms sale would become an integral part of a Western strategy aimed at stabilizing the Gulf region and would open up a security dialogue with the Arab countries.

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The joint ventures in arms production with the West European partners must be considered separately. Insofar as these cooperative ventures are based on treaties between governments, the FRG may reserve the right to veto exports that might be effected by other partner countries. In availing itself of these reservations, the FRG would have to determine its priorities on a case-by-case basis: either disapproving the arms export deal or coming out in favor of an undisturbed continuation of the cooperative venture.

In the case of export deals stemming from cooperative ventures that involve individual firms not bound by explicit government-to-government agreements, the German government's range of options is limited to disapproving the export of weapons components and construction plans. In the case of each cooperative project, this should be preceded by an examination of the nature of the cooperative undertaking (such as R & D and/or production and/or sales) and of its bearing on standardization within the alliance. Those cooperative projects which are clearly designed to circumvent German export regulations and which are limited to sales should be dealt with in the most restrictive manner. But projects which may be of value to the alliance because of their high R & D content would have to be handled more leniently.

In the case of arms export approvals under the foreign trade law, similar procedures would theoretically apply as in the case of offensive weapons exports. But this is hardly possible in view of the much greater number of export applications to be processed by the economics ministry. Nonetheless, those transactions which involve the export of know-how in arms technology or the sale of arms production facilities should be treated just like exports of offensive weapons to non-NATO countries, which are equal in significance to these ventures. Other approvals for the export of armaments under the foreign trade law should be denied only in exceptional cases as for instance when the policies of a given country clearly indicate that these armaments will be used for offensive purposes.

The German government's arms export policy should be characterized by greater openness and self-confidence without, however, having to relinquish its basically restrictive outlook. It should be less "doctrinaire" and more oriented toward the individual case in question. That is the only way of guaranteeing that the choice made between different political priorities will be the most appropriate one.

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If the general areas of tension formula were replaced by a new set of standard concepts, this would do no more than shift the problem around a bit. Many attempts along these lines have been made such as the proposal for example to have the government approve in principle the export of all defensive weapons or the suggestion that arms exports to regions which are of particular security-political import to Europe be permitted. The first proposal presents a problem because it is not always possible to draw a distinction between offensive and defensive weapons and because it would give rise to a great number of new contradictions. If, on the other hand, a particular region is characterized as being of special interest to Europe, this has the drawback of raising a variety of expectations that can hardly be controlled. To one person, such a formula might imply a revival of German or European big power schemes or of "neo-colonialism;" countries in the region concerned, for their part, might be led to believe that the FRG is willing and able to provide them with weapons and armaments which, however, would not conform with the intentions or the capabilities of German foreign policy.

FOOTNOTES

1. Cf i.a. positions taken by "Study Group Military Policy" in the following anthologies edited by them: "An Anti-White Book - Materials for an Alternative Military Policy," Reinbek 1974, pp 124-134; "Rearming for Disarmament?" Reinbek 1980, pp 259-278; also Eckehart Ehrenberg, "German Arms Exports," Munich, 1981.
2. Cf Helga Haftendorn, "Military Aid and Arms Exports of the FRG," Duesseldorf, 1971, pp 19-34, p 130 and appendix, Tab 3, 7-11.
3. Cf Helga Haftendorn, "Military Aid as Part of the Foreign Policy Arsenal of the FRG and the United States," POLITISCHE VIERTELJAHRESSCHRIFT, Vol 13, No 3 (1972), pp 374-424; also cf Waldemar Besson, "The Foreign Policy of the FRG, Experiences and Standards," Munich, 1970, p 349.
4. Haftendorn, "Military Aid and Arms Exports" op cit p 75; also Wolfgang Wagner, "German Equipment Aid for Africa," EUROPA-ARCHIV 6/1966, pp 221-232.
5. Cf statement by government spokesman von Hase on the Near East, BULLETIN, FRG Press and Information Office, 17 Feb 1965, p 225.

