



Directorate of  
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**European Review**

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11 April 1986

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**European Review** [Redacted]

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**Yugoslavia: Party Plans Organizational Reforms** [Redacted]

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[Redacted]

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The Yugoslav Communist Party is planning reforms of the post-Tito political machinery at its 13th congress in June. They include a modest strengthening of central authority, more democratic procedures, and a toning down of some of the more extreme features of the rotational leadership system devised by Tito. The reforms attempt to reconcile pressures from competing interest groups and provide a modus vivendi that will help Belgrade maintain a semblance of stability—at least for the near term. [Redacted]

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**Economic News in Brief**

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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.* [Redacted]

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**European Review** [Redacted]

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**Briefs**

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**Belgium**

**Special Powers for Martens** [Redacted]

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Despite increasing wariness in the Social Christian-Liberal coalition parties and objections by the Socialists, the Belgian parliament in late March granted Prime Minister Martens's request for renewed special powers to govern by decree as a means of improving the economic situation. Most members of the majority, while uneasy over "parliamentary muzzling," reluctantly supported Martens's request. The opposition Socialists, however, were against another round of special powers, questioning whether economic conditions continue to require their use and worrying that party rule is slipping away in favor of bureaucratic control. [Redacted]

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As he has done twice previously between 1982 and 1984 while awaiting special powers legislation, Martens has allowed economic and social problems to deteriorate, gambling once again that worsening conditions will dispose the Belgian public to swallow even tougher austerity measures this year. According to US Embassy reporting, Martens recently threatened to resign if his coalition parties do not agree to the budget cuts he plans to implement with the special powers. Because the government's reelection last fall was due largely to Martens's personal prestige, neither his Social Christians nor the Liberals are likely to test the Prime Minister's resolve. [Redacted]

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The habit of using special powers to promote government efficiency suggests to some politicians that a change in the Belgian legislative system may be necessary. Luc Van den Brande, head of the Flemish Social Christian parliamentary group, has proposed eliminating jurisdictional overlap, thereby speeding up the legislative process and reducing the need for special powers in the future. Under the current system, the Senate and the Chamber as well as the Flemish and Walloon regional and community councils (composed of the same parliamentarians in different roles) discuss and vote on bills; not only is the work duplicative, but some of the parliamentarians may vote one way in the national parliament and another way in the regional councils because of greater pressure to protect local linguistic interests. [Redacted]

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**France**

**Possible Strains Over Third World Assistance** [Redacted]

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The Gaullist/Centrist coalition announced before winning the recent legislative election that it would introduce a fundamental change in France's policy toward aiding the Third World. The new plan reportedly would break with the "government-to-government" approach of the past in favor of a policy based on private initiative that conservative spokesmen defined as "people-to-people." Coalition spokesmen criticized Socialists for making assistance decisions based on emotional considerations, such as a sense of "guilt" for France's former colonialism and implied that conservatives would base such decisions on more

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reasonable economic calculations. According to press reports that describe the conservative plan only in general terms, it calls for promoting two-way flows of investment between industrialized countries and the Third World. It also would encourage immigrant workers to return home with money saved in France by setting up "home-going savings accounts," presumably based on some as yet undisclosed incentives. [ ]

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The plan may be the new conservative government's first attempt to prepare Paris's Third World allies for substantial reductions in its aid budget. It also almost certainly presages at least a part of the government's plan to encourage repatriation of immigrant workers. This plan, which bridges the gap between budgetary and foreign policy, could become an early test of strength between the new government and President Mitterrand, who is determined to maintain control of French foreign affairs. Mitterrand is likely to resist such changes both because he believes in France's ethnical obligation to assist development in former colonies and because he sees political advantages in boosting French influence through direct governmental assistance. [ ]

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Canada-US

#### Protecting the Cultural Frontier [ ]

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The desire to safeguard a unique Canadian culture from domination by the United States, always a latent force in Canadian politics, is now being translated into policy initiatives. "Cultural policy"—the broad term applied to the arts and media in Canada—is receiving considerable attention, spearheaded by Minister of Communications Marcel Masse, and fueling disputes with US interests. [ ]

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Earlier this year, Masse sponsored—and later appeared to endorse—a study he claimed showed foreign firms possessing a "hammerlock" on Canadian publishing. Under Masse's prodding, Ottawa now has enshrined a nationalistic book-publishing policy by forcing US-owned Gulf and Western to divest control of Ginn Canada. Ottawa's decision in the Ginn Canada case is the first application of a policy announced last summer stipulating that acquisition of foreign firms by Canadian publishers will be approved only if the foreign owner pledges to divest control to a Canadian company within two years. Masse had tried to impose the legislation retroactively on Gulf and Western in its acquisition of Prentice-Hall Canada but apparently was induced to back away from this stand prior to Prime Minister Mulroney's summit with President Reagan in March [ ]

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Masse has been largely successful in implementing his proposals to restrict the US presence in "cultural industries" because he is the most important Cabinet minister who is from Quebec and the government can ill afford his resignation. Quebec was a pivotal province for the Tories in the 1984 election, but Tory popularity in the province has dropped precipitously. Although senior Canadian officials privately told US officials they dislike Masse's protectionist policy, they added that an important constituency supports the Communications Minister—one that Ottawa cannot risk ignoring. [ ]

