TRANSMITTAL SLIP	DATE 11 Apr 83
TO: Milt Kovner, NIO/WE	
ROOM NO. 7E62	BUILDING Hqs.

TRANSMITTAL SLIP	DATE 11 Apr 83	
TO: NIO/E		
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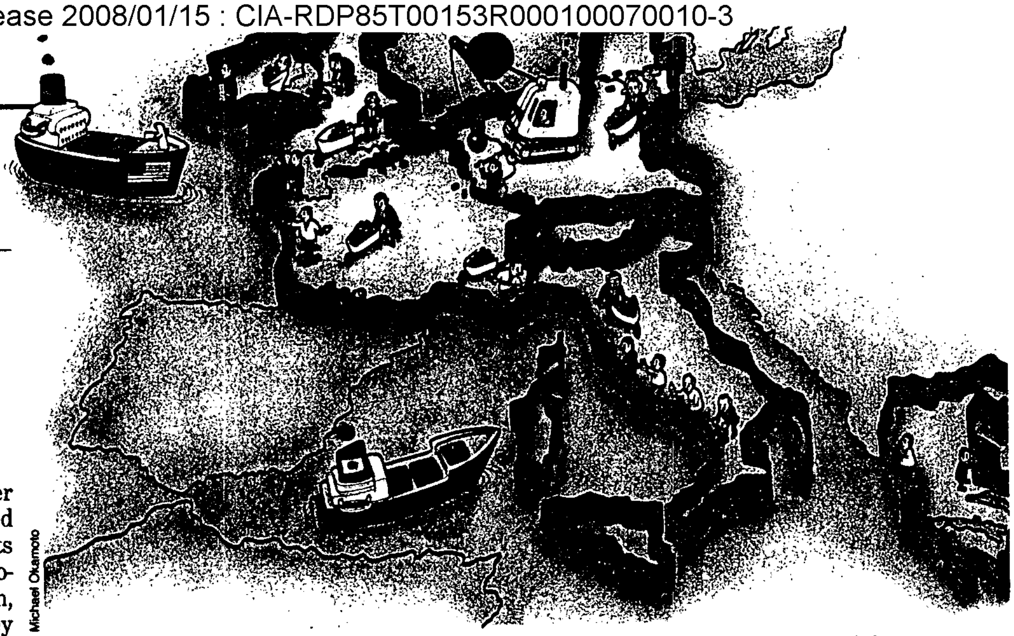

The EC may lower internal walls while strengthening barriers against the U.S. and Japan.

'Free traders' rev up an 11th-hour campaign

European governments breathed easier after arch-protectionist France decided to saddle its own citizens instead of its trading partners with the bill for its economic ills. Even so, officials in Bonn, London, and The Hague are afraid they have only a few weeks to contain the forces of protectionism before Greece—whose Socialist government is now strongly protectionist—takes over the presidency of the European Community for a six-month term in June.

The margin of the French decision was razor-thin, and only at the last minute did President François Mitterrand tilt away from the protectionists, led by former Minister of Research & Industry Jean-Pierre Chevènement and Jean Riboud, chairman of Schlumberger Ltd., the oil exploration equipment company. Despite the ascendancy of conservative socialist Jacques Delors, few top French officials favor reducing trade barriers, and some who advocate more protectionism could gain support if France's austerity program fails to cut imports.

Led by West Germany, Europe's "free traders" are trying to convince other EC nations that they are a hairbreadth away from a total breakdown in already fragile intra-European trade. "Twenty-five years after the Common Market was founded, there is no difference between exporting into the European Community and exporting from one country to another within it," laments Karl-Heinz Narjes, the German EC commissioner who heads the effort in Brussels. "If we cannot win a reform, we can forget about a sustained recovery."

By June, Narjes is hoping to secure Community agreement on three key harmonization measures:

- Easing of the 30,000 different health, safety, and commercial standards that often act as nontariff barriers between EC countries.
- Limiting border harassment of shippers and truckers within Europe, which the EC calculates costs a staggering $12 billion annually.
- Erecting trade barriers, to "safeguard" against non-European products, that would replace individual countries' restrictions against a range of imports—from shoes to high technology—from the U.S., Japan, and some developing nations. Such a safeguard may be the price the free-trade bloc must pay to win easier trade rules within Europe.

Despite its decision to shelve new import restrictions, France's underlying desire for a protected market is unchanged, EC officials say. New studies of French competitiveness show that before Mitterrand took office, France could outcompete Germany only in autos, and now even that advantage has been lost.

European analysts doubt that the 8% devaluation of the French franc against the Deutschemark and new austerity measures will cut France's trade deficit with Germany significantly. Yet if the gap does not shrink soon, Paris may demand the same "voluntary" export restraints from Germany that it imposed on Japan. Such a move could trigger similar calls from Italy and Greece. Kiel Institute economist Norbert Walter calls the 25% leap in German exports to France in January "a political time bomb" that could lead to trade concessions or new import penalties against German goods. "We [Germans] are becoming the Japan of Europe," he says.

'Bit of a box.' Instead of giving Europe time to streamline its industries more easily, a gradual economic recovery may exacerbate protectionist tendencies by unmasking weak companies in sectors that France, Italy, and other countries consider critical. With worldwide overcapacity in consumer electronics, rising European incomes will encourage U.S. and Japanese companies to cut prices for the sake of market share. This will hurt Europe's struggling plants.

U.S. government officials are concerned. But because the U.S. already applies trade restrictions, such as limiting imports of cars from Japan, they say Washington can do little if the French persuade other Europeans to block U.S. and Japanese imports temporarily. "We are in a bit of a box in criticizing them. Their proposal parallels our own," says a U.S. official in Brussels. ■

A job crisis finally trims the work week

Europe's runaway unemployment crisis—one of every 10 Europeans is jobless—is breaking the logjam on a controversial formula to create jobs by shrinking the workday. Until recently, both employers and workers have refused to take more than small doses of this share-the-work medicine, "worksharing," suspecting that the cure would mean either lower productivity or pay cuts. But recent breakthroughs in Germany and Belgium could augur the beginning of industry-labor collaboration.

Late in March, German chemical workers sidestepped employer opposition by folding workweek reductions into a plan that resembles early retirement. The 40-hour workweek will be cut four hours every other week for 50,000 workers aged 58 and over, with a full reduction to a 36-hour week after 1987.

To be sure, the long recession has contributed to the double-digit unemployment now stifling Europe. But the problem goes much deeper. Ivor Richard, the European Community's commissioner