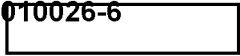




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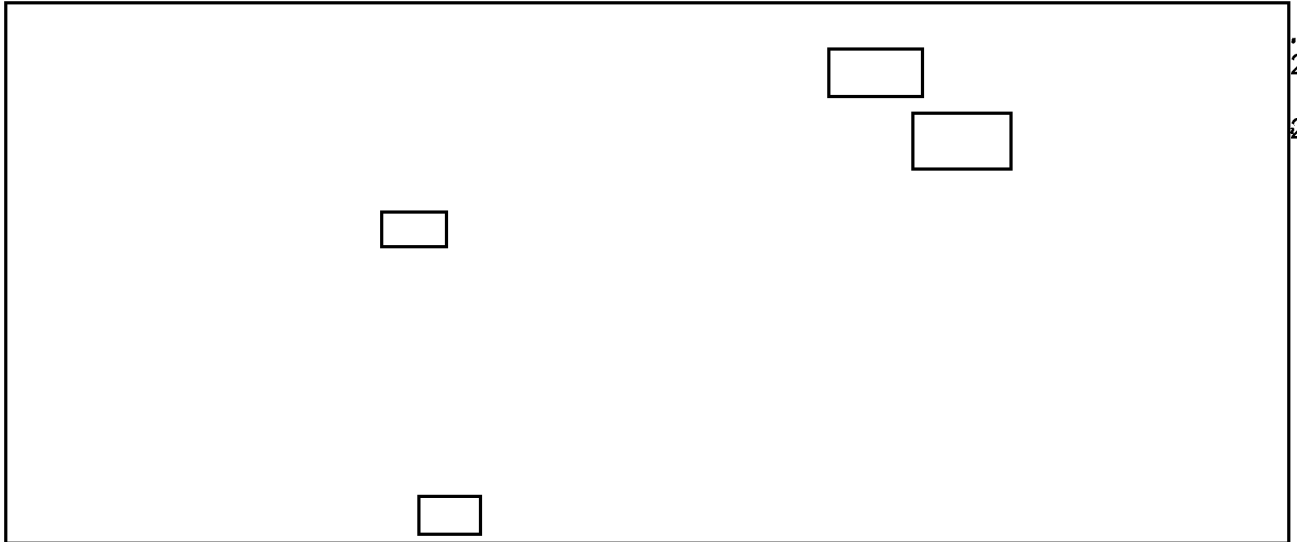
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The special Bureau meeting in Maputo, Mozambique, again demonstrated the ability of the nonaligned movement to pull together despite fundamental differences. The battle between Yugoslavia and Cuba for leadership of the movement bubbled beneath the surface, but each nation compromised for the sake of unity. A more important test for nonaligned unity will be the Bureau meeting in June in Sri Lanka, where neither the agenda nor attendance will be limited, as they were in Maputo. [Redacted]

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Soviet attempts to discourage dissidence since the show trials last summer have been only partially successful. While the regime has neutralized some groups of dissidents, it has failed to eliminate any groups, and new manifestations of dissidence continue to appear. [Redacted]

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Iranian Oil Difficulties and the International Energy Agency: Problems and Tensions

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Iranian instability and the resulting impact on the international oil market pose a threat to the industrialized world less grave at present than 1973-74 Organization of Petroleum Exporting Countries actions, but perhaps more serious in the long run. The effectiveness of consumer cooperation, especially within the framework of the International Energy Agency (IEA), will probably be one of the most important determinants of how well the democracies will cope with the threat.

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Growing recognition that Iranian oil export reductions are likely to be substantial and prolonged will probably exacerbate political tension among the Organization for Economic Cooperation and Development (OECD) countries over desirable forms of multilateral cooperation to mitigate the impact of anticipated supply problems. Since the 1973-74 oil crisis, problems stemming from different national philosophies concerning supranational cooperation, different legal systems and industry-government relationships, and conflicting positions on specific energy issues because of different resource bases have complicated efforts by the industrial democracies to cooperate on energy matters. In the past these issues have been handled in "low politic" fashion by working-level experts. Now, as the problems assume increased relevance, they are likely to become "high politic" questions engaged by senior officials.

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Within the IEA, the most likely forum for such cooperation, the uncertainty and tension associated with Iranian oil shortfalls can be separated into three different, but related, issues. First, there is the question of whether IEA emergency provisions will be activated in the future and whether attendant political disagreements will impede their application. Second is the question of what role the IEA is to play

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as a forum for political discussions and decisions regarding relations with producer states. Third, the problem of different national perceptions of the IEA's proper role in long-term energy policy and program development will complicate considerations of short-term measures.

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* * *

IEA Emergency Provisions

General uncertainty and potentially serious disagreements currently exist among the 19 IEA countries concerning possible activation of the emergency provisions.*

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The first emergency section of the International Energy Program (IEP) requires each country to establish and maintain an "emergency reserve" (normally thought of as oil stocks, although standby oil production or in-place fuel switching also satisfy the requirement) equal to 60 days (90 days by 1980) of oil imports. Since the opening discussions of the IEA in 1974, there have been some difficulties in determining how much oil could actually be made available for consumption during an emergency. There is, however, general agreement that national stock levels have increased dramatically from the two- to 40-day range held prior to 1974. Reserve oil stocks are now at a level where they offer considerable insulation from minor, short-term supply disruptions.**

*IEA members are: Austria, Belgium, Canada, Denmark, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

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**In November 1978 CIA estimated that major IEA countries held oil stocks ranging from 60 to 140 days of imports or 60 to 70 days of consumption. However, it is important to note that these stocks are normally drawn down during the first quarter of each year and that drawdowns have been exceptionally severe as a result of Iranian shortfalls.