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**Switzerland**

**Voters Reject UN Membership**

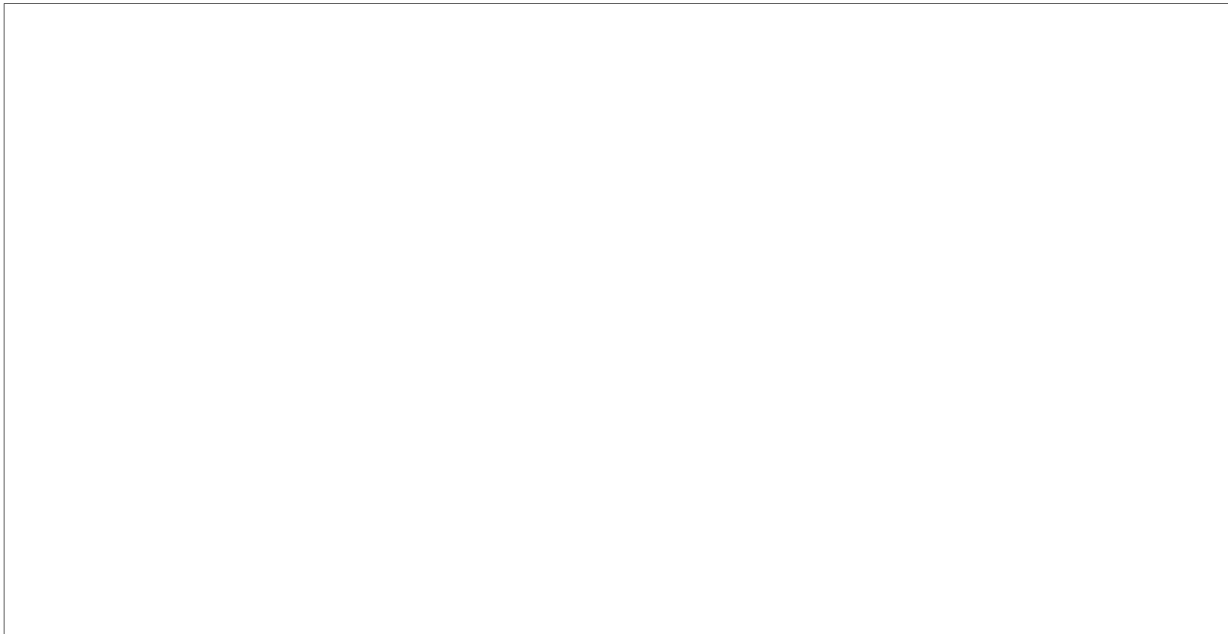
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The UN referendum last month was a resounding defeat for the government, but it is unlikely to cause major changes in Swiss foreign policy. The ruling Federal Council, major political parties, and most leading newspapers had supported UN membership, arguing that it would increase Switzerland's international influence and promote foreign trade. More than three-quarters of the voters rejected the proposal, however, apparently because they viewed it as a threat to Switzerland's traditional neutrality. Polls suggest the vote also reflected opposition to larger government spending and contempt for the UN itself. Switzerland currently belongs to specialized UN agencies but has only observer status in the General Assembly.

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The US Embassy in Bern reports the referendum will not affect Switzerland's bilateral relations with the United States, although it almost certainly will cause Switzerland to rethink its plans to apply for membership in the World Bank and IMF. One source told the US Embassy that Bern may increase its foreign aid to counter the negative reaction to the vote expected from the Third World. The referendum is a personal defeat for Foreign Minister Aubert, the leading advocate of UN membership, who already had been under fire for his activist diplomacy. Aubert is scheduled to assume the rotating Swiss presidency for one year starting in December, but the UN vote probably will increase parliamentary opposition to his appointment.

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East-West Germany

Honecker Visit Unlikely This Year [redacted]

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The prospects now appear increasingly doubtful for the on-again-off-again visit of GDR leader Honecker to West Germany—the first ever by an East German party and state leader. [redacted]

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[redacted]

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Alternate euphoria and disappointment have become the norm in planning for a Honecker visit. Moscow's last-minute veto of the trip first planned for September 1984 shocked both East and West Germans, but expectations for Soviet acquiescence were again high by the time of the Reagan-Gorbachev summit last November. More recently, Horst Sindermann, Volkskammer President and number three in the Politburo, told Kohl during his highly successful visit to Bonn in February that the Honecker visit was definitely on for this year. [redacted]

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The East German leader's basic problem appears to be that the GDR wants the visit—for Honecker's own prestige, to boost regime legitimacy, and for the West German economic benefits that could follow—but the Soviets do not need such a visit. [redacted]

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[redacted]

Honecker's relatively cool reception at the CPSU Congress—Gorbachev evidently hectoring him about West German "revanchism"—may have been the handwriting on the wall that his much-desired trip was off for this year too. [redacted]

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**Yugoslavia**

**Democratic Protests**

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*The most overt public lobbying effort since Tito's death: Kosovo Serb demonstrators were ushered into parliament last February to air their grievances.*

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Citizens' groups are openly questioning the policies of Yugoslav leaders with an impunity unknown in other Communist states. In recent weeks, a budding grassroots antinuclear movement has challenged the government's ability to proceed with plans to build additional nuclear power plants. And, in a lobbying effort unprecedented in recent years, more than 100 ethnic Serbs from the southern province of Kosovo visited parliament in late February to protest their treatment by the region's largely Albanian leadership. Meanwhile, many journalists, especially from Serbia, are protesting the regime's use of press controls and expressing sympathy for both the antinuclear groups and the Kosovo Serbs.

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Such democratizing tendencies, which have long worried the leadership, hold forth mixed omens for the country's stability. They could help Belgrade more effectively address its problems by allowing a more open discussion of issues that was kept to a small inner circle in Tito's day. But they also could unleash resentments from some nationalistically minded ethnic groups, notably Serbs, which will lead to backlash and sharpen tensions in the multinational state. The subtle opening of Yugoslavia's political institutions, however, over the long term is likely to continue and stay largely beyond the regime's control.

