



Directorate of Intelligence

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European Review



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20 November 1985

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European Review

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors, 

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Briefs

United Kingdom

Pushing To Speed Up Privatization [Redacted]

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London is seeking to offset overruns in public spending and deliver promised tax cuts by doubling its sales of nationalized companies next year. [Redacted]

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[Redacted] Since the

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Treasury records proceeds from privatization as negative public spending rather than revenue, increased sales would enable the government to achieve its planned spending totals for 1986-87 despite budget overruns in several departments. During the opening week of Parliament, the government revealed plans to introduce legislation to privatize four major entities—the British Gas Corporation, Atomic Energy Authority, British Airports Authority, and Royal Naval Dockyards—but did not specify the amount of funds expected from the sales.

[Redacted]

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The bill probably will obtain Parliamentary approval despite misgivings about the wisdom of selling off state assets as a short-term way of raising money. The sale of British Gas most likely will present the greatest problem; critics question the means of determining a proper valuation and regulatory mechanism needed for the corporation when it is no longer state owned. Moreover, many financial analysts believe that the actual sale of British Gas—which would represent the largest privatization deal to date—could prove difficult because of the size of the project and the fact that its outstanding stock is not a high-technology issue with rapid growth potential. [Redacted]

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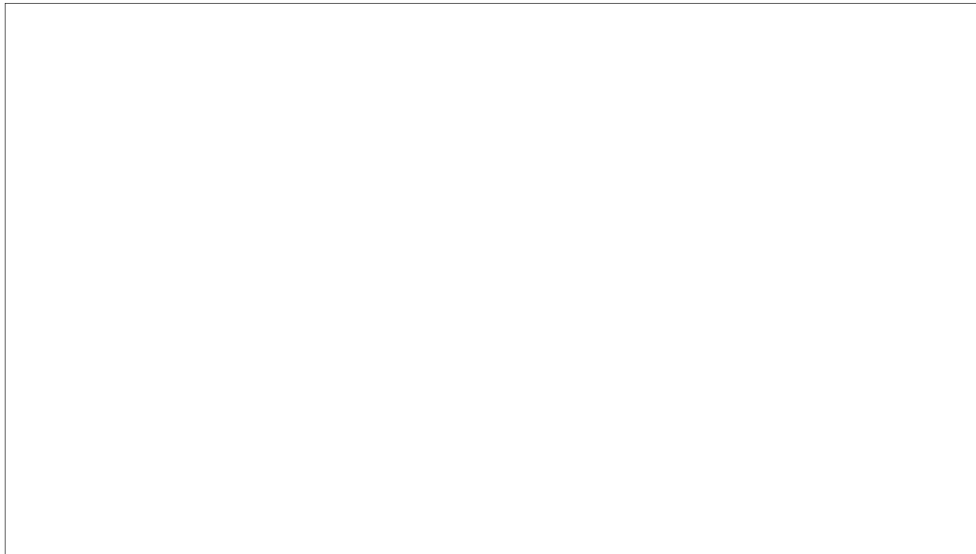
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West Germany

Broader Growth in 1986

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Recent forecasts—including the joint projection of the FRG's five major economic research institutes and that of CIA's econometric model of the West German economy—agree that economic growth next year not only will increase but also be more broadly based. In particular, personal consumption and construction are expected to revive and support the export surge that has been the mainstay of growth over the past two years. The consensus foresees 3-percent real growth in 1986 after 2.2 to 2.5 percent this year.

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An important projection for the Kohl government, as the January 1987 election approaches, is that the unemployment rate should edge down 0.2 to 0.3 percentage points—the first decline since 1979—to just over 9 percent. Despite slower growth in real exports, next year's trade surplus probably will surpass even this year's expected record \$30 billion. West German officials are concerned that the rapidly mounting surplus will intensify calls from abroad to stimulate the economy to boost imports. They will cite the forecasts of improved growth prospects as evidence that such actions are unnecessary.