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Nonetheless an Allocations Systems Test in 1978 found that the IEA countries were still devoting too little attention to the details of national stock programs, raising the probability of regional, seasonal, refining, or product shortages during an emergency. [redacted]

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The second emergency provision requires each country to have ready at all times domestic demand restraint programs sufficient to reduce its final oil consumption by 7 percent whenever the group faces a 7-percent shortage, and by 10 percent when the group faces a 12-percent shortage (stocks in excess of the 60/90 day requirement may be substituted for demand restraint). Although these programs are an important part of the emergency agreement, there has been relatively little discussion of them because they are considered self-enforcing; all oil sharing is computed by subtracting each country's demand restraint from its normal imports to reach a "permissible consumption" figure. There is, however, disagreement here (as in many other areas) between those who favor leaving maximum discretion to the individual country and those who favor stronger multilateral control. The smaller European countries, generally the most supranational of the IEA members, have on occasion criticized the largest members--especially the United States--for formulating only vague plans on how to constrain gasoline consumption, the mainstay of the proposed US restraint program.* [redacted]

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*Many US policy planners contend that a nonspecific, flexible allocations system is the most desirable program and that the criticisms are not substantively justified. The Benelux countries, often joined by Italy, have been most vocal on this question. The United Kingdom has tended to support the US philosophy of looser cooperation, although they have taken exception in the area of producer-consumer cooperation. Germany also tends to agree with the US philosophy although they have pushed hard for greater supranational cooperation in long-term research and development. This pattern is complicated however, by special national interests (for example, when an oil industry issue is raised, the Dutch act to "protect" their companies). [redacted]

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The most important, and most complex, provisions of the emergency program deal with the redistribution of oil within the group to share any shortage accruing from a reduction in normal available supplies. "When the group as a whole or any participating country sustains or can reasonably be expected to sustain" a reduction in oil supply of 7 percent or more, the international allocation mechanism can be activated. Following a detailed formula, all oil available is distributed to the group on the basis of recent consumption ratios.

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The emergency allocation provisions often are described as the outstanding success of the IEA. This may be true, but there is still considerable controversy over how the allocation process should be initiated and administered. Perhaps the most acute problem stems, as with demand restraint programs, from different national positions on what constitutes a desirable balance between national sovereignty and supranational decisionmaking. These differences were apparent during the 1978 Allocations Test in discussions concerning the links between international allocations and national programs, such as a government price freeze on oil products that would force companies that have purchased crude oil at rising international prices to sell it at a loss.

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Conditions for Implementation

Oil consumption by the 19 IEA members will probably average about 36 million (mm) barrels per day (b/d) during any base period (first four of the last five completed quarters) used for emergency computations during the near future. Therefore, a reduction to the group of 2.5 mm b/d (7 percent) would activate implementation of the combination of national demand restraint programs and intragroup allocation of oil. Precrisis Iranian oil exports averaged 5.2 mm b/d, almost 4.0 mm b/d of which went to IEA members. The shortfall required to activate restraint and sharing has not developed to date because of loose oil market conditions that existed before current Iranian production cuts and the willingness of Saudi Arabia to expand its production. If, however, Iranian exports remain low or unstable over the next few months, other producers reimpose precrisis production levels, or the demand for oil rises, the possibilities for a 7-percent shortfall will significantly increase.

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Even if the group as a whole escapes this large a shortfall, it is possible that an individual IEA member would suffer a 7-percent reduction in its oil supply and would request that the allocation mechanism be put in force. Japan, the most vulnerable member, when both quantity of oil imports and percentage of the imports coming from Iran are considered, consumes approximately 5 mm b/d of oil, about 12 percent of which is Iranian.* Either a reduction in Iranian exports of less than 2.5 mm b/d that is unevenly distributed and has heavier impact on a single member, like Japan, or any other chain of events resulting in a 350,000 mm b/d loss to Japan, could be used to activate allocation.

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For the following reasons, such a reduction to Japan and ensuing activation of the allocation mechanism are less likely in the short run than first appears:

- The previous loose market described above.
- The inclination of international companies to distribute supply evenly because this is less disturbing to their commercial distribution systems, profits are maximized, and government and public criticism of the companies for shortages are kept in check.
- The Japanese Government's reluctance to dramatize any shortage for domestic political reasons and because it fears OPEC retaliation against IEA.

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During late January and February, the IEA Secretariat has become somewhat less optimistic about avoiding emergency measures. In early January, IEA Secretariat data (based on the assumptions of Iranian production of 2 mm b/d during the first quarter and increasing thereafter, and on 3.4 mm b/d additional production from other sources) indicated that conditions for the allocation activation were not likely to be met during the

*Japan's Iranian oil imports averaged about 12 percent early in 1978 but reached higher levels late in the year.

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first quarter of 1979 and perhaps not during the entire year. By late January the Secretariat and delegates to the Oil Market Group that assesses supply conditions were less optimistic about both Iranian production and alternate sources. They described the situation as "serious but not critical," and Executive Director Lantzke publicly discussed "grey zone" shortfalls that would not formally activate the emergency program but would, nevertheless, be cause for concern. By early February IEA members had grown much more pessimistic. Even now, however, there is considerable uncertainty over how quickly stocks are being drawn down and whether the situation will be made "critical as well as serious" by summer consumption peaks or fall stockbuilding.



Longer Term Problems

In addition to difficulties surrounding the emergency program, we are beginning to see troubles emerging from longstanding, although muted, disagreement over the role of the IEA as a forum for political discussions concerning relations with producer states. For some time after the creation of the IEA, the organization was widely viewed as a US attempt to create the appearance (at least) of a countercartel to confront OPEC on price and supply security questions. This view of the IEA faded as the notion of a workable countercartel lost credibility, but it was resurrected last summer by UK Energy Secretary Benn, who criticized the IEA as "a vehicle for confrontation with OPEC" and praised the French as "brilliant diplomats" for not joining. Benn followed his criticisms with a call for a conference of OPEC and non-OPEC oil producers--and he has pushed harder for such a meeting since the difficulties in Iran have grown acute. US officials oppose the conference, reportedly to be attended by IEA members Norway and Canada as well as the United Kingdom, because they believe it would undercut IEA solidarity.