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**Increase in Real Incomes**

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Real incomes in Yugoslavia rose 2.8 percent in 1985 following five years of continuous declines, representing one of the few bright spots for workers in an otherwise dismal economic situation. Real incomes had fallen almost 30 percent between 1979 and 1984 due to runaway inflation and wage controls. Much of the increase occurred in the last quarter of 1985 as officials increasingly yielded to workers' demands for higher wages in the face of accelerating inflation. Nominal

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wages rose roughly 78 percent. Despite the increases, last year's real average monthly wage—about \$137—remained roughly 20 percent below the 1979 level of \$170.

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The national statistics, however, tend to mask continuing disparities in income levels among regions and social groups. While real incomes rose in all but two republics or provinces, the increases ranged from 3.3 percent in Kosovo to 10.4 percent in Slovenia. In contrast, real incomes declined 3.6 percent and 2.9 percent, respectively, in the republic of Macedonia and in the Serbian province of Vojvodina. The highest monthly incomes were earned in Slovenia (roughly \$185) and the lowest in Macedonia (about \$100). Professional workers and managers—many of whose wages are tied to some type of inflationary index—and private entrepreneurs again fared better relative to pensioners, students, and factory workers. In addition, some segments of society did better than the official average because of second economy transactions—part-time jobs, moonlighting, barter, and black-market transactions.

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## Articles

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**Eastern Europe: Potential  
Gains From US Sanctions  
Against Libya** 

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US sanctions against Libya could provide most East European countries with opportunities to earn badly needed hard currency and diversify their sources of oil. For example, Bulgaria, Romania, and Hungary might displace US firms in sales of some technology and petroleum drilling equipment to the Qadhafi regime. Likewise, these and other countries in the region might seek deals for more Libyan petroleum now that Soviet oil is double the world price. However, Tripoli's past unreliability in paying many of its East European suppliers will cause Bloc countries to weigh carefully any expansion of ties. Moreover, Eastern Europe's potential to capitalize on the sanctions hinges on West European competition because Libya, for both economic and political reasons, is likely to view the Bloc as a second choice.

**Commercial Ties Limited**

Libya has played a relatively small role in Eastern Europe's foreign trade. In 1984, Libya purchased 4 percent of the region's hard currency exports, accounting for about a tenth of its exports to developing countries. While Eastern Europe's exports to Libya have risen less than 2 percent annually since 1980, that rate exceeds the growth of the region's exports to developing countries as a whole. Hungary and Bulgaria have seen the most rapid growth of exports to Libya, while East Germany's sales have dropped.

Like other developing countries, Libya provides an outlet for East European arms and manufactured goods, many of which are not competitive in Western markets. Czechoslovakia, Yugoslavia, and Bulgaria have been Libya's major East European arms suppliers, although all countries in the region have

sold military goods to Qadhafi's regime. In 1983 and 1984, East European arms deliveries to Libya totaled \$480 million and \$350 million, respectively.

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Eastern Europe supplies the Libyans with services and equipment for oil drilling and refining and constructs large-scale projects such as refineries, factories, power plants, irrigation systems, agricultural facilities, housing, roads, and some military-related projects. Because of the scarcity of skilled professionals and need for construction crews, Tripoli also employs a sizable number of East European guest workers and pays their salaries in hard currency. An estimated 50,000 East Europeans—including 800 military advisers—currently work in Libya.

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**Black Gold**

Although the USSR provides about 70 percent of Eastern Europe's oil imports, the region looks to Libya, along with Iran and Iraq, to supply the balance of its requirements. East Europeans refine and re-export a substantial portion of this crude oil to the West for hard currency. From 1980 to 1985, the region earned \$4-7 billion annually from reexports of oil. Over the past decade, Libya has delivered 13 to 15 percent of Eastern Europe's non-Soviet oil imports. In 1983, Bulgaria and Hungary relied the most on Libyan oil, importing more than three-fourths of their non-Soviet oil from Libya. Poland (60 percent of non-Soviet oil imports), Yugoslavia (30 percent), and Romania (10 percent) also counted on Libyan oil. According to US Embassy reporting, Czechoslovakia has received substantial amounts of Libyan oil and resold it on the spot market, although neither country reports these deals. East Germany imports little, if any, oil from Tripoli.

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**Opportunities for Expanded Ties**

East European firms potentially could fill some of the gaps left by US firms because of the sanctions. Bulgaria and Romania already have a well-developed presence in Libya as suppliers of petroleum drilling and exploration equipment and technicians. These countries probably could provide additional equipment and services of sufficient quality and quantity to maintain Libyan oil production and exports. Tripoli already is hiring Bulgarian crews to replace US personnel in conducting seismic studies and probably will bring in more Bulgarian crews as needed. [redacted]

Incentives for East European countries to replace US firms in Libya include:

- *Hard currency.* Increased sales of equipment and services to Libya, specifically in the petroleum sector, could generate hard currency—either by direct payment or via reexport of more Libyan oil. For example, if Eastern Europe sold even half of the goods and services previously supplied by US firms in Libya in a single year, it could earn roughly \$300-350 million. Because of the soft oil market, Eastern Europe may have good bargaining leverage in striking barter deals with Libya. However, re-exports by the East Bloc would be an extra drag on the world market and thus restrain the region's increases in earnings. Still, even if Eastern Europe marketed only a fourth of Libyan oil formerly sold by US companies and prices plunged to \$10 per barrel, the Bloc could earn up to \$200 million annually in hard currency.