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West Germany

Acid Rain Problem Worsens

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Rapidly growing damage to West German forests from acid rain probably will lead Bonn to press harder for international environmental cooperation. The government's still-confidential 1985 report on the health of the nation's forests, leaked to the press, estimated that 52 percent of the nation's trees are damaged. By contrast, last year's report found 50 percent damaged, the 1983 report 34 percent, and in 1982 only 8 percent. Although the rate of increase appears to be slowing, the percentage of forest showing medium damage—26- to 50-percent needle loss—has risen rapidly in some areas. Environmental groups are calling on Bonn to declare a state of emergency to save the forests and to introduce a host of tough,

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new domestic environmental regulations. However, half of West Germany's acid rain comes from foreign sources, particularly France, Britain, and East Germany, according to government statistics.

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Bulgaria**Increasing Soviet Economic Pressure**

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Bulgaria is under pressure from Moscow to improve economic management and increase integration with the USSR.

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Sofia on 18 October named Ivan Iliev to replace Stanish Bonev as State Planning Committee Chairman, a cabinet-level post. Reflecting Soviet pressure to improve economic management, editorials in the Communist Party daily criticized planning officials for failure to adopt modern planning methods and goals and for failing to provide adequate resources and incentives for introducing modern industrial technology. Planning officials were also cited for failure to plan for adequate maintenance and modernization of electric power plants, thereby contributing to Bulgaria's energy problems this year.

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Sofia recently has responded to Soviet pressure to increase economic integration and improve the quality of its exports to the USSR. According to Bulgarian Machine Building Minister Doynov, the agreements to establish joint associations for advanced industrial automation signed during the Gorbachev visit represent a higher form of economic integration between Bulgaria and the USSR. Following Gorbachev's visit, Sofia created a government committee to address quality problems.

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Sofia's economic difficulties, expected to continue this winter, have triggered Soviet criticism of the regime's economic mismanagement and fueled rumors that Gorbachev lacks confidence in Zhivkov. The new joint industrial association agreements and the dismissal of Bonev suggest that Moscow intends to push Bulgaria not only for increased economic integration and better quality exports but also for more effective economic management as well. Although some Bulgarian leaders may resent Soviet interference, Bulgaria's heavy dependence on the USSR for supplies and markets limits the regime's ability to resist Soviet pressure.

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Canada**Federal-Provincial Tangles Brewing**

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Ottawa's decision to permit a Nova Scotian fishing company, National Sea, to operate a trawler capable of catching and processing fish at sea seems destined to spawn a three-way quarrel among the federal government, Nova Scotia, and Newfoundland. National Sea and the Government of Nova Scotia had requested permission to use the factory-freezer trawler to allow the company to operate further out at sea where stocks are more plentiful. The Government of Newfoundland and fishing firms in the province opposed the plan because it would permit Nova Scotia's fishermen access to cod stocks off Newfoundland for the first time, and more important, because it would reduce fish stocks available to

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Newfoundland's traditional coastal fishery. Much of Newfoundland's rural economy depends on the coastal fishery's catch to provide fish for processing in plants located in isolated communities. [redacted]

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Ottawa's decision is another step in an effort to modernize Atlantic coast fisheries as well as an attempt by Prime Minister Mulroney's Tory government to restore some of the political support lost in Nova Scotia since the election in 1984. Nonetheless, the action is spurring sharp protests from Tory Premier Peckford of Newfoundland, who is accusing Ottawa of ignoring arguments that the trawler will ruin his province's coastal fishing industry. Ottawa's seemingly innocuous decision on the trawler probably marks the opening of a renewed period of federal-provincial bickering—Ontario already nurses a grudge against Ottawa's refusal to let domestic natural gas prices decline, and Quebec is angry over the federal government's failure to provide job-creation funds for Montreal—reminiscent of the Trudeau era's strife Mulroney promised to end. [redacted]

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Switzerland

Foreign Minister Under Fire [redacted]

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Foreign Minister Aubert's activism is drawing increasing criticism from the media and parliament, according to press and US Embassy reports. Aubert has been urging intensified Swiss efforts to mediate international conflicts, but many commentators argue that his public statements and frequent foreign travels naively exaggerate Bern's influence. During the Achille Lauro hijacking, for instance, Aubert misleadingly implied he was playing a key role in helping to resolve the crisis. Aubert told parliament he carried a confidential message from Egypt to Israel in October—an indiscretion Egyptian President Mubarak has denied. [redacted]