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6. Full text in WEHRDIENST, supplement to No 614177, 13 June 1977.
7. Based on ACDA computations, "World Military Expenditures and Arms Trade 1963-1973," Washington, DC, 1975, pp 67-71; ACDA, "World Military Expenditures and Arms Transfers 1968-1977," Washington, DC, 1979, pp 155-158.
8. Cf DER SPIEGEL, No 14, 2 April 1979, p 67; DIE WELT, 19 April 1979.
9. Michael Brzoska and Herbert Wulf, "Offensive in Arms Exports" in "Rearming for Disarmament ?" op cit 259-278; also Ulrich Albrecht, Peter Lock and Herbert Wulf, "Jobs through Rearmament ?" Reinbek, 1978.

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MILITARY

FRANCE

GENESTE'S VIEWS ON NEUTRON BOMB, ATOMIC WARFARE

Paris L'EXPRESS in French 14 Aug 81 pp 51-52

[Interview with Col Marc Geneste by Jerome Dumoulin and Albert Palle: "Colonel Geneste: 'Advantage Lies With Defense'"; date and place not specified]

[Text] What can France and Europe expect from the neutron bomb which President Ronald Reagan has placed once more at the focus of the strategic debate? One of the French experts on this weapon, Col Marc Geneste--the author of a book on this subject,* in cooperation with his friend, the American physicist Samuel Cohen, father of the neutron bomb--talks here of the radical change made by the neutron weapon in the defensive strategy of the Western countries.

[Question] According to you, what should the new team in office in France do in the realm of defense?

[Answer] First, it should reflect. It should recall that since Napoleon's era our defense doctrines elaborated during peacetime have all been catastrophic--witness 1870, August 1914, and May 1940. It should dare challenge the sacrosanct dogma of the infallibility of deterrence on which our security is based. Finally, the new team in office should ask itself the question: If the members of the Warsaw Pact were to attack despite our threats of retaliation, what should the next step be?

[Question] Should our enemies come, we could use our megaton thermonuclear weapons against Moscow. Wouldn't that be a response?

[Answer] No. If we really were to fire, that would mean national suicide. Our adversary has the capability to respond by annihilating us, unless he decided to sustain our blows and conquer France undamaged, which is what I would do if I were he. He could do it since we would refuse to do battle through deliberate doctrinal choice. The massacre of Moscow's civilians would not halt the armies in the field because submarines do not stop tanks.

*"A Check to War: The Neutron Bomb," Copernic Press, 1980

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[Question] To say that we shall stop the tanks is represented as harmful to deterrence.

[Answer] It is indeed the height of paradox but yet it is in fact the basis of our doctrine: To endow ourselves with the capability to halt the invasion would raise doubts about our resolve to unleash a fearsome attack against cities. This concept is 20 years old and it has not changed. The only modification since the beginning has been the introduction of the firepower of a few tactical atomic projectiles, namely, the Pluto missiles aimed at the forces of the invader as a "final warning" before resorting to the holocaust. But this does not change anything in the principle which provides that "the enemy will not get through," that deterrence through terror is infallible.

[Question] What is it that disturbs you in this reasoning?

[Answer] Nuclear fire as a warning makes no sense if the adversary attacks with his modern weapons, that is, his atomic weapons. And if he were to attack with his conventional weapons alone, such fire would be insufficient to halt him. Undoubtedly, there is hope that it would serve as a trigger to the nuclear weapons of NATO. But today there is no longer a valid doctrine for the use of these weapons. NATO's armies no longer know how they would use these weapons. They used to know it when there were in Europe, during General Eisenhower's time, "pentomic" divisions each of which was equipped with its 100 atomic carriers.

But, following the launching of the Soviet Sputnik which made possible the strategic bombing of the United States, President John Kennedy and his team became frightened of their own nuclear weapons. They invited the doctrine of "flexible response" which calls for an initial conventional battle. They withdrew the tactical atom from the first line of defense in Europe and confined it to the role of bugbear, of deterrent. Tactical atomic fire on specific battlefield targets have become impossible. It is claimed that an endeavor would be made to reconquer the ground lost during a conventional stage by using fifty 20-kiloton projectiles simultaneously, by firing indiscriminately, by devastating West Germany! Such is the present and hardly credible strategy of NATO.

