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European Review



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18 July 1986

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European Review [Redacted]

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	West European leaders have reacted negatively to Washington's announcement in late May that it will no longer abide by the SALT II Treaty, voicing fears that the decision will complicate Allied efforts to counter recent Soviet arms control proposals. Even if they accepted US findings on Soviet noncompliance, anti-US attitudes of their constituents on the issues would prevent them from openly endorsing the decision. Initial negative reactions, however, could diminish if West Europeans come to believe that Washington and Moscow are moving closer to new agreements and that a second US-Soviet summit is still possible. [Redacted]		25X1
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	High unemployment will remain a major liability for Prime Minister Thatcher in the runup to the next election, which must be held by June 1988. Because a marked improvement is unlikely, she will be forced to continue arguing that the government has no short-term solution to the problem—an argument that may be wearing thin. Thatcher's best option is to stress her success in curbing inflation and union power and reviving economic growth while attempting to persuade voters that the opposition Labor Party lacks a credible alternative program. [Redacted]		25X1

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France: Don't Switch That Channel [Redacted]

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France's hottest political row of the summer and its first major clash of cohabitation between left and right is shaping up over an unexpected sleeper issue—privatization of television. The conflict centers on the conservative government's announced plan to sell off its premier network, TF1, and to reorganize the government authority that polices media standards and practices. The Socialists have organized impressive opposition, but the government is likely to get its way in a contest that almost certainly will have important implications for both power sharing in France and the success of its other, more important privatization ventures. [Redacted]

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Yugoslavia: The 13th Party Congress [Redacted]

21

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The Communist Party Congress in late June was one of the liveliest in recent Yugoslav history but offered few new solutions to the country's pressing economic, ethnic, and political problems. The congress reaffirmed Belgrade's nonaligned foreign policy and directed a few barbs at the United States. Moscow's participation was correct but showed that Gorbachev has other priorities. [Redacted]

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[Redacted]

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Economic News in Brief

31

[Redacted]

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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

United Kingdom

Defense Budget Continues Decline [Redacted]

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London has announced new defense budget cuts of 1.5 percent—or \$431 million—in each of the next three years, according to a recent press report. The Ministry of Defense has softened its previously firm commitment to a 50-warship navy and canceled plans to fit its Type 22 frigates with new antisubmarine warfare equipment. London will reduce its orders for landmine systems and postpone plans for a new generation of light antiarmor weapons. The Royal Air Force (RAF) will be forced to delay its acquisition of Tornado reconnaissance aircraft to meet foreign aircraft orders, and the Defense Ministry is considering a cut in its second order of Harrier reconnaissance aircraft for the RAF. [Redacted]

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These new cuts follow closely London's recent decision to abandon the NATO goal of 3-percent annual real growth in defense spending and increase the risk that the operational capability of British forces will be affected by continued equipment cutbacks. The Defense Ministry's delay in orders for new aircraft and ship orders in particular will impair Britain's capability to carry out its NATO commitments. The continued backslide in British conventional forces is likely to prompt yet another call by the Labor Party for a defense review in light of the Thatcher government's insistence on continuing with the \$12.6 billion Trident submarine program. [Redacted]

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Canada-Norway

Military Reinforcement Exercise [Redacted]

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Canada will undertake its largest movement of armed forces to Europe since World War II this September as part of NATO exercise Brave Lion, [Redacted] [Redacted] Canada will dispatch by air and sea more than 5,500 troops and 15,000 tons of equipment to Norway. The exercise is designed to test NATO's plans for joint operations by the Canadian Air Sea Transportable Brigade Group and rapid reinforcement squadrons of the Canadian Air Command [Redacted]

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The brigade group's mission is to provide rapid reinforcement of NATO's northern flank (Norway) in time of crisis. Individual units in the group have gained experience in Norway during previous military maneuvers with the Allied Command Europe Mobile Force, and the two air squadrons have participated in exercises in Norway in alternate years, but this will mark the first time the entire force will be deployed overseas together. Exercise Brave Lion is designed to assess potential shortcomings in the brigade group's training status and in the adequacy of Canadian strategic air and sea lift operations. [Redacted]

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Denmark

Posturing on Wartime Nuclear Deployment

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In mid-June Social Democratic Party Chairman and former Prime Minister Anker Jorgensen spoke against allowing nuclear weapons on Danish soil in wartime. If implemented, such a policy would undermine NATO reinforcements agreements considered vital to participation in the Alliance. Prime Minister Poul Schlueter's pro-NATO government reacted to Jorgensen's statement by threatening to call an early election if a resolution against wartime deployment