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Aubert's activist vision is unlikely to change the prevailing Swiss concept of armed neutrality, which accepts a peacemaking role but fears excessive entanglement in foreign conflicts. Few observers expect Swiss voters to approve a referendum proposal for full UN membership next March, a move Aubert vigorously supports. The press is speculating that parliament may show its displeasure by declining to elect him vice president of the Federal Council next month, as previously agreed among the parties. A defeat would not remove Aubert as foreign minister, but it might prompt him to resign or—at a minimum—become more cautious in undertaking new foreign policy initiatives. [redacted]

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Articles

**NATO: Little Growth in
Defense Spending**

Defense spending among the NATO Allies increased only slightly in 1984, with only five meeting the Alliance goal of near 3-percent real growth. Preliminary figures for 1985 and plans for 1986 suggest this trend will continue and may well worsen, forcing more delays in procurement, and further cuts in operations and maintenance funding. Austerity limited the Allies to increases in real defense spending that averaged only 1.7 percent in 1984, following even more modest growth of 0.7 percent in 1983. The increases were lower than the Allies had projected, and spending, in fact, decreased in several NATO countries.

The Big Four

Of the four major Allies, only the United Kingdom exceeded a 3-percent real increase in 1984. London, however, has publicly abandoned the 3-percent goal and is now projecting annual declines in real spending through 1987. The British claim greater efficiency in procurement will offset much of this decline. Although the Army has been able to buy more tanks because of savings through improved purchasing practices, the Air Force has cut back on flying time to compensate for cost overruns in a major procurement program. The British are likely to face serious budgetary problems as they try to fund the Trident program and the new European Fighter Aircraft project.

Defense spending in France has stagnated, and improvements in conventional forces have suffered because of the high cost of programs to modernize strategic forces. Claims that real growth will be as high as 2 percent in 1986 are based on optimistic projections of inflation. Growth probably will not exceed 1 percent.

**NATO: Real Growth in Defense
Spending, 1984-86**

Percent

	1984	1985 ^a	1986 ^b
Belgium	1.3	1.6	2.2
Canada	7.6	0.7	2.6
Denmark	-1.1	1.0	-0.2
France	0.0	0.5	-0.1
Italy	2.8	2.2	NA
Greece	4.4	0.0	9.5
Luxembourg	0.4	-0.5	8.1
Netherlands	3.4	0.7	1.7
Norway	-4.6	13.5	-1.8
Portugal	-5.3	2.8	NA
Turkey	-1.3	3.2	3.0
United Kingdom	4.1	1.7	-1.8
West Germany	-0.5	2.1	-0.7
Overall non-US NATO ^c	1.7	1.6	0.3

^a Estimates.^b Projected on basis of current budget plans.^c France was not committed to NATO's 3-percent goal; excluding France, growth for 1984 was 2.2 percent.

Real defense spending in West Germany declined in 1984, following several years of almost no real growth. Budget stringencies have not yet had a serious effect on procurement because Bonn is nearing the end of a modernization cycle. Major problems will emerge at the end of the 1980s, however, as West

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Germany tries to offset a substantial decline in conscripts and enters a new modernization cycle. Chancellor Kohl has already warned that any changes in personnel policies, such as increased pay for volunteers, will have to be funded out of existing budget plans. [redacted]

Italy increased spending by 2.8 percent last year and will have fairly consistent real growth in 1985—but below the 3-percent level. The increases have allowed Italy to implement most modernization programs, although more slowly than planned. [redacted]

The Smaller Allies

Inadequate expenditures by many smaller Allies have hampered force modernization programs and peacetime operations for some time:

- Belgium was forced to cut Army and Air Force training several years ago, has curtailed a number of procurement programs, and is withdrawing some units from West Germany to cut costs.
- Attempts in Denmark to free funds for procurement by reducing the number of regular troops were scuttled by the soldiers' union and by the opposition Social Democrats.
- Canada, despite real growth in defense spending over the last several years, has not been able to compensate for major cuts in the 1970s. [redacted]

[redacted]

- Norway remains committed to substantial growth in defense, although budgeting problems distorted its spending plans in 1984 and 1985. [redacted]

Despite funding problems, many Allies have made headway in some key areas. Ammunition stockpiles, for example, have been increased in most countries. The purchase by Portugal of six antisubmarine aircraft will considerably strengthen its maritime surveillance capabilities despite a continuing overall decline in armed forces effectiveness. Purchases by Greece and Turkey of modern fighter aircraft will greatly improve their air defense capabilities in the early 1990s. [redacted]

Outlook

We do not expect major increases in Allied defense budgets over the next several years. Most countries are committed to austerity to cut government deficits, but they are under heavy pressure to maintain social programs. As a result, they probably will be forced to postpone further or stretch out major procurement programs and are unlikely to make up most shortfalls in operations and maintenance. In the early 1990s, many countries also will face declining pools of draftees and may have to spend more to attract long-term volunteers. [redacted]

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**Belgium:
Coping With Terrorism**

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Belgium, once relatively untouched by terrorism, now finds itself increasingly vulnerable because of its open borders, large number of attractive international targets, and the appearance of indigenous terrorist groups during the past year. A national counterterrorist body, championed by Minister of Justice Jean Gol, was established in September 1984, but a lack of training and experience, continuing interservice rivalries, and austere budgets will impede Belgium's counterterrorist efforts for some time to come.

Despite this progress, the Belgians were not fully prepared to deal with the series of bombings begun in October 1984 by the Communist Combatant Cells (CCC), a domestic group that emerged during the heated debate on INF deployment. The CCC attacked NATO and foreign subsidiaries of defense-related businesses initially, but the group recently has broadened its targets to include domestic companies, banks, and even the pacifist movement. Two other Belgian-based organizations, the Revolutionary Front for Proletarian Action (FRAP) and a radical environmental group, the Peace Conquerors, have also claimed credit for bombings.

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Terrorism: Foreign and Domestic

Belgium historically has served as a supply base and sanctuary for terrorist groups from all corners of Europe. The Spanish Basque separatist organization—Basque Fatherland and Liberty (ETA)—created an infrastructure in Belgium in the 1960s and received open support from some extremist movements. More than 100 sympathizers attended the trial of four ETA members in 1983, and, according to ETA, the powerful bomb that extensively damaged the Palace of Justice in Antwerp was its retaliation for extradition of two of the four members to Spain.

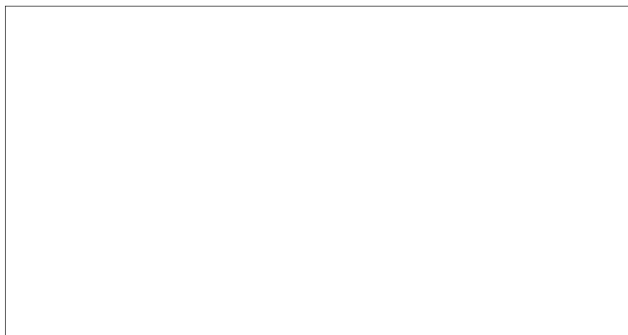
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As host to numerous exiles, particularly Albanians and Yugoslavs, as well as a growing Middle Eastern community, Belgium has been the venue of violent activity in the past. The Irish Republican Army carried out bombings in 1978-79, the German Red Army Faction attempted to blow up NATO Supreme Commander Haig's car in 1979, Palestinian guerrillas tried to seize an Israeli airplane at Brussels airport the same year, and an Armenian group claimed responsibility for the murder of a Turkish attache in 1983. It was following an attack on a synagogue in 1982 that Gol pushed for a central policymaking group—the Anti-Terrorist College—to collect intelligence and combat terrorism. Two years of study and negotiations on the complicated and politically sensitive organizational and control aspects of the college preceded the signing of protocols among the various police and security services.