Bulgaria most likely is especially eager to fill the gap. Sofia, which counts on earnings from trade with developing countries to offset persistent trade deficits with developed countries, saw its hard currency trade surplus with this group drop by \$350 million last year as exports leveled off. Romanian authorities, too, despite cooling trade ties to Tripoli in recent years, probably would welcome expanded hard currency sales to avoid repeating the 1985 trade shortfalls that forced a return to Western lending markets and postponement of debt

repayments early this year. Hungary also may be interested in increasing trade with Libya. Budapest, which barely avoided a hard currency trade deficit last year, may desire to secure more crude oil since it has earned substantial cash through reexports in the past.

- *Diversification of oil sources.* By broadening its foreign sources of energy, Eastern Europe would lower the risk of domestic energy shortfalls—a paramount consideration should the Soviets decrease their oil exports to the region. The USSR could redirect some oil exports to the West to generate hard currency in the wake of falling energy prices or retain more oil at home to balance supplies with growing domestic demand. At the same time, Eastern Europe might look increasingly to Third World oil producers such as Libya because the price for Soviet oil is now almost twice the world price. If world oil prices continue to fall, the region may calculate that the cost of paying Moscow a price in soft currency for oil that far exceeds the world level outweighs the disadvantage of paying non-Soviet suppliers in scarce hard currency. [redacted]

**The Risks**

Despite the potential benefits, expanded commercial ties to Libya could be financially hazardous for Eastern Europe. In recent years, several Bloc countries have encountered difficulty in receiving payment for exports ranging from military hardware to construction services. The recent fall in oil prices and revenues have worsened Tripoli's ability to pay. Uncertainty about Libya's creditworthiness has undermined the East Bloc's confidence in Tripoli and probably restricted the volume of trade. [redacted]

Libya's cash shortage has forced some of its East European creditors to accept payment in oil, but even then Tripoli has been less than dependable in making deliveries. [redacted] some East European firms have had considerable difficulty in getting Libya to deliver oil to settle debts. Recently, Romania blamed its inability to meet payments due to Western banks on Libya's failure to meet its commitment to deliver oil for resale. Even if this

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accusation is exaggerated, such bad experiences could induce Romania and other Bloc countries to go slowly on expanding trade ties. [redacted]

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**Outlook**

The risks aside, East European countries probably will try to supply Libya with goods and services previously furnished by US firms. However, we believe the region's ability to do so is limited. Soviet demands for oil and gas equipment, coupled with its hard currency shortages, could persuade the USSR to put the arm on its East European allies to replace Western equipment purchases. If Eastern Europe increases such exports to Moscow, it could leave little slack capacity to sell to the Libyans. [redacted]

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Furthermore, competition from West European and Asian firms also seeking to benefit from US sanctions will limit any potential East Bloc gains. [redacted]

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[redacted] US oil service companies and most US technicians are being replaced by firms and personnel from the United Kingdom, France, and West Germany. In addition, many West European and Asian firms are interested in—or have actually taken over—previous US contracts for civil engineering and construction projects in Libya. [redacted]

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Libyan authorities are likely to continue to favor these firms over the East Europeans. Not only do Western firms supply better quality goods and services, but Qadhafi probably would prefer to employ West European firms wherever possible to isolate the US from its West European allies. As long as Eastern Europe faces such competition, its gains from increased commercial ties to Libya are likely to be minimal. [redacted]

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**Western Europe: The Tornado—  
A Case Study in  
International Cooperation** <sup>1</sup> [redacted]

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The Tornado aircraft project is the largest codevelopment and coproduction program in recent West European experience and provides an example of both the benefits and difficulties Europeans face when cooperating on major defense projects. With a total production run that will approach nearly 1,000 aircraft, the project is viewed by Italy, West Germany, and the United Kingdom as having preserved their basic capability for developing modern fighters while providing a valuable lesson for future cooperative programs. If West Europeans draw upon the Tornado experience to guide their industrial defense cooperation, chances are good that they can maintain an independent aerospace industry able to provide better military systems and economies of scale not previously possible. Should their efforts at continued defense cooperation based on the Tornado model succeed, the impact on US manufacturers could be costly—they probably would retain their role as a supplier of components but could lose most of Western Europe's market for complete aircraft and possibly some secondary aircraft markets in the Third World. [redacted]

**The Military Requirement**

The Tornado program grew out of a 1958 NATO study calling for a new fighter aircraft at a time when nearly every West European Alliance member was seeking a replacement aircraft for its aging air forces. In Britain, the Royal Air Force urgently needed to find replacements for its Vulcan, Buccaneer, and Canberra strike/attack aircraft and its Lightning and Phantom interceptors. Norway, Denmark, West Germany, the Netherlands, Belgium, and Italy were using the Lockheed F-104 Starfighter as the backbone of their air forces, but its service life would expire by the mid-1980s. None of the countries had the capability to satisfy its own needs, and even the United Kingdom—despite its across-the-board capabilities in aerospace technology—found codevelopment and coproduction economically and technologically attractive. [redacted]

<sup>1</sup> Information for this article was derived largely from open and [redacted]

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**Tornado Mission Requirements**

<i>Role</i>	<i>User</i>
<i>Interdiction/close air support</i>	<i>RAF, Luftwaffe, Italian AF</i>
<i>Interdiction/offensive Counter-air/strike/attack</i>	<i>RAF, Luftwaffe</i>
<i>Naval air strike/attack</i>	<i>German Navy</i>
<i>Interception/air defense</i>	<i>RAF</i>
<i>Reconnaissance</i>	<i>RAF, Luftwaffe, Italian AF</i>