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came before parliament. Encouraged by the discussion of banning nuclear weapons, weakening Denmark's role in NATO, and calling an early election, the Socialist People's Party indicated its willingness to introduce such a resolution and cooperate in a socialist coalition government. Jorgensen, realizing the significance of his statement, then said that he had been misinterpreted. Social Democratic Deputy Chairman Svend Auken insisted that his party remained opposed to unilateral Danish statements on wartime nuclear deployment. []

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The Social Democrats have long rejected the formation of a coalition with the Socialist People's Party because of the latter's anti-NATO stance. Although Jorgensen's initial statement may have been just a tactical error, it probably reflects his personal views on nuclear weapons and his willingness to seek a compromise with the Socialist People's Party on security policy. The mixed signals also reflect a debate within the Social Democratic Party over whether a shift to the left would stabilize its declining position or relinquish leadership of the left to the Socialist People's Party. Meanwhile, Jorgensen's outspoken posturing has left many in the party leadership increasingly disenchanted with their chairman. []

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Eastern Europe**Economies Still Struggling** []

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Recently released data show Eastern Europe's economic performance in the first quarter of 1986 improved little over last year's poor showing. First-quarter industrial growth fell below the annual rate for 1985. Encouraged by a relatively moderate winter this year, East European regimes hoped for stronger showings as they began new five-year plans. Official criticism of inertia in the Czechoslovak economy has been unusually harsh, and a Hungarian economist recently told a US diplomat that Hungary's GNP might not increase at all in 1986. []

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The hard currency deficit for the region was an estimated \$900 million as increases in imports, especially from the West, outstripped export growth; in contrast, there had been a slight surplus in the first quarter of 1985. The trade deterioration was particularly evident for Hungary, Bulgaria, and Czechoslovakia. Officials in several countries have expressed disappointment with the trade figures, especially because economic plans had stressed reducing hard currency imports and expanding exports. []

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Prospects for these economies over the rest of the year are not bright. Declining oil prices in the West have cut demand for the region's refined oil products and reduced the ability of Third World oil producers to buy from Eastern Europe. Tourism and food exports to Western Europe have also suffered since the Chernobyl accident. The slow industrial growth and the decline in hard currency trade balances indicate that the region's recovery from the economic stagnation and financial problems of the early 1980s is running out of steam. Further poor trade results may make bankers more cautious in lending to Eastern Europe. With the Soviets pushing the regimes to increase economic growth and poor 1986 results

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already apparently throwing the new five-year plans off schedule, East European leaders will come under increasing pressure to take stronger actions in addressing economic problems. [redacted]

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Romania**Requiem for a Heavyweight?** [redacted]

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The transfer last month of Minister of Mines Ilie Verdet to chairman of the Communist Party's Central Auditing Commission was but the latest in a series of demotions that have removed the former Prime Minister and protege of President Ceausescu from the center of power and may have dimmed his succession prospects. In his new position, generally considered a sinecure for political has-beens, Verdet was required by statute to give up his membership in the Party's Central Committee, the Political Executive Committee, and the elite Permanent Bureau of the latter. No reason was given for Verdet's latest downgrading, but his failure to achieve dramatic—and unrealistic—coal production increases demanded by Ceausescu to alleviate Romania's energy shortage was probably a major factor.

[redacted]

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Verdet, originally a coal miner himself, first achieved political prominence in the mid-1960s as one of a group of young administrators brought into the leadership by then newly elected party leader Ceausescu. He served in a number of influential party and government posts before being appointed Prime Minister in 1979. His decline began with his reassignment in 1982 as Party Secretary for economic affairs, a position he had held earlier, amid rumors of disagreement with some of Ceausescu's policies. He fell still further last winter, when he was appointed Minister of Mines simultaneously with Ceausescu's reorganization of the energy sector and partial militarization of the mining and electrical generation industries.