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Others have criticized the Agency for the opposite reason. Since the demise of the ill-fated CIEC Energy Commission, non-British Europeans have complained that the IEA has not served as a forum for political discussion and decisionmaking on relations with producing

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countries. Charging that the IEA has failed to facilitate "better communication and closer contacts" with producing countries, EC Energy Commissioner Brunner has called for a conference of oil producer and consumer states, presumably outside the IEA framework. Although we have little information on the Brunner proposal, his advocacy of such a conference has grown stronger as the Iranian crisis has deepened and could become a source of considerable disagreement within the IEA. []

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A third issue likely to result in increased tension within the IEA and complicate more immediate problems is that of long-term cooperation. For the first two years of its existence, the IEA was the arena for a difficult series of negotiations to develop an agreement on long-term energy principles, objectives, and strategies acceptable to each member. Although a long-term program was agreed to in 1976, it is very likely that a prolonged tight oil market will lead to the reemergence of many of the disagreements that were present during its negotiation. During the process of negotiations the non-oil-producing states wanted to codify responsibility for higher levels of oil production by IEA members while the oil producing states pressed for IEA financial backing of any expansion of production. Most states urged the United States to raise its oil and natural gas prices to world price levels, and states with lower per capita energy consumption pressed the United States to adopt more effective conservation measures. The national sovereignty versus multilateral question broke out frequently when particular elements of national energy policies (for example, coal use) and particular objectives (for example, import targets) were discussed. In addition, each country raised its own "special circumstances" to avoid sacrifice. These disagreements would probably be intensified by the slow and painful national political debates over energy policies that will occur if a long-term global oil shortage develops. []

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Outlook

In many respects, the degree and type of cooperation by industrial countries called for within the IEA framework should a prolonged global oil shortfall occur are unprecedented. For that reason, as well as because of the practical difficulties of dividing fairly a critically

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needed but scarce resource, it is problematic that the agency will function as designed. The relative success or failure of the IEA will nevertheless be an important signal of how closely industrial countries will be willing to cooperate on energy matters in the future, and what form that cooperation will take. [redacted]

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
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Industrial Innovation Policy in France and the
United Kingdom 

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The major members of the Organization for Economic Cooperation and Development (OECD) are increasingly convinced that they must spur industrial innovation if they are to improve their internal economic situations and retain their economic position vis-a-vis the rapidly industrializing less-developed countries (LDCs). Competition from other political and economic objectives, however, seriously restricts the public funds available for economically promising industrial innovation projects, and the private sector has been unwilling or unable to fill the gap. In addition, the innovation process itself is so uncertain that even the most generous governmental program might not have the desired beneficial impact on productivity, competitiveness, and growth. 

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An earlier article in this review offered an overview of the difficulties facing Western governments generally in implementing their commitment to industrial innovation.* This article discusses the efforts of France and the United Kingdom to devise an effective policy in the area. The task is in many ways more difficult for them than it is for West Germany or Japan, since the French and British economic situations are less favorable and their industrial innovation policies more responsive to external political aims. 

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French Government Support of Innovation

The Extent of the Government Effort

The government dominates industrial research and development (R&D) activity in France. Its support to



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private and nationalized industry, the universities, and public research laboratories accounts for roughly two-thirds of the industrial research and development funds expended annually. A recent attempt to shift some of the burden to the private sector resulted in a relative decrease of total R&D expenditure more than in an increased private sector effort. Gross R&D expenditures fell from over 2.1 percent of GNP in 1968 to less than 1.8 percent in 1978.

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Corporate reluctance to increase R&D spending probably stems from limits on available capital, a traditional aversion to risk, and an expectation bred of long habit that the government will provide much of the needed funds. Since the government is increasingly convinced that more R&D activity is necessary and that the private sector is unlikely to make the required effort, support for industrial innovation from the public sector is likely to increase in the near future.

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Government Policy

The French Government became extremely active in support of industrial innovation in the mid-1960s, as part of President de Gaulle's drive to enhance France's economic, military, and political independence and prestige through the creation of viable French high-technology industries. Under De Gaulle, the percentage of GNP devoted to R&D rose significantly. The electronics, aircraft, and nuclear industries were the objects of major national programs designed to make France quickly competitive in those sectors. The performance of the national programs was mixed. Projects such as the Concorde and the Plan Calcul (computers) were economic failures. The nuclear energy and military aircraft programs have been more successful.

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De Gaulle's successors have been less driven than he by the desire for national independence and prestige and more interested in cost-effective social and economic programs that would strengthen the domestic economy and their own domestic political standing. In line with those aims, the government has been increasingly

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willing to approve the acquisition of foreign technology or cooperative ventures with foreign firms when such arrangements are economically beneficial to France. It has also tried to decrease its support of large firms and defense-related projects relative to its support of social and economic development programs and small- and medium-sized companies. [redacted]

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The government has found it more difficult, however, to change its practices than its intentions. Although the share of government R&D funds devoted to national defense has declined, it is still large (see table 1). Aerospace, electronics, and informatics continue to rely heavily on the government for their R&D funding (see table 2). The nondefense areas to which the government has rhetorically assigned top research priority (raw materials, energy, natural environment; modification of the agricultural and industrial production systems; research into the conditions of life; and scientific cooperation with developing countries) received only one-quarter of the government research budget in 1978. [redacted]

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The government also has not implemented a major increase in its industrial innovation support to small- and medium-sized firms. Companies with more than 1,000 employees carry out about 90 percent of French industrial R&D. Government policy continues to enhance the prior advantage which personnel, funds, and equipment give large firms in R&D. Government procurement, which accounts for about 8 percent of GNP, still favors large companies--most obviously in aerospace, electronics, and nuclear energy, but in most other industrial sectors as well. In addition, most direct government research and development contracts are let to large firms. [redacted]

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Direct Aids to Innovation

No longer characterized by major, single-minded undertakings, French Government support to industrial innovation now tends toward a series of discrete, non-industry-specific mechanisms designed to commercialize research results and to improve links between industry on the one hand and government and university laboratories on the other. [redacted]

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One of the largest government programs to encourage industrial innovation--"Aid to Development"--has existed in one form or another since 1956. Designed to help industry make use of research results, it supports the development of prototypes and pilot plants, and assists in the early stages of marketing. The aid consists of an interest-free loan covering 50 percent of the project, to be repaid upon success. Large firms, principally in electronics, electrical engineering, and mechanical engineering, are the program's chief beneficiaries.