[redacted]

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At the same time, British, West German, and Italian military requirements, as well as a desire to maintain an independent European aircraft development and production capability, stimulated interest in a common aircraft. Individual European governments had found it increasingly difficult to fund new aircraft for various mission requirements from shrinking defense budgets. They were also unwilling to purchase a US aircraft and forego the employment and technological benefits that would come from domestic development and production. [redacted]

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Within the lucrative European market, industrial competition for the "front-line fighter replacement" aircraft divided the West European countries by offering various aircraft at either lower cost or with attractive coproduction/offset arrangements. Competing with the Tornado were Saab's Viggen, a French Mirage, and the [redacted]

[redacted]

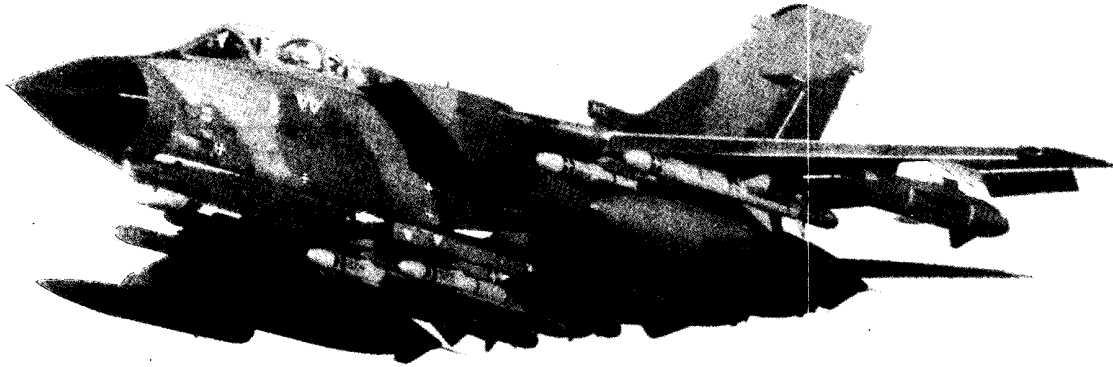
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## TORNADO SUMMARY DATA

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	IDS	ADV
Country	Italy West Germany United Kingdom	United Kingdom
Crew	2	2
Length (m) (overall)	17.4	18.7
Span (m)		
Max	13.9	13.9
Min	8.6	8.6
Max T/O weight (kg)	27,300	27,300
Max payload (kg)	9,070	9,070
Internal fuel (kg)	5,015 <sup>1</sup>	5,730
Radar	IDS	Foxhunter
Engine	2RB199-34R Mk 103 <sup>2</sup>	RB199-34R Mk 104
Maximum Mach	2.0	2.05
Combat radius (NM) (Hi-Lo-Hi)	660 <sup>3</sup>	750 <sup>4</sup>

<sup>1</sup>Including fin tank on RAF versions.<sup>2</sup>Pre-1983 IDS variants use the Mk 101.<sup>3</sup>Gun only.<sup>4</sup>Estimated based on additional fuel.

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**Desired Characteristics for Tornado**

<b>Requirement</b>	<b>Role</b>
<i>All weather operation</i>	<i>All roles</i>
<i>Transonic speed at low level</i>	<i>Strike/attack/interdiction</i>
<i>High navigation accuracy</i>	<i>Close air support/strike/attack/interdiction</i>
<i>Accurate weapons delivery</i>	<i>All roles</i>
<i>Subsonic handling at low level</i>	<i>Close air support</i>
<i>Rapid data evaluation</i>	<i>All roles</i>
<i>Rapid acceleration/rate of climb</i>	<i>Interceptor</i>
<i>Maximum maneuverability at all altitudes</i>	<i>All roles</i>
<i>Supersonic cruise</i>	<i>Interceptor</i>
<i>Target acquisition/identification</i>	<i>Interceptor</i>
<i>Short take-off and landing</i>	<i>All roles</i>
<i>Effective ECM and ECCM</i>	<i>All roles</i>
<i>Terrain-following capability</i>	<i>Close air support/strike/attack/interdiction</i>

[redacted]

Italy, West Germany, and the United Kingdom, however, combined to develop and produce the MRCA, redesignated the Tornado in 1977, under a single West European agency formed exclusively for this task—the Panavia Aircraft GmbH, based in Munich. [redacted]

**The Problems of Joint Efforts**

The driving force behind Tornado was the inability of each of the three partner countries to develop a system unilaterally. Individual national requirements for aircraft were too small to absorb development and production costs, and resources allocated for military research and development, as well as for procurement,

were relatively scarce. Thus, high costs and limited technical competence were the major imperatives for a joint program. Despite the interest in combining efforts, some stumbling blocks arose early in the Tornado project that were related largely to the diverse national military requirements of the three partners and the difficulty in distributing work equitably among them. A longer term problem was cost escalation. [redacted]

**Mission Requirements.** The major problem was the development of a single system to carry out the different roles and missions required by the three countries. These differing mission requirements forced systems designers to attempt to reconcile widely differing performance characteristics into a single set of specifications at a unit cost acceptable to all. In the end, this challenge was met largely by producing two variants—an interdiction strike version (IDS) and an air defense model (ADV)—while maintaining 80-percent commonality between the two. The lesson learned was that finding solutions to competing requirements is not necessarily impossible. [redacted]