[Question] What would happen if deterrence should fail?

[Answer] If war should break out despite our blackmail involving general suicide, a rout is inevitable. For the time being consequences are apparent on the diplomatic plane. Europe and France being militarily at the mercy of their adversaries, the result is that diplomatically the West would be emasculated in case of serious crisis. The Soviets know that they can do what they wish, at least at the periphery of their empire, without risking anything more than verbal protests or economic sanctions--witness Czechoslovakia, Afghanistan, and tomorrow perhaps Poland.

Our present doctrine reminds me of the Maginot Line, which was not really a line but a wall section that could be circumvented. Our "strategy" can also be circumvented, not from the flank but from below, if one can put it that way.

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Below the level of strategic exchanges against cities an enormous breach can be opened in the attack of the ground forces. It is this breach which urgently needs to be filled.

[Question] Are you against strategic forces?

[Answer] Not at all. They are still just as necessary, but now insufficient. The arms of terror are not the arms of war. "The individual insane enough to press the button is not born yet," Marshal Grechko of the Soviet Union asserted. The strategic anti-city forces represent only the most frightful and least plausible threat--the thermonuclear destruction of the civilian populations. The other threats are ground invasion, the blocking of vital communication lines, and subversion. Laudable efforts have been made to counter the last two mentioned. There remains the threat of aggression by land, which weighs so heavily on our foreign policy.

[Question] Can France fill this breach?

[Answer] I am convinced of it, and for a simple reason. The neutron bomb, with its reduced blast effects, outdates the other battlefield atomic weapons and, appropriately used, provides the defense with a radical superiority over the attacking side. With this weapon, graduated response becomes absurd and the strategy of deterrence alone through terror becomes archaic. Thanks to the neutron weapon it is henceforth the ground forces--the invasion forces--which are the most vulnerable. Two neutron shells can devastate 6 square km of terrain and neutralize all the troops at ground level, whether they are protected by armor or not. Revolution is here.

Earlier, to destroy a tank, a projectile was necessary. By paying the price, the tank would pass, the defense being always subject to saturation by numbers. With the neutron bomb the more tanks at hand, the larger the number of fatalities occur. Defense is no longer saturable--on condition, naturally, that it agrees to protect itself from neutron weapons. It is sufficient for the defense to go underground, which the aggressor cannot do. The neutrons can penetrate armor but are checked by 1 and 1/2 meters of earth. New technology enables us to base our deterrence no longer on the threat to exterminate civilians but by crushing the aggressor troops. This is how we answer your question, if they come what should we do? This is how yesterday's deterrence will be mated with modern defense. You need both.

[Question] Does this acceptance of the battle not imply our return to NATO, harmful to our independence?

[Answer] I don't see in what way the increase by a factor of 10 or 100 of the arms potential of our ground forces--and thus of our tactical nuclear forces--would be harmful to our national independence. Quite the contrary. This could be the means of a future European defense. It could also be a decisive factor in prompting our allies to align their frontline atomic capabilities along the Iron Curtain as at the time of Dwight Eisenhower. In such a case, NATO would

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not need the direct participation of the French forces in a narrow sector of the front. NATO would be easily capable of deterring or crushing any aggression. Our forces could remain in general reserve to look out for squalls or form the nucleus of a final counteroffensive group or provide a second line of defense--nuclear defense--with those allied troops which survive the initial clash in Germany reinforcing the French forces.

At any rate, our armed forces, equipped with neutron weapons, would convert France into a completely different military animal, a completely different political animal. The French president would not be confined to the role of firebrand of the holocaust who, for lack of anything better, has the role of his predecessors. It is sufficient to adapt our doctrine to the progress of technology. When a people do not tolerate what would save them in case of misfortune, they are at the mercy of their enemies.

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