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Because they have substantial research facilities, large companies are also the main beneficiaries of the system of "Joint Actions" (Actions Concertees), under which the government funds 50 percent of the cost of a research program of priority interest to more than one government department. The main users have been in heavy engineering, chemicals, oil, and the food industry.

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Three programs more specifically geared to the needs and resources of small- and medium-sized firms are "Pre-Development Aid"; "Medium-Term Innovation"; and the ANVAR (Agence Nationale de Valorisation de la Recherche).

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The ANVAR uses a variety of means to help enterprises and research institutions develop their inventions. For example, it disseminates patent information, undertakes market studies, grants licenses, and arranges contacts between the inventor and funding sources.

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The more specific "Pre-Development Aid" system grants a subsidy to an industrial research center for up to two-thirds of the cost of predevelopment work on a product of its research. The research center must be associated with a firm that will develop the product if the predevelopment work proves successful.

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"Medium-Term Innovation," established in 1978, provides government guarantees on loans of up to 500,000 francs (or 70 percent of costs, whichever is less) to firms wishing to introduce a new product or manufacturing process. The loan is granted for the entire period needed to commercialize the innovation.

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Another series of government aids to support new technologies will be proposed this year. The initial government announcement of that program indicates a strong interest in high technology (although not necessarily defense-related) sectors. The aim in this case, however, is probably not only to enhance national independence and prestige, but even more to take up the slack left by declining sectors (principally steel and textiles) in which France no longer has a productive advantage.

Indirect Aids to Innovation

Several aspects of the French tax system encourage industrial innovation. For example:

- Businesses may deduct many R&D-associated operating costs and a portion of gifts to nonprofit research institutions.
- Fifty percent of the cost of scientific and research buildings may be written off in the first year of use.
- Investors in specific research companies may deduct 50 percent of the cost of the shares from taxable income, and may receive royalties tax free if they are reinvested within three years.
- Proceeds from the sale of patents are not taxable.
- Reinvested gains on capital held for more than two years are taxed at only 15 percent.

Assessment

Contemporary French Government R&D policy appears not only much less ambitious, but also more disjointed and complex than it was under De Gaulle. When most effort was concentrated around a few specific objectives embodied in the national programs, the policy was relatively well-defined--even if it failed in many respects.

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Now the government is pursuing a great variety of objectives that are not necessarily compatible with one another. It tries to encourage economically rational innovations, but feels politically bound to maintain a major national defense effort and to assist uncompetitive high-technology firms that grew out of the earlier Gaullist programs. It wants to assist small- and medium-sized firms, but continues to work most closely with the largest enterprises in each industrial sector. Although it aims at reducing government support to private industry, it also wants to see the industrial innovation effort enhanced, and must therefore provide more R&D funds as long as the private sector is not willing to do so. [redacted]

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French industrial innovation policy therefore seems to exist at two levels. Rhetorically, the government proclaims its commitment to economic-development-oriented R&D, to economic rationality, and to the health of small- and medium-sized firms. Practically, some programs designed to fulfill those aims are passed over in favor of others that are responsive to politically inspired objectives. [redacted]

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Nevertheless, the government is increasingly interested in pursuing economic benefit. Its current interest in high-technology sectors is grounded not only in political ambition, but also in the belief that some traditional manufacturing activities are no longer viable and must be replaced and that the United States may no longer be relied upon for technological leadership. It will, therefore, continue to support innovation in areas like nuclear energy and aircraft, which enhance national prestige but where France also has a competitive advantage. Major new programs that carry little economic promise, however, are not likely to be introduced. [redacted]

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British Government Support of Innovation

The Extent of the Government Effort

The British case offers telling proof that high research and development expenditures and high levels of invention do not necessarily lead to satisfactory industrial innovation and thence to improved growth and

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productivity. Relative British R&D expenditures since World War II have been second only to those of the United States, at over 2 percent of GNP annually. The United Kingdom is also generally recognized to be second only to the United States in the number of major inventions produced. But British GNP and productivity growth rates have been very low throughout the postwar period. Although US productivity has risen even more slowly, an American worker is still almost twice as productive as a British worker. []

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The British Government plays almost as important a role in industrial research and development as its French counterpart, supplying 60 percent of the R&D funds spent in the United Kingdom. The Rothschild Report in the early 1970s maintained that this figure was too high and that many government programs should be financed by industry. In line with those findings, the government phased out several industrial R&D support programs and instituted the "customer-contractor" principle whereby industry-government Requirements Boards determine what projects should be funded. The Requirements Boards base their decisions on two criteria: the need for the proposed research, and the appropriateness of government funding. Despite these institutional changes, the percentage of R&D supported by the government has remained nearly constant. As in France, a decrease in public R&D expenditures resulted in an overall decline, rather than an increase in the private sector effort. []

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Government Policy

Even more than in France, most of the government R&D effort in the United Kingdom has been concentrated in two areas: aerospace and electronics. National defense projects account for an unusually high percentage of public R&D expenditure; once again, the United Kingdom is second only to the United States (see table 3). []

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Like the French, the British have announced their intention of shifting R&D support away from programs inspired primarily by external political objectives and toward economic development projects. The change in policy, however, has thus far only been announced, not implemented. []

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A 1977 government White Paper called for a broadening of the government R&D effort, with a sizable reduction in aerospace and nuclear support and an increase in general industrial assistance. Public support for industrial innovation overall was planned to decline dramatically by 1981 (see table 4). That forecast has now been substantially altered, primarily by the government's introduction in 1978 of the three-year, \$600-million Microelectronics Industry Support Program.