**Work Sharing.** The problem of distributing work efforts among participants was another nagging issue. Each country wanted to maximize technological, employment, and income benefits from participation in the Tornado program. In West European cooperative efforts, however, equity plays an important role as each partner tries to ensure that the benefits received are commensurate with its share of the costs. Thus, in the Tornado program, workshares—and thus costs and profits—were allocated on the basis of potential purchases by each: West Germany's Messerschmidt-Boelkow-Blohm (MBB) and British Aerospace (BAe) each received a 42.5-percent share while Italy's Aeritalia received 15 percent. [redacted]

The actual manufacture of Tornado components is shared so that each participant develops and produces parts of the complete system and later assembles its "national" aircraft from components produced in the three countries. In the case of MBB, for example, production of the fuselage center section takes place

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at its Augsburg factory and final assembly is done at its Manching factory, where Italian-built wing sections and British-built fuselage and tail sections are all mated together. In all, more than 500 companies employing some 70,000 workers became involved in this project. [redacted]

The importance of equity also is evident in the program's management structure. All national companies are formally subcontractors to Panavia. Each of the three major partner firms have been given an equal voice in management in an effort to reduce potential problems of status and national pride. Through this arrangement each firm has access to all the technology generated in the project. [redacted]

**Cost Escalation.** Joint development and production is a financially costly option for the NATO allies—more expensive than buying from a single foreign source (American or European) but less expensive than undertaking a national program. As development of new aircraft technologies demands more time and increased funding, making it more difficult for West Europeans to advance their present position in high technology, costs and technical competence will remain major factors in the future. Nevertheless, the West Europeans believe joint ventures are essential to maintaining an indigenous defense industrial capacity. The Tornado project suffered unusually high costs, in large measure because of critical decisions to develop both a new engine (the RB-199) and a new airframe. Designing a new engine that incorporated new technology held up flight testing for nearly 18 months and added at least 20 percent to the total cost of the aircraft (now approximately \$30 million each). [redacted]

It was also found that prices rose faster and delays were longer when equipment was delivered by the government from government-contracted sources. To stem rising costs, competitive bidding was introduced for selected items and components for the aircraft. By this method, Panavia was able to slow the overall price increase from 1975 through 1985 to just 10 percent. But, [redacted] competitive bidding also opened the door to US participation; as much as 20 percent of the Tornado, including its terrain-following radar, is made in the United States. [redacted]

**Implications for European Cooperation**

Should the West European nations wish to maintain more than a foothold in the high-technology weapons arena—particularly aerospace—in the future, their governments must continue to use organizations like Panavia to compete with the United States. Neither Italy, West Germany, nor the United Kingdom were prepared to develop and produce Tornado alone, yet each had substantial technological capabilities and skills to protect and enrich. None wanted to be relegated to a position of subcontractor, although in the end each subcontracted equally to the others. Panavia offered the Europeans the status and pride of equality in which benefits were roughly proportional to financial burdens and technology was open to all. [redacted]

Western Europe's need to end its "ad hoc" pattern of collaboration for one that is more systematic and permanent has been recognized for more than a year. National rivalries and suspicions have hindered progress in the past and continue to jeopardize future projects. Still, chances are good that an independent European aerospace industry can be maintained if the Tornado experience is drawn upon to guide industrial defense cooperation. The recent decision directing Panavia to produce the new European Fighter Aircraft (EFA) may be a step in the right direction. These cooperative undertakings should allow the West Europeans to provide themselves better military systems and achieve economies of scale not previously possible. Furthermore, cooperation in defense projects also provides the potential for major nonmilitary applications of the new technologies. [redacted]

Over the longer term, continued success in similar ventures could hasten the fall of internal trade and financial barriers and lead to wider intra-European cooperation in other, non-aviation related, areas—both military and civil. Additionally, Western Europe's close trade connections to Asia, the Middle East, and Africa promise lucrative export markets and larger production runs so long as the Europeans are not competing with each other. Expansion of defense markets through such third country sales and [redacted]

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integration of procurement and production while preserving competitiveness and industrial capacity will be the keys to success. [redacted]

[redacted] the European Parliament has recently and unanimously approved a resolution opposing certain US export controls.

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On the other hand, if future cooperative efforts fail, Western Europe's defense industry could be fragmented even further, increasing intra-European competition and enhancing the position of a strong US industry in a shrinking global aircraft market. Furthermore, the failure of cooperative European defense efforts would further block attempts to achieve standardization and rationalization of weapon systems in NATO. Under these circumstances, West European governments most likely would use defense budgets to an even greater degree to subsidize their defense industries. This could only lead to a lessened ability to upgrade their forces to meet NATO requirements, creating additional strains in US-West European relations. [redacted]

Because of these West European attitudes, improvements in US-European cooperative programs will depend largely on the extent to which US approaches offer the Europeans equality rather than junior or subcontractor status in joint projects—lessons even the West Europeans had to learn from the Tornado. [redacted]

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[redacted]

**Implications for the United States**

The success of West European defense cooperation efforts similar to the Tornado project could cost the United States most of the European aircraft market—and possibly those secondary aircraft markets in the Third World where established ties give the Europeans an advantage—but probably not the market for aircraft components. If, however, European cooperative efforts fail and individual countries attempt to develop indigenous defense industries, the need for sophisticated US-built weapon systems or components would increase. At the same time, more opportunities would exist for US firms to enter into joint or coproduction agreements with nations working to maintain their defense industrial momentum but most likely against demands for 100 percent offsets. [redacted]

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In either case, implications for the United States are tied directly to the US positions on technology transfer and export licensing. [redacted]