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Belgium's Counterterrorism Apparatus

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The Anti-Terrorist College, formed in September 1984, is a policy and coordination council for terrorism that meets regularly to discuss terrorist topics and conduct threat assessments. In the event of a terrorist incident, it provides a crisis staff. Located in the National Gendarmerie Headquarters in Brussels, it is chaired by the Minister of Justice and includes representatives of the royal police, military intelligence, the Gendarmerie, the State Security Service, the judiciary police, and the public prosecutor's office. It oversees the activities of a subordinate action group, the Interforces Anti-Terrorist Group.

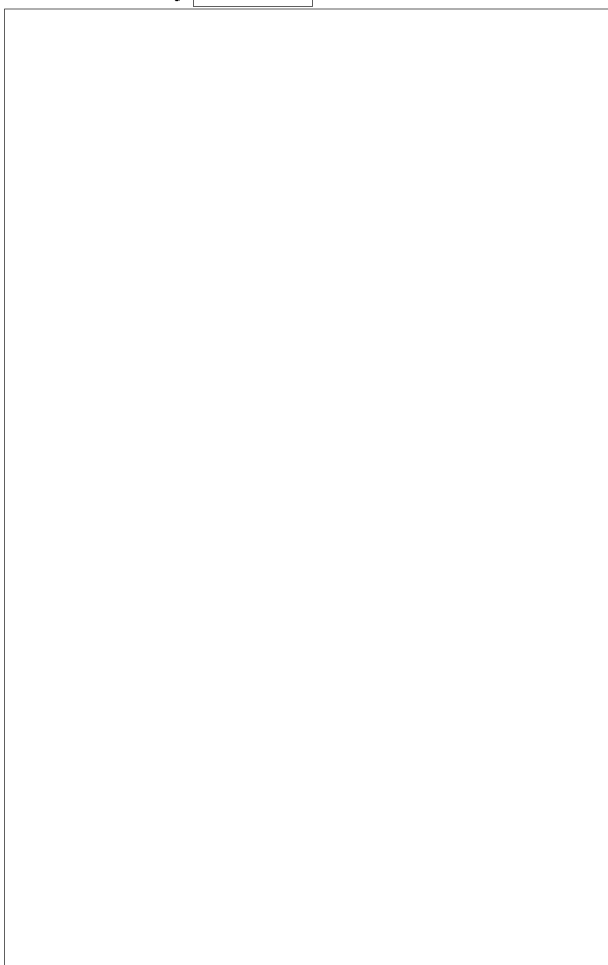
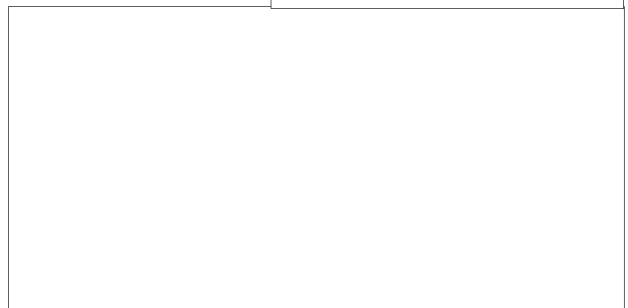
Expanded Cooperation

Brussels has displayed interest in exchanging information with other countries. West Germany and France, for example, drew Belgium into cooperative efforts in February when they agreed to form a joint operational working group to intensify police and intelligence exchanges.

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Foreign Minister Tindemans has stressed cooperation on an international level as well. During Vice President Bush's visit in June, Tindemans pointed out that the Belgian parliament had just approved a plan to work within the Council of Europe against terrorism. In his UN speech in September, Tindemans also urged countries to agree that certain acts constitute terrorism and to take some universally recognized measures to combat them.