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The British Government is clearly torn between a desire for economic rationality--which would lead it to cut support in areas that have not proved profitable in the past--and an unwillingness to abandon high-technology aspirations. Nevertheless, economic constraints and the disappointing payoff from the government's R&D activity may well mean an eventual further cutback in public R&D funding.

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Direct Aids to Innovation

The microelectronics program is the latest in a series of ad hoc government programs designed to support advanced technology industry. Among the most notable have been the financing of the Concorde and the agreement to underwrite any losses involved in the production of the first 500 RB.211 aircraft engines. The government has also been heavily involved in supporting the private, but governmentally sponsored, computer firm, International Computers, Ltd.

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In addition to these ad hoc programs, three institutional structures have been used by the British Government to support industrial innovation: the system of national laboratories and research associations; the National Research and Development Corporation (NRDC); and the National Enterprise Board (NEB).

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-- Research Associations and Laboratories

The government operates several civil industrial research establishments: the National Physical Laboratory, the National Engineering Laboratory, and the Warren Spring Laboratory, which works mainly in the areas of atmospheric pollution

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and chemical engineering. In addition, the United Kingdom Atomic Energy Agency's research establishment at Harwell has been engaged in nonnuclear industrial research since the mid-1960s.

Besides the work they do directly for the government, the laboratories carry out programs designed to help improve industrial strength and competitiveness. Under that rubric, the laboratories engage either in early research in high potential areas where the economic risks are too great for an individual firm to absorb, or in research which benefits a range of industries.

In addition to running its own research establishments, the government supports work by the Research Associations, cooperative enterprises run by virtually every industrial sector. The Research Associations are most active in sectors where there are several competitive firms, rather than a few leading ones, and concentrate on production process, rather than product, advances.

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-- The National Research and Development Corporation

The NRDC was established in 1948 to limit a trend that was already a source of major concern to the British Government--the commercialization abroad of many inventions developed in the United Kingdom. The NRDC seeks to ensure the development of inventions resulting from governmental research and of private sector inventions that are finding commercial application difficult.

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The NRDC was initially designed to be primarily a facilitator, much like the French ANVAR, assisting inventors and firms by providing development, patenting, and financing information. Increasingly, however, it has become involved in the direct financing of projects, usually on a joint venture basis, since few if any firms are willing to take the necessary risks themselves.

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The NRDC has existed for 30 years, but judgments as to its overall success or failure differ greatly. It cites as its major achievements the development of the Hovercraft and its contribution in the 1950s to the founding of the British computer industry. Those announced achievements raise major doubts about the NRDC's effectiveness, since neither industry has become internationally competitive. Finally, and most important, the trend that the NRDC was supposed to help stop has continued: many United Kingdom inventions still are commercialized abroad. []

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-- The National Enterprise Board

The NEB was established in the 1970s to help supply industry with needed capital and to assist in necessary reorganization. The NEB has been concerned with two opposite types of firms: the large "basket cases," such as British Leyland, which need a government bailout; and the innovators in want of venture capital. There is a real question about whether the venture capital role is greatly needed, given the existence of the NRDC and of a fairly active (at least by Continental standards) venture capital market in the United Kingdom. []

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The major NEB operation thus far in the industrial innovation field is a \$100 million program to establish a production base for microelectronic technology. The government's recently announced Microelectronic Industry Support Program in large part grew out of the NEB action. The decision has been widely criticized, by industry and the Requirements Boards among others, as economically unsound, since the British cannot realistically hope to catch up with the Americans and Japanese in the microelectronics field. []

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Indirect Aids to Innovation

Compared to many of its OECD counterparts, the United Kingdom makes little use of procurement policy as an indirect support to industrial innovation. With a few significant exceptions--computers, the Concorde, Hovercraft--British Government procurement is strongly governed by commercial criteria. []

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British tax policy, finally, is uneven in its impact on industrial innovation. On the one hand, corporations are fairly well treated. The corporation tax rate is 52 percent; corporate and individual capital gains are both taxed at about 30 percent. Industrial plant and machinery are subject to favorable depreciation rates. On the other hand, extraordinarily high personal income tax rates prevent the accumulation of wealth and offer strong disincentives to savings and investment. []

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Assessment

The British lack of economic success with its industrial innovation policy appears to have a number of sources, some specifically and others only generally related to that policy. Specifically, the government's long preoccupation with support to the aircraft and electronics industries has kept it from assisting other sectors where it could more realistically expect to establish a comparative advantage. The new microelectronics program suggests that the past pattern will be continued. []

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A change in that policy would probably carry some economic benefit, but British industrial innovation policy would still be adversely affected by several general problems with the British economy. First, there is the age of plant and equipment in the United Kingdom. Although the government may spend proportionately more than most of its OECD counterparts on support to industrial innovation, the task facing it in many ways is greater. Second, the income tax system severely limits the availability of investment capital. Third, not only is British investment chronically low, but the productivity of capital is much lower than the OECD average. Finally, the British culture appears to value basic science more than applied, and channels its best

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students away from engineering and management. The only one of these basic problems that appears quickly amenable to government influence--the tax structure--is also one where there are important political barriers to change.