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[redacted] West European firms already are searching for non-US suppliers and investigating domestic production possibilities to avoid US export controls—particularly involving aviation and composite material technology—thereby maintaining both markets and self-sufficiency. [redacted]

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## Yugoslavia: Party Plans Organizational Reforms

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The Yugoslav Communist Party is planning reforms of the post-Tito political machinery at its 13th Congress in June. The changes, the outlines of which have emerged at recent Party Central Committee plenums, include a modest strengthening of central authority, an emphasis on more democratic procedures, and a toning down of some of the more extreme features of the rotational leadership system devised by Tito. The reforms follow several years of sharp debate and attempt to reconcile pressures from competing interest groups. They are likely to provide the basis of a modus vivendi that will help Belgrade keep a semblance of stability—at least for the near term.

liberal party members have demanded more intraparty democracy to wrest power from what they see as a stultified and incompetent elite.

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### The Quest for Change

Organizational change has been a staple theme of the Yugoslav Communist system since its inception after World War II as Tito sought to adapt political structures to shifting needs and policies. Nonetheless, the 13th Party Congress to be held on 25-28 June—the second congress since Tito's death in 1980—follows a debate over institutional reform heated even by Yugoslav standards. The impetus for changing the post-Tito system has been the seeming paralysis of the collective leadership in the face of declining living standards, a \$20 billion hard currency debt, and sharpened tensions among the many ethnic groups.

The factions had aired their views—and ended up in a virtual standoff—both in a stormy nine-month partywide debate in 1984-85 and in an even lengthier study specially commissioned by the government, which produced a book-length document earlier this year. Despite this stalemate, the regime has begun to respond ad hoc to many of these pressures. The party leadership has been asserting itself more forcefully toward both the federal parliament and some of the independent-minded regional leaderships. And some of the regional party and government bodies have introduced more democratic methods promoted by liberal reformers.

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### Reforms at Congress

The party congress this June and the regional congresses leading up to it are likely to ratify a series of organizational reforms designed to address the demands of the various factions. The reforms—most of them now before the party for debate as statutory changes—will strengthen somewhat central party authority, introduce a few democratic trappings, and make less disruptive the system of rotational leadership devised by Tito to prevent a single person from accumulating too much power.

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The movement for change has been impeded by overlapping, often conflicting demands by the country's many political factions. These factions represent well-entrenched pressure groups motivated by differing ethnic, economic, and ideological interests. Centralists from the influential republic of Serbia have pressed for a return to Belgrade of some of the power that has devolved to the regions during the past 20 years. Regionalists have insisted on keeping the decentralized status quo. But ideological hardliners among them—mostly from Croatia and Bosnia-Herzegovina—have called for restoring to the party some of its lost unity and influence. Meanwhile,

Some of the proposed changes have already run into stiff opposition and even have been revoked. For example, a party plenum on 31 March overturned a decision made last December to reduce the Central Committee at the congress from 165 to 129 members. The decision could have made the Central Committee a more manageable and effective counterweight to the elite 23-member Presidium. But under the Yugoslav practice of improvisation and consensual politics, the regions made an abrupt about-face and bowed to the wishes of one republic, Bosnia. As a result, many of

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*The Party Central Committee, shown here during a break at a plenum in February, will be kept at 165 members. A decision to streamline it was abruptly canceled, reflecting the often shifting approach of Yugoslav officials to structural reform.*

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the regions will now have to add to their lists of candidates already nominated for membership on the Central Committee.

Barring any further such turnabouts, the following are some of the reforms that seem slated for approval or already have been put into effect:

- **Central committee election.** The election of Central Committee members will be changed to reduce at least nominally the power of regional chieftains. In past years the congress rubberstamped the regions' choices for their quotas of slots. This June, by contrast, the congress will vote by secret ballot on the regional lists, with candidates failing to achieve a majority vote being struck off and replaced. The new procedure may eliminate some of the more outspoken, parochially oriented regional delegates. Nonetheless, regional leaders still will control the choice of replacement candidates and will horsetrade in advance to ensure that most of their slates are approved. The six republics each have 20 seats, and the two provinces and the Army party organization 15 apiece.

- **Special regional congresses.** The central party leadership will be given a new tool to coerce regional leaderships in implementing unpopular decisions, an endemic problem in post-Tito Yugoslavia. Under a proposed statutory change, the Central Committee will be able to convoke special congresses of regional party organizations when policy implementation is blocked. The existing party statute allows only the regional parties to call such gatherings. If the change is adopted, the Central Committee probably will use this new authority only gingerly, partly because it still lacks means to assure that such a meeting would adopt the appropriate decisions. Nonetheless, the change may help reduce minority obstructionism such as the behavior of the Croatian and Slovene leaderships last year in a dispute over allocating foreign exchange.