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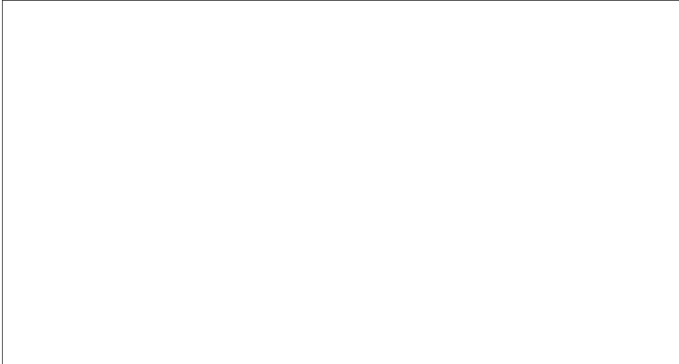
Outlook Mixed

In a period of economic austerity, Brussels until recently devoted few resources to counterterrorist efforts. Last fall, however, funds for security forces were augmented substantially, and money was earmarked to automate files of the State Security Service, establish a Senior Police Institute, and equip and train regional gendarmerie special intervention units. These units should be trained by late 1986 and will receive tasking from both the GIA and the Gendarmerie. In addition, Brussels has authorized an

increase in the Gendarmerie to nearly 17,000 by the end of 1986.

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The lack of a clearly defined chain of command will continue to create problems. The Gendarmerie, for example, is tasked by the Ministry of Defense but also assists the Ministries of Interior and Justice. A study group is exploring the question of command structure, but this is likely to be a lengthy process.

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As recent bombings by the CCC demonstrate, Belgian authorities currently are unable to suppress domestic terrorist groups. Foreign terrorists also continue to transit Belgium with ease and to find sympathizers and shelter there. The border with France, for example, has 600 crossing points, only 40 of which are checked by the police. Despite the strides forward represented by the Anti-Terrorist College and expanded counterterrorist cooperation, financial and personnel limitations and the newness of the GIA do not augur well for immediate results. For the time being, Belgium's response to terrorism is likely to be reactive rather than anticipatory.

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Economic News in Brief

Western Europe

Britain's state-run Electricity Board will not renew 10-year contract with Namibia for uranium imports . . . will turn to US suppliers . . . seeks to diversify sources because of unrest in South Africa and stalemate in Namibian independence negotiations. [redacted]

Turkish exports reached \$5.7 billion in first nine months of year, up 13 percent over same period in 1984 . . . imports rose about 5 percent, reducing trade deficit to \$2.2 billion, down 10 percent from same period last year . . . good export performance needed to reduce Ankara's steep debt-service burden as repayments on previously rescheduled debt began this year. [redacted]

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London's overseas aid budget will rise by \$80 million in 1986-87, roughly a 1-percent increase in real terms . . . bulk of money earmarked for Africa . . . UK also planning greater use of soft loans to assist exporters to gain contracts in developing countries. [redacted]

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West German inflation in October up just 0.2 percent over September . . . annual rate probably will be about 2.2 percent—lowest since late 1960s . . . [redacted]

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Spanish consumer price index rose 1.1 percent in September, bringing inflation up to an annual rate of 8.3 percent . . . primarily due to price increases in food, clothing, and footwear, the major components of the CPI . . . Madrid to continue austerity policies to ensure that its 1985 inflation goal of 7.9 percent will be achieved. [redacted]

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Spanish Council of Ministers approved value-added tax (VAT) legislation . . . effective 1 January 1986 . . . part of integration process into European Community . . . projected to increase 1986 inflation rate by 1.5 to 2 percentage points to approximately 11 percent. [redacted]

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Looking Ahead

December

Western Europe

Netherlands Prime Minister Lubbers has accepted in principle Soviet invitation to visit Moscow . . . may do so by end of year . . . probably sees trip as necessary for INF ratification and to help government's reelection prospects.

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December promises to be an important month for the Greens Party in West Germany . . . Constitutional Court ruling on the Green petition for representation on the Bundestag Committee that controls budget allocations for the intelligence services is expected on 12 December . . . a day later, the national congress convenes in Offenburg, where it will almost certainly address the issue of future cooperation with the Social Democrats.

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Eastern Europe

Special meeting of CEMA prime ministers appears set for December . . . East Europeans will be assigned tasks to achieve greater integration during 1986-90 . . . results from recent push for direct links between enterprises instead of ministries.

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