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Conclusions

Industrial innovation policy in both France and the United Kingdom is strongly affected by external political considerations. Even though each country has considerably scaled down its external political ambitions compared to the past, each still views itself as a major power that should have an independent high-technology capability. In consequence, both countries support some projects simply because they respond to political aims. This political component of French and British industrial innovation policy, along with the two countries' traditions of a major government role in the economy, helps explain why the public sector contributes the majority of industrial R&D funds. []

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France appears better able to pursue such a policy than the United Kingdom. Its general economy and its arms industry are relatively healthy. It has had some success with its industrial innovation policy in the past, and can reasonably expect further profitable advances in fields such as aircraft and nuclear energy if the necessary funds are made available. The last is a significant constraint, but one which affects all OECD governments. []

The outlook for the United Kingdom is far less positive. Its economic situation does not easily permit the luxury of noneconomic programs. Yet its desire to retain great power status has resulted in several costly national defense and electronics projects that have not been counterbalanced by any resounding successes. Ironically, the United Kingdom has lost much of its former major power standing precisely because of its economic difficulties. British political ambitions would probably be better served if the government concentrated its industrial innovation effort on the search for production improvements that would raise the average return on capital. But it does not yet seem ready to forgo flashy high-technology programs. []

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TABLE 1

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DISTRIBUTION OF FRENCH GOVERNMENT
R&D EXPENDITURES

(In Percent)

	<u>1961</u>	<u>1967</u>	<u>1972</u>	<u>1975</u>
National Defense and Space	45	41	35	36
Energy Production	25	20	15	9
Economic Development	8	16	20	26
Health	--	1	2	4
Community Services	--	1	2	2
Advancement of Knowledge	20	20	26	21

TABLE 2

25X1

FINANCING OF R&D PERFORMED BY
FRENCH INDUSTRY IN 1975

(In Percent)

	<u>Government</u>	<u>Industry</u>	<u>Other</u>
Aerospace	79.2	15.1	5.7
Electronics	32.9	48.6	18.5
Informatics	29.8	43.9	26.3
Electrical Engineering	13.0	78.2	8.8
Chemical	5.9	90.2	3.9
Mechanical Engineering	4.5	87.8	7.7
Energy	4.1	79.2	16.7
Motor Industry	1.1	97.8	1.1
Other Industries	5.2	80.8	14.0
Average	27.7	61.0	11.3

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TABLE 3

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DISTRIBUTION OF BRITISH GOVERNMENT
R&D EXPENDITURES

(In Percent)

	<u>1961-62</u>	<u>1966-67</u>	<u>1972-73</u>	<u>1974-75</u>
National Defense and Space	66	56	45	49
Energy Production	15	13	9	6
Economic Development	10	14	23	21
Health	2	3	5	2
Community Services	--	--	1	1
Advancement of Knowledge	7	12	15	20

TABLE 4

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UNITED KINGDOM GOVERNMENT-PLANNED
INDUSTRIAL INNOVATION SPENDING AS OF
FEBRUARY 1977

(Pounds sterling, in millions, 1976 prices)

	<u>1976-77</u>	<u>1978-79</u>	<u>1980-81</u>
General Industrial R&D	51	61	68
Technological and Industrial Sponsorship	8	12	12
Aircraft and Aero Engine R&D	19	12	12
Concorde Development	23	12	8
Concorde Production	14	16	4
RB.211 Engine	10	-3	-5
Other Aircraft Projects	-1	-2	-1
Space	30	20	20
Nuclear	127	86	83
Total	281	214	201

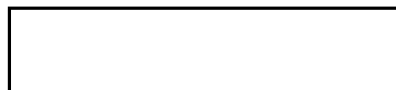
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
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
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Maputo Nonaligned Bureau Meeting: The Keynote Was
Unity 


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A number of threats to the unity of the non-aligned movement were averted at a recent meeting in Maputo, Mozambique of the movement's 25-member Coordinating Bureau. The main purpose of the meeting was to review the situation in southern Africa. The final communique issued by the Bureau overcame differences between radicals and moderates by reiterating the movement's traditional principles and by endorsing both diplomacy and armed struggle as tactics for bringing about majority rule in the region. 

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Cuba and Yugoslavia continued to jockey for influence within the movement. Cuba pushed for radical positions on most points in contention but backed off when faced with strong opposition. A moderate faction, led by Yugoslavia, succeeded in toning down the strident language on the movement's basic aims and on southern Africa contained in the first draft of the final communique. 

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The next test of nonaligned unity will be the Coordinating Bureau meeting scheduled for Colombo, Sri Lanka in June to prepare for the Havana nonaligned summit in September. The venue of the June meeting is more favorable to the moderate faction. Sri Lanka, as host, will draft a final communique that will probably set a less combative tone than did the original draft of the final communique for the Maputo gathering. Roles will be reversed from Maputo since the radicals will have to take the initiative to change the drafted rhetoric. Attendance and agenda will not be limited, as they were for Maputo, and thus the outcome should be more indicative of the movement's position on various issues. 

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* * *

The Maputo meeting was a first of its kind for the nonaligned movement (NAM). Mozambique, belonging to

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the movement's "radical" core, is not a Bureau member. Its offer at the May 1978 Havana Bureau meeting to play host to the next Bureau meeting was seen by Sri Lanka, and other moderates, as a Cuban-inspired attempt to control the preparatory meeting for the summit. As a compromise, the members agreed to schedule a limited-agenda meeting in Mozambique, while Sri Lanka, the current chairman, retained the traditional right to host the preparatory meeting for the summit.

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The final communique of the Maputo meeting, accepted by consensus, contained something for everyone, and in that sense the meeting will be viewed as a success by most NAM members. The radicals retained the hostile, condemnatory anti-West tone, but the more moderate countries were able to include in the opening paragraphs a restatement of the fundamental principles of nonalignment, thus heading off endorsement in the communique of the Cuban thesis that the NAM should move toward closer cooperation with the Soviets and their allies.

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The draft communique was prepared by Mozambique, as is the tradition for hosts of nonaligned meetings. Its anti-West, pro-Soviet tilt angered the traditional leaders of the movement who felt dangerous precedents were being set. Yugoslavia, India, Sri Lanka, and to a lesser extent, Egypt and Algeria, fought hard in the drafting group to revise the text and to preserve the integrity of the movement. The outcome of the meeting shows that the majority of delegates supported the Yugoslav-led effort not to be pressed by the radicals.

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Even so, the lengthy final communique is a hard-hitting attack on "imperialism" and the West. The tone reflects mistrust of, as much as hostility toward, Western efforts at resolving the conflicts in southern Africa. As the communique states, many NAM countries doubt the West's sincerity, believing it impossible for the West to take action that could prove disadvantageous to its economic interests. The communique also reflects contradictory attitudes among the members about how to foster changes in southern Africa in that it endorses both diplomacy and the armed struggle of the liberation forces to bring about majority rule. Items of special note in the communique are:

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- The recommendation that the Zimbabwe Patriotic Front (PF) be granted full membership in the NAM. Unlike the support given to the South-west Africa People's Organization (SWAPO) in Namibia, however, the NAM stopped short of designating the PF as the sole representative of Zimbabwe. One reason for the seeming slight is that the Organization of African Unity has not yet sanctioned that claim.
- The establishment of a special fund for SWAPO to meet "exigencies as they develop." It is not clear how the fund will operate or what the assessments on members will be.
- The intent to adopt at the 34th UNGA a declaration of solidarity with the liberation struggle of the peoples of southern Africa. The effect of the resolution would be to commit UN members to agree not to engage in direct or indirect military intervention in support or defense of apartheid regimes.
- The call for nonaligned support in pressing for the UN Security Council to sponsor an oil embargo against South Africa.

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The communique reflects the frustration among the Africans over the slow progress in achieving majority rule in southern Africa and gives an indication of the potential tack the nonaligned will take on related issues in the Security Council and the 34th UN General Assembly. Whether any of the recommendations contained in the communique will be carried out is open to question. Active financial and military support of the liberation struggle is beyond most NAM members' capability. Presumably, calls for action through the UN will be supported by the members, since to do so costs little in political or economic terms. In any event, the recommendations for action are likely to have little impact on events in the region, since the NAM has neither a direct diplomatic nor military role in the events taking place in southern Africa.

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Sino-Soviet Intrusion

The Bureau members had agreed at the start of the meeting not to raise contentious issues, such as western Sahara, Kampuchea-Vietnam, Cuban and Soviet support to Ethiopia, or changes in internal NAM procedures. Despite this agreement, the question of seating the representative of the Pol Pot government of Kampuchea threatened to disrupt the session. Few members wanted the issue to divert attention from the agenda. A hasty compromise was reached, allowing representatives of both governments to be seated as observers without the right to speak. The Vietnamese-backed regime did not, however, attend the meeting.

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Near the end of the session, the usually pro forma listing of accredited observers, which included Kampuchea, brought objections from Cuba and Vietnam. A decision to allow members to lodge formal reservations to listing Kampuchea averted a last minute dispute. Vietnam, Afghanistan, South Yemen, and an unidentified fourth country did so. Cuba, evidently interested in not antagonizing the delegations, instead wrote a letter of "concern."

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If the Vietnam-Kampuchean issue is still bubbling by June, it could cause a great deal of contention at the Colombo session among the pro-Soviet and pro-Chinese factions in the movement, particularly if China continues to press its support for the deposed government.

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Leadership Struggle

Yugoslavia went to Maputo prepared to do battle to preserve the integrity of the movement. The pro-Soviet language in Mozambique's first draft of the communique heightened Yugoslavia's concern that, if left intact, the language would play into the hands of Cuba and give strength to the radical forces at the Havana summit. Indeed, Yugoslavia began garnering support among the moderate members to control the tone of the communique prior to the meeting.

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Algeria, usually considered a "radical" in the NAM context, was helpful in modifying the strident Mozambican language. This might be an indication that the new government will take a more moderate approach in the movement. More likely, however, it was the result of instructions to the delegation not to go beyond Algeria's traditional nonaligned positions until the new government decides what its policy will be.

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Cuba's actions during the meeting were circumspect. The Cubans pressed hard for radical formulations on numerous points, but willingly compromised when faced with strong opposition. Havana apparently is attempting to do everything possible to prevent polarization of the membership prior to the summit. As at other nonaligned meetings, Cuba allowed those radicals more directly involved in the issues--this time it was Mozambique--to take the hard line until the necessity for compromise for the sake of consensus became apparent.

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The battle for leadership of the movement between Cuba and Yugoslavia will continue.* At Maputo, however, both of these NAM leaders, and their respective followers, again demonstrated that their interest in the movement's unity still outweighs their individual differences. As long as neither side attempts to use the movement to attack the other's main foreign policy goals (such as Cuba's presence in Africa), the common concern for unity is likely to remain overriding.

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Dissidence in the USSR 

The Soviet regime's behavior toward dissidents since the highly publicized trials last July has been a mixture of selective repression and guarded tolerance. The regime apparently continues to view the various dissident groups as a serious political problem. But rather than incurring the costs of draconian policies to root out all dissenters, the regime has adopted a twofold strategy to contain the dissent. This entails harassment and at times severe punishment of leading activists, while also permitting increased emigration of Soviet Jews and exercising a cautious flexibility toward other religious and ethnic minorities. The regime's approach has been only partly successful. Although dissident groups remain generally isolated from one another, they have maintained contact with sympathizers in the West, and the spectrum of dissent is somewhat broader than it was six months ago. 

* * *

Morale among most dissident activists and religious groups dropped in the wake of the trials last July. The branches of the Helsinki Monitoring Group have been particularly hard hit. Two of the dissidents sentenced in July, Anatoliy Shcharanskiy and Aleksandr Ginzburg, were members of the Moscow branch, and the group's specialist on governmental psychiatric abuses, Aleksandr Podrabinek, was sentenced to five years of domestic exile in August. At a press conference in September, spokesmen of the Moscow branch told of threats received by persons friendly to the group. They reaffirmed their intention to remain active even though only six of the group's active members were free at that time. 

Branches of the organization in Armenia, Georgia, and Kiev fared no better. Robert Nazaryan, a member of the Armenian branch, was sentenced to a total of seven years confinement and domestic exile for anti-Soviet activities, and Avandil Imnadze, an associate of a member

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of the Georgian branch, received sentences totaling nine years for distributing anti-Soviet literature. The founding member of the Kiev organization, Oles Berdnyk, was picked up by the KGB in December and questioned. Two other members of the Kiev group received sentences for engaging in a strike at their place of employment.

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Last November, various members of the Helsinki Monitoring Group circulated a petition against a new Soviet law that makes it relatively simple for the regime to deny citizenship to dissidents, but in general the group has been relatively inactive in recent months. [redacted]

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Dissident Soviet physicist Andrei Sakharov, one of the strongest voices for human rights in the USSR, publicly contradicted the Soviet court's verdict against Armenian Nationalists S. S. Zatikyan and two accomplices who were convicted of perpetrating the Moscow subway explosion two years ago and were executed. According to the Western press, Sakharov said that Zatikyan was not even in Moscow at the time of the incident. [redacted]

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Sakharov, who had been warned a number of times in the past by the authorities not to make such statements, visited the US Embassy recently and gave his impressions of human rights issues in the Soviet Union. Despite reports to the contrary, Sakharov said he was not pessimistic about dissident efforts to foster human rights in the USSR and asserted that authorities will not be able to eliminate the movement or stop its work. [redacted]

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Moscow's treatment of Soviet Jews is the one clear indication of the regime's willingness to grant limited concessions to some active dissidents. The total number of Jews permitted to emigrate in 1978 exceeded 30,000 and may average 5,000 a month for at least the first part of 1979. This approximates the rate during the peak year of 1973, when nearly 35,000 Soviet Jews emigrated. The backlog of Jews in Odessa applying for exit permits reportedly led the government to open a large, new office to handle the processing. In explaining the higher emigration figures, Soviet Jews point to the Jackson-Vanik amendment, to the larger number of applicants and, increasingly, to a desire by the regime to get rid of "malcontents" before the 1980 summer Olympics in Moscow. [redacted]

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The status of the Jewish "refuseniks" (those previously refused exit permits) may also be improving.

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some persons formerly denied emigration because they at one time held security clearances will now be permitted to leave. In addition, refusenik scientists held an international scientific conference in December, with three US scientists present, even though authorities had seized some of the conference documents from the residence of one of the organizers and denied visas to five other US scientists who wanted to attend the event.

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The regime's attitude toward various Protestant groups appears to be somewhat ambiguous. The All-Union Council of Evangelical Christian Baptists, for example, was given permission to import 25,000 Russian Bibles; this is the first time a Soviet government has permitted a significant influx of Bibles since 1947 when 10,000 copies were imported. On the other hand, Soviet media continue to inveigh against "Bible smugglers," terming them "paid agents of Western intelligence."

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The US Embassy in Moscow has been deluged with requests by Pentecostals and Baptists to emigrate. Representatives of these groups in the Ukraine, Byelorussia, Lithuania, and the cities of Leningrad and Nakhodka submitted lists containing nearly 2,000 names of members wishing to leave the country. Spokesmen for the groups contend that Soviet emigration officials have told them that their "only hope" is that President Carter will raise the issue with President Brezhnev during the signing of a SALT agreement. A religious activist from a town near Moscow was sentenced to a year in prison for organizing a seminar on the "defense of rights of believers in the USSR." In the Kirgiz Republic two citizens were sentenced to three years in a labor camp for conducting a children's Sunday school. An 84-year-old member of the Seventh Day Adventists, Vladimir Shelkov, is being tried in Tashkent for illegal religious activity because he wrote an eight-volume treatise condemning the "dictatorship of state atheism." Shelkov could get as much as five years imprisonment or internal exile and confiscation of his property if convicted.

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The spectrum of dissent seems to be broadening once again. In October, an independent "trade union" surfaced in Moscow. Calling itself the Free Inter-Professional Union of Workers, the group focuses on worker grievances ignored by the official trade unions. Reports indicate that the organization lacks internal cohesion and is plagued by diverse interests. On those rare occasions in the past when dissidents have tried to organize Soviet workers, Moscow has reacted quickly and sternly. Although several members of this group have been arrested and one of its leaders has been confined to a state psychiatric hospital, the "union" has not yet disbanded.

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On another front, a new journal called Metropol appeared in January. The avowed intention of its publishers is "literary excellence" rather than political debate. The first issue, however, contained articles critical of Soviet literary restrictions. [redacted]

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Despite official Soviet denials concerning nationalities problems--most recently in Premier Kosygin's discussion of 6 February with President Carter's science adviser--several ethnic areas continue to prove troublesome. Last August Crimean Tatars sent two petitions to Brezhnev requesting permission to return from Central Asia to their ancestral homeland. The government, as usual, made no direct response; one report claimed authorities in the Crimea have bulldozed the houses of illegal returnees and deliberately stirred up local antipathy toward the Tatars. As a result, one of the leaders of the dissident Tatars, Mustafa Dzhemilev, publicly renounced his Soviet citizenship and applied for permission to emigrate to the United States. [redacted]

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Unrest in the Abkhazian Autonomous Republic (administratively a part of the Soviet Republic of Georgia) that surfaced last spring is still causing problems for Moscow. The Georgian party leader recently warned the Abkhazi leaders that they were not dealing firmly enough with "nationalist chauvinism." Although Abkhazis make up only about 10 percent of the population in their own

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25X1 autonomous republic, they are Muslim, and current unrest among their coreligionists in nearby Turkey and Iran may have made the leadership in Moscow especially uneasy.*

[REDACTED]

In general, the Brezhnev regime is ready to punish individual dissidents harshly on occasion, and seeks in various ways to divide and demoralize all of them. But the leadership is avoiding recourse to draconian measures, not only out of concern for both its international image but also because of its own perception of what is required to maintain the stability and cohesion of the Soviet administrative machinery. In recent months, for example, a reported directive from Moscow party chief Grishin cautioned officials against firing Jewish "refuseniks" lest they spread their "contagion" to their new places of employment. Because the regime refrains from using the harshest measures to deal with protests, and because the reasons for political protest continue, at least some of the dissidents are encouraged to persist in their activities.

[REDACTED]

[REDACTED]

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*Because of their relatively high birthrate, Muslims in the year 2000 may, according to recent projections by some Western academicians, number about one-third of the total Soviet population.

[REDACTED]

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