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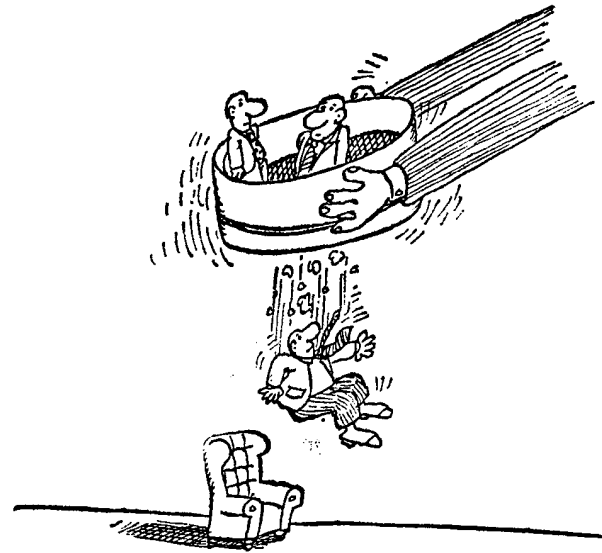
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- *Democratic centralism.* The party statute will probably be amended to strengthen at least formally democratic centralism, a Leninist precept designed to ensure implementation of decisions reached by majority vote in central bodies. The head of the party Statutory Commission, Budimir Vukasinovic, said at a plenum in February that the new statute would be more explicit than the previous one on this score, although he cautioned that statutory changes alone would not change behavior.
- *Secret balloting.* According to Vukasinovic, the draft party statute now being discussed calls for elections by secret ballot throughout the party. Under existing rules, election of the Central Committee is exempted from this requirement. The new procedure could promote democratic norms in the party by freeing delegates from pressures by their superiors, although past evidence suggests the party bosses would still dominate the process.
- *Multiple candidates.* The use of multiple candidates within the one-party system, another democratic innovation, will be encouraged in party elections, although it will probably have only mixed effects. Nearly all of the eight regions already have put up lists of multiple candidates for their slates to the national Party Central Committee—albeit, they had planned on the reduction of that body to 129 members and will now have to consider adding candidates. The regional congresses in April and May will narrow down any expanded lists for submission to the national congress. However, some regions have included barely a handful more nominees than positions, while others—such as Bosnia—nearly twice as many names as slots, a factor that probably contributed to Bosnia's push to keep a large Central Committee. In elections for other key positions, the use of multiple candidates so far has also been spotty. In Croatia this March, the calculations of the party bosses were upset when one longtime party official, Jure Bilic, lost out to a relative newcomer, Stipe Suvar, in a competitive election for the national Party Presidium. But, in February, Serbia sheepishly decided against using multiple candidates in choosing its highest positions once the choices of the republican leadership became clear. As a result, a senior but controversial party leader, Dragoslav Markovic, was shut out of a top job.

## КАНДИДАТИ



"Candidates": Cartoon in the semi-official Belgrade daily Borba shows the new stress on using multiple candidates in party elections. The procedure has had some democratizing effects, although much of the sifting is still done by the powers that be, not the grass roots.

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- *Longer terms of office.* The lower rungs of the party seem determined to free themselves from the system of frequent leadership changes now in effect. Tito had introduced the system in the Presidium in 1978 to prevent any one of his successors from trying to take charge after his death, and his move was quickly duplicated down to the lowest levels, often with disruptive effects. The national party statute allows the regions to set their own policies. In recent months, many of them and their governmental counterparts have begun to pave the way to extend office terms through their own statutory or constitutional amendments. There has been little sentiment, however, to exempt the national party chief from the current practice of annual rotations. Despite initial skepticism that such a complex system could last, most Yugoslavs now seem to agree it has helped keep the peace among the regions.

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**Outlook**

The reforms probably will at least marginally modify the way the political system works. They will incrementally increase central authority, introduce a few more democratic elements into the authoritarian one-party system, and make more rational the practice of rotational leadership left by Tito. None of the factions will view the changes as an ideal or permanent answer to its concerns, and debates will continue over many of the same issues that dominated the most recent intercongress period. Nonetheless, the reforms will provide the basis of a new, if possibly short-term, modus vivendi that could dampen inter-regional rivalries and maintain a semblance of stability.

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## Economic News in Brief

### Western Europe and Canada

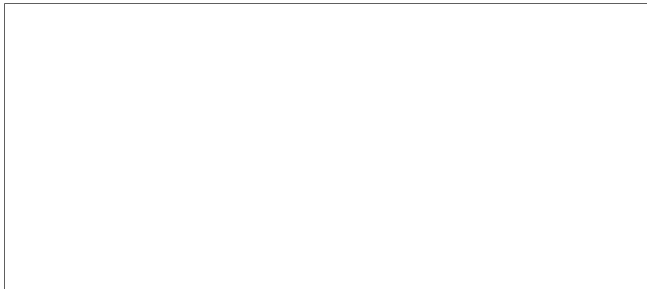
**New Swedish Prime Minister Carlsson, Finance Minister Feldt, pushing for tax relief this year as Social Democratic government concerned over rise of "new poverty"** . . . high marginal tax rates, decreased housing subsidies as workers' incomes rise prevent disposable income gains for several hundred thousand households . . . situation may force Stockholm into reassessment of welfare state policies.

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**Sweden proposed 39-percent aid increase for Nicaragua in 1987**, largest jump in development assistance budget . . . Managua sole Central American recipient . . . central-right opposition against \$17 million package, may press government to place portion elsewhere in region.

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**Alberta Premier Getty angered Canadian federal officials by recent offer to Saudi oil minister of symbolic cut in province's output** . . . Getty under pressure to respond to oil price slump . . . probably frustrated with federal inaction on tax relief for energy firms and cut in transfer payments to Alberta and other western provinces.

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### Eastern Europe

**Bulgaria has agreed to provide labor, equipment for the Soviet Yamburg gas pipeline** . . . Sofia to receive additional gas amounting to 3.8 billion cubic meters annually by 1992 . . . Poland and Romania only East Bloc countries still to sign final agreements on project.

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### Looking Ahead

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*April/May*  
*Western Europe*

*Economic Congress of Social Democratic Party in Hamburg 9-10 May will hammer out economic platform for West German election next January . . . will emphasize domestic issues, particularly unemployment, social welfare, environment . . . platform to be ratified at main party congress in August.*



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