[redacted]

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Verdet's new appointment isolates him from the policymaking process and could spell his political demise. While we doubt that this move has seriously discredited Verdet, who was widely respected for his competence and moderation, his absence from the leadership over time probably will eventually move him further back in consideration as a potential successor to Ceausescu. It is possible that Ceausescu will return Verdet to a responsible role after a time in the political wilderness. But the Romanian President's increasing tendency to favor the advice of family intimates and sycophants over that of the pragmatists symbolized by Verdet suggests the former Prime Minister's decline is less a fluke than a portent of a further hardening of Ceausescu's personal rule. [redacted]

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Yugoslavia**Focus on Private Agriculture** [redacted]

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The new government of Premier Mikulic has announced that it will devote special attention to stimulating output and productivity of Yugoslavia's private farms, including the possibility of increasing their maximum size and improving

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incentives for private farmers to join voluntary agricultural cooperatives. Belgrade views improvement in the private-farm sector as a prerequisite to increasing total agricultural output and exports—key elements in Mikulic's program for economic recovery.

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Private farms occupy roughly 83 percent of Yugoslavia's cultivated land and produce nearly 75 percent of gross agricultural output. Crop yields on private farms, however, often average only 50 to 60 percent of those obtained on the much larger socially organized farms and cooperatives. The average size of private farms is between 3.5 and 3.8 hectares and typically consists of six or seven scattered parcels, generally unsuited for modern agriculture. Farm plots have been limited since 1953 to a maximum of 10 hectares, and Yugoslavia's unique inheritance laws have encouraged the breaking of land into increasingly smaller units. Moreover, because of the increase in rural migration to urban areas in recent years, roughly 10 percent of all arable land is being used for nonagricultural purposes, often either lying idle or used for such purposes as weekend homes.

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In calling for concrete steps to increase the maximum land holding, Mikulic has stressed that land is a common and productive asset and not a form of property or wealth. While reaffirming the right of private ownership, Mikulic noted that land should be in the hands of those persons who actively and successfully earn a living from farming. Of Yugoslavia's 2.7 million private farms in 1981, only 865,000 reported farming as their permanent and sole means of support. The number is probably much less today.

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If Belgrade follows through on its consolidation plans it would probably rely on a combination of direct subsidies and tax and interest rate policies. Under republic and provincial legislation, powers now exist to consolidate and incorporate private land holdings into social farms, but they have not been widely used in recent years because of rising land prices and the lack of funding.

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Articles

**NATO: Reactions to
US SALT II Decision**

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West European leaders reacted negatively to Washington's announcement that it will no longer abide by the SALT II Treaty, voicing fears that the decision will complicate Allied efforts to counter recent Soviet arms control proposals. Even if Europeans accepted US findings on Soviet noncompliance, political considerations would prevent them from publicly endorsing the decision. British and West German leaders are especially concerned that their citizens—who favor continued US compliance in spite of Soviet behavior—will blame the United States and NATO for the lack of progress on arms control. Public opinion data tend to support the view that the people do not accept US arguments regarding Soviet violations. Initial negative reactions, however, could diminish if West Europeans come to believe that Washington and Moscow are moving closer to new agreements and that a second US-Soviet summit is still possible.

Initial Negative Reactions

NATO leaders have voiced considerable concern about the US announcement that it would remain in technical observance of the SALT II Treaty for the next several months but would no longer allow the treaty to constrain future strategic modernization programs. The Allies are also somewhat confused by the US announcement that it will dismantle two 20-year-old Poseidon SSBNs. They had assumed that decommissioning the two submarines reflected Washington's willingness to continue its earlier policy of interim restraint. Thus, West Europeans expressed surprise at the President's explanation that military and economic factors—not arms control imperatives—had led him to make the decisions.

Washington's Decision on SALT II

President Reagan announced on 27 May that the United States will no longer continue its policy of abiding by the terms of the unratified and expired SALT II Treaty that the Soviets had repeatedly violated. Future decisions on strategic forces will be based on the nature and magnitude of the Soviet threat rather than on standards contained in SALT agreements, which had been observed unilaterally by the United States.

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The President also decided to retire two older nuclear-armed Poseidon submarines as the eighth Trident submarine begins sea trials. In effect, the United States will remain in technical observance of SALT for some months, giving the Soviet Union more time to take constructive steps. The President indicated that he will take any Soviet efforts to do so into account.

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During Allied consultations in April, West German and British officials had emphasized the importance of US adherence to the treaty, despite Soviet noncompliance. Along with the Dutch and the Italians, they had stressed that a US decision not to adhere to SALT II would damage the Allies' public diplomacy efforts to counter the recent Soviet nuclear disarmament proposals. The French, whose public is supportive of its nuclear deterrent, also favored continued US adherence to SALT II, believing that its constraints on US and Soviet forces help maintain the credibility of the smaller French nuclear arsenal.

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blame them for not exerting more pressure on Washington. West German and British officials in particular have argued that the United States must maintain the "moral high ground" to counter General Secretary Gorbachev's nuclear disarmament proposals. [redacted]

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[redacted] the West German public now blames the United States for "everything that is going wrong" and [redacted] the United States increasingly is taking the brunt of the blame for the lack of progress on security issues—even within the Chancellery. [redacted]

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[redacted] the public sees Gorbachev making what appear to be very reasonable proposals to lessen tensions, while the United States talks only about Soviet violations and fails to put forward arms control proposals of its own. [redacted]

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British officials have been the most critical of the President's action and expressed shock that Washington chose to announce its decision in May, because the United States would not in any case take action breaching the SALT II limits until the end of the year. London apparently still holds out some hope that Washington will reverse its decision. According to press reports, Defense Minister Younger emphasized during his visit to Washington in late June that the United States should allow the Soviets as much time as possible to come into compliance with the treaty. [redacted]

British officials also have stressed to US diplomats that Washington must improve its image by proposing arms control initiatives. Foreign Ministry officials said in April that Gorbachev had won a series of propaganda victories with his arms control initiatives. In contrast, they believed that a Presidential decision to "break out" from the SALT Treaty at the end of the year would look highly unattractive to the Europeans. [redacted]

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Although avoiding any public criticism of US actions, French arms control officials told US diplomats that the President's decision was tougher than Paris had expected. The French also questioned why the United States had decided to abandon the treaty now, when a decision had not been expected until the fall. Dutch Foreign Ministry officials, according to the US Embassy, also told senior US officials that they were concerned that Washington seemed to believe that the treaty was so fatally flawed that it would be discarded regardless of Soviet compliance behavior. The Hague has publicly supported the US decision to scrap the two Poseidon submarines and thereby stay within the treaty limits. However, the Dutch also emphasized that SALT should be observed pending a new agreement at Geneva and that a "definite" US decision on compliance should not be made until after further Allied consultations later this year. While Italian officials have applauded the dismantlement of the submarines, they have publicly expressed their hope that Washington will fashion responses to Soviet noncompliance that would not place the United States outside the SALT II limits. [redacted]

A USIA poll in France, Britain, and West Germany in June tends to support West European leaders' beliefs that the United States is losing the public relations battle over SALT II. Public views on Soviet violations have not changed in the past several years. According to the poll, less than a majority in these countries believe the Soviets are in violation and the proportion is declining in Britain. Moreover, public sentiment has grown that the United States is also violating arms accords:

- Only about one-quarter of the British and just under one-half of the French and West Germans believe the Soviets have violated existing agreements. Furthermore, only one-fifth or less in each country believe the Soviets have both violated agreements and gained important military advantages by violating them.

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Sensitivity to Public Opinion

Initial Allied objections to the SALT II decision were heavily influenced by political leaders' fears that their constituents will not understand US actions and will

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Figure 1
Arms Control Agreement Violations

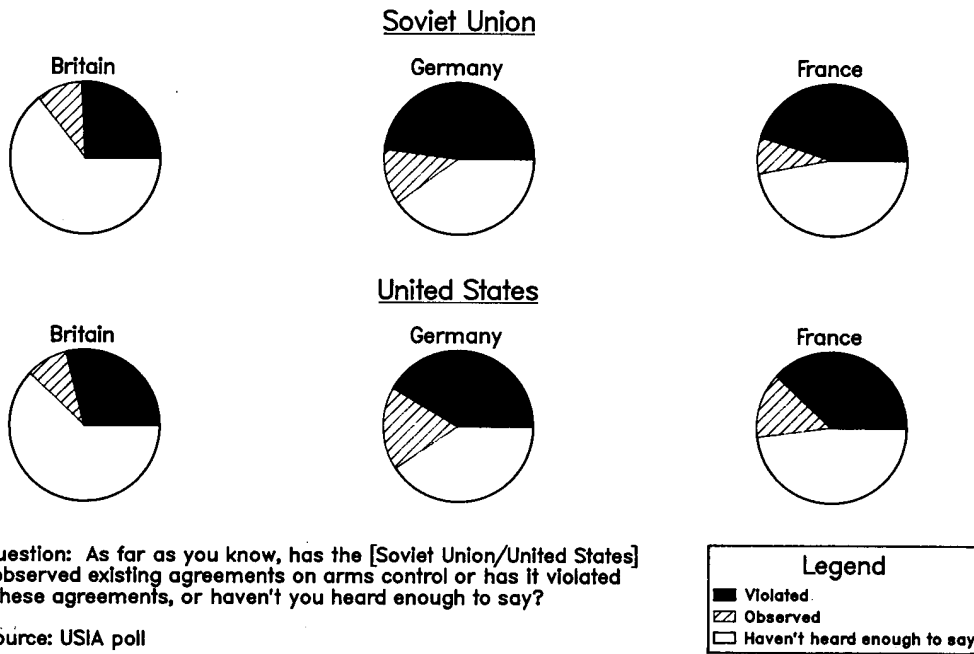
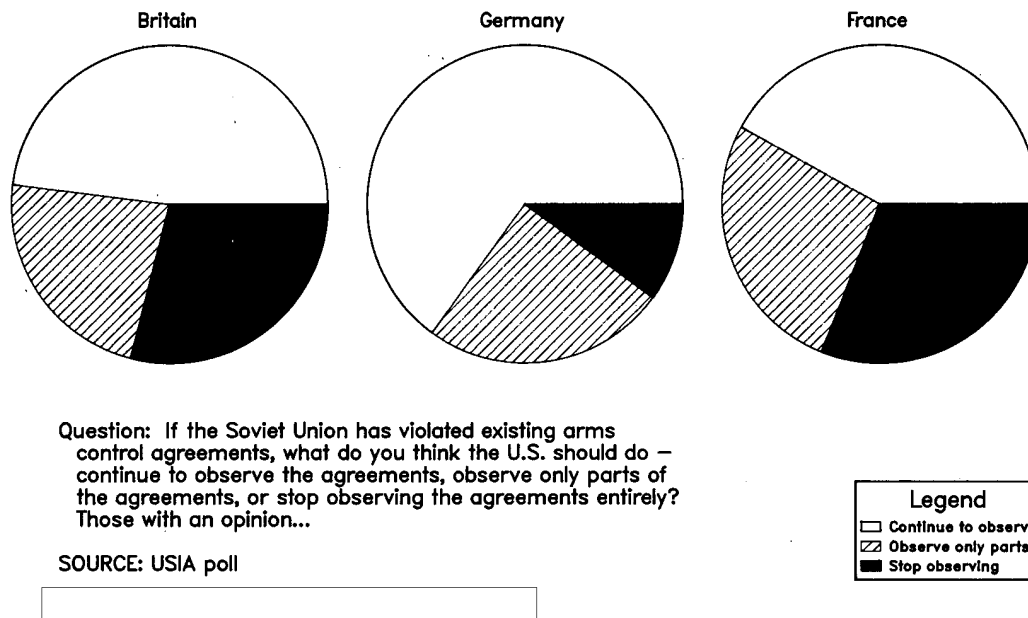


Figure 2
What Should Be Done With SALT II?



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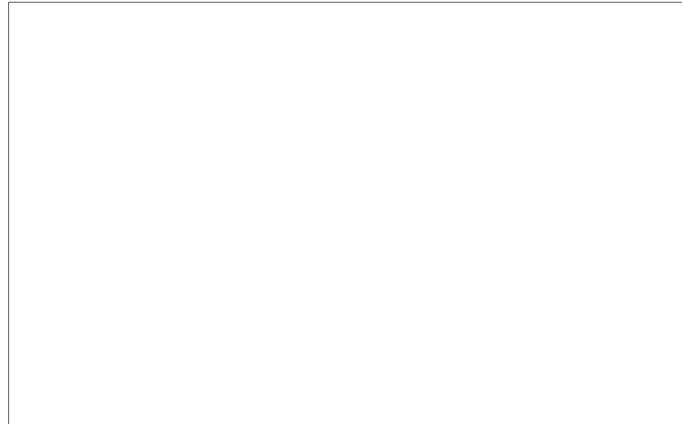
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- Even if they believed the Soviets are in violation of the SALT II Treaty, a majority of West Germans and pluralities of the British and French think the United States should continue to abide by the treaty.

publicizing Soviet violations when they first occurred instead of waiting to highlight them now—which made them appear as an excuse for US violations of SALT II.

- About 30 to 40 percent in each country believe the United States is in violation of existing agreements. The proportions of British, French, and West Germans who think the Soviets have observed or violated arms agreements are nearly the same as those who think the United States has observed or violated the same agreements. Furthermore, the image of the United States as a violator is not simply a matter of a disinterested general public lumping the United States and the Soviet Union into the same category. A USIA poll in 1985 found that the better educated in Western Europe were more likely to think Washington was in violation of arms agreements than was the sample as a whole.



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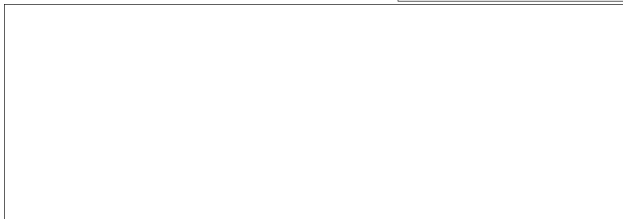
Leadership Views of Compliance Issues

Few NATO leaders have publicly supported the US case for Soviet violations.

Even if the Allies were to accept US technical and legal arguments, domestic political considerations will still hinder many of them from publicly supporting US actions to abandon SALT II.

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[redacted] Soviet violations may well have occurred, but they believe that maintaining the arms control process far outweighs the importance of Soviet infractions:



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- [redacted] senior West German Chancellery officials believe that the Soviets are violating SALT II by encoding telemetry data and that the SS-25 missile—which Washington considers a second new ICBM in violation of SALT II—might be viewed either as a new system or a further development of an older system. Nonetheless, they think the United States should continue discussing SALT II with the Soviets.

Implications for US Interests

Even though the Allies are disappointed with the President's decision to abandon SALT II limits, they probably are encouraged by the US commitment to exercise restraint in pursuing its strategic modernization effort so long as the Soviet military threat does not increase. In particular, they appear ready to press Washington for further consultations on SALT II and may hope to persuade the United States to remain in technical observance of the SALT II limits as long as possible. The British and the West Germans will probably view Moscow's call for a special July meeting of the Special Consultative

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- West German Defense Ministry officials, [redacted] have said [redacted] that, while the US decision makes more sense than "blind compliance," public opinion and the election next January make it impossible for any government official to support the US position. These officials criticized the United States for not

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Committee to discuss SALT II as another opportunity for the United States to press Moscow to improve its compliance record.

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At the same time, the Allies will voice their growing concerns that the US SALT decision foreshadows Washington's intentions to pursue SDI research beyond the limits of the 1972 ABM Treaty. We believe that London is especially concerned that the US SALT decision reflects Washington's belief that defense needs will now take precedence over arms control treaties and that the fate of the ABM Treaty is in doubt. Partly because of this concern with the ABM Treaty, London and other Allies probably will encourage Washington to consider Moscow's latest nuclear arms control offer—calling for deep reductions in strategic offensive weapons in exchange for an extension of the ABM Treaty's withdrawal period to 15 to 20 years. At a minimum, the Allies will stress to US officials that Washington and Moscow must now strive toward new agreements to replace the SALT framework.

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In the meantime, West European governments are likely to propose Allied consideration of new arms control initiatives to regain the moral "high ground" in the public diplomacy arena. In our view, the West Germans and the British are likely to lead the Allies in pressing Washington to consider new proposals for chemical weapons bans, nuclear testing limits, and conventional arms reductions. Such a strategy, however, will not alter basic public attitudes toward arms control compliance issues. Without a greater effort by Allied leaders to differentiate between the US and Soviet actions, there is likely to be no change in public attitudes that tend to place both the US and Soviet compliance record on a par.

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**United Kingdom:
The Unemployment Quagmire**

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High unemployment will remain a major liability for Prime Minister Thatcher in the runup to the next election, which must be held by June 1988. Because a marked improvement is unlikely, Thatcher will be forced to continue arguing that there is no short-term solution to the problem—an argument that may be wearing thin. Her best option is to stress her success in curbing inflation and union power and reviving economic growth while persuading voters that the opposition Labor Party has no credible alternative program.

direct actions to job training and counseling programs for the long-term unemployed. In addition, a variety of relatively minor employment schemes provide subsidies to individuals who accept low-paying jobs, loans to those interested in starting their own small businesses, and community service jobs of up to one year's duration. These programs, however, have been attacked by opposition as well as Tory critics as too little and too late, yielding only mediocre success in attracting applicants.

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Scale of the Problem

According to recent government statistics, seasonally adjusted unemployment rose in May for the sixth consecutive month, and the trend is continuing. The latest figures show that 3.2 million people—13.3 percent of the work force—are out of work. Moreover, the consensus view of 23 economic forecasting groups reported in the *Financial Times* is that Britain's unemployment rate will remain more than 13 percent for at least the next 18 months, despite expected economic growth of 2.5 percent in 1986 and 1987.

The government is concentrating its long-term efforts on rigidities in the labor market—particularly reducing real wage costs—which it believes are the main obstacles to increasing the demand for labor and enhancing Britain's competitiveness on world markets. It recently introduced the second of three planned Parliamentary bills aimed at deregulating industry that include measures such as removing youth from minimum wage controls, limiting the scope of off-the-job union activities for which workers receive their regular wages, and raising the number of hours part-time employees must work to qualify for employment benefits. At the same time, London is taking steps to make it less attractive for the unemployed to remain on the dole. Legislation now pending in Parliament would reduce social security benefits for youth and other unemployed groups who are unwilling to accept low-wage jobs; it also would restrict unemployment benefits for workers who voluntarily leave jobs or are dismissed for misconduct.

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The breakdown of these figures by age, region, and industry carries even more disturbing social and political implications. More than 20 percent of 20- to 34-year-olds are out of a job, and in parts of northern England, Scotland, and Wales unemployment exceeds 40 percent. The number of manufacturing jobs, especially in heavy industrial sectors, continues to decline, yet in May the government announced more than 15,000 new job cuts in the nationalized shipbuilding, rail, and coal mining industries.

In a move we believe is at least partly intended to make unemployment figures look less grim, London has also recently begun revising its methods of compiling and reporting the data. The first merely technical change introduced in March has already reduced reported unemployment by about 50,000 people. Another revision to be introduced this month

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Government Actions

Despite the political risk of appearing unconcerned about the plight of the unemployed, the Thatcher government continues to argue that job creation must come primarily from the private sector and that the government's primary role is to lay the foundation for sustained economic growth. London has limited its

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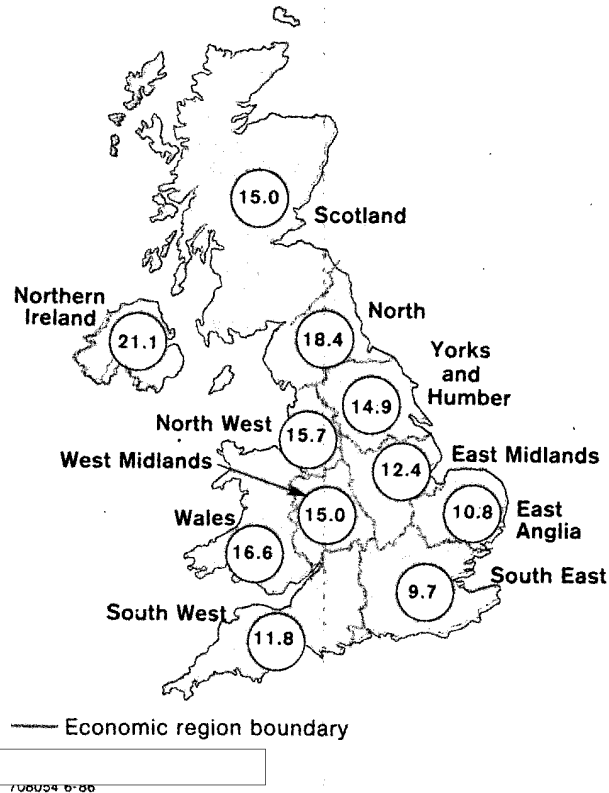
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**United Kingdom:
Percent Unemployment, March 1986^a**

Double-digit unemployment has had less political impact than many observers expected because of the sharp disparity between economic problems and relative party strength. Unemployment is highest in regions traditionally dominated by the Labor Party. In the 1983 national election, for example, 99 out of the 100 constituencies with highest unemployment were already held by Labor.

^a Seasonally adjusted.

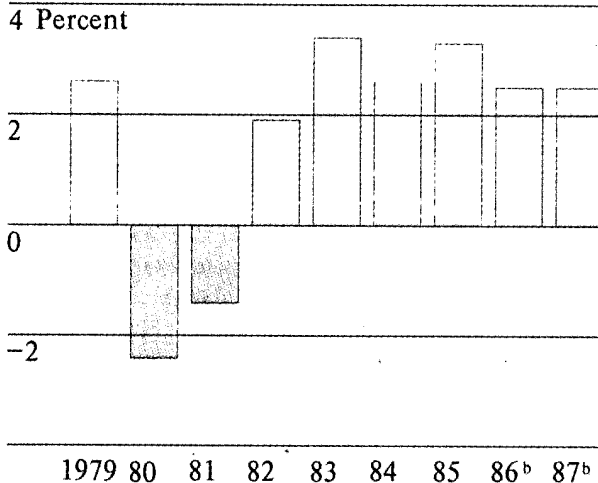


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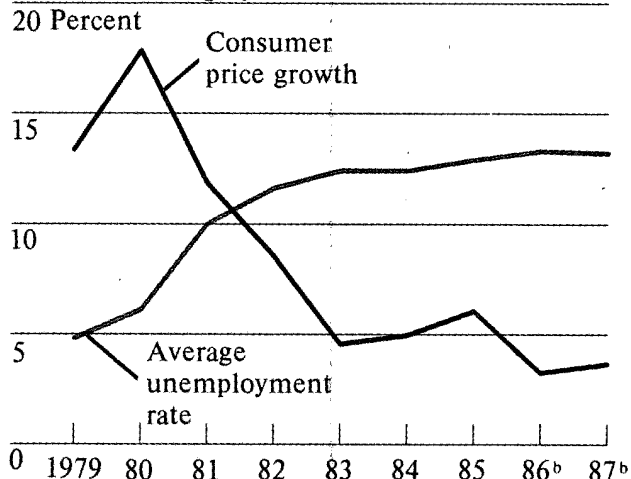
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United Kingdom: Selected Economic Indicators

Real GDP Growth



Trends in Unemployment and Inflation^a



^a Seasonally adjusted.

^b Projected.

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will redefine the unemployment rate as a percentage of the total labor force, including the self-employed and the armed forces; this is expected to show a rate about 1.5 percentage points lower than would the previous definition, which counted only the civilian labor force. [redacted]

creating a national investment bank to finance industrial restructuring—are vulnerable to attack as a rehash of failed policies of the 1960s and 1970s. Thatcher remains convinced that voters are not prepared to accept the higher taxes and inflation that almost certainly would accompany Labor's policies.

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Tory Party Debate

The potential impact of unemployment on the next election has provoked controversies between Thatcher's close supporters and Tory moderates who advocate programs to create more jobs. Debate is focused on the mix of tax cuts and increased government spending in the 1987-88 budget. Thatcher and her supporters, with an eye on the Tories' traditional constituency, are duplicating their strategy from the election in 1983 by concentrating their attention on the employed middle class, which is benefiting from robust consumer spending, low inflation, and falling mortgage taxes. [redacted]

[redacted]

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Recent polls showing the Tories trailing Labor by 6 percentage points, however, suggest that this approach may be losing its appeal. Responding to public opinion, several senior Cabinet ministers have come out against Chancellor of the Exchequer Lawson's priority of lowering the basic income tax rate from 29 to 25 percent, preferring instead to increase spending for health, education, and employment programs. [redacted]

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Possible Impact on the Election

Labor Party leaders are counting on the unemployment crisis to return them to power in the next election. In the coming months, they will undoubtedly intensify attacks on Tory policies, pointing out that promised tax cuts will mainly benefit the wealthy but provide little in the way of new jobs, that deregulation hurts employee and union rights, and that the sale of nationalized industries to private—particularly foreign—interests results in more worker displacement. [redacted]

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This strategy, however, is weakened by Labor's lack of a credible alternative to Thatcher's economic program. Its prescriptions—including increased spending on infrastructure and social services and

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France: Don't Switch That Channel [redacted]

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I offer the Elysee to [the one] who will offer me French television.

Press baron Robert Hersant to conservative presidential hopefuls

Quite unexpectedly, France's hottest political row of the summer and its first major clash of cohabitation between left and right is shaping up over a sleeper issue—privatization of television. The conflict centers on the conservative government's announced plan to sell off its premier network, TF1, and to reorganize the government authority that polices media standards and practices. [redacted]

Ironically, the opposition Socialists, who are mobilizing antiprivatization forces, paraded last year as the champion liberators of French media and touted their record of having introduced private radiobroadcasting, pay cable and satellite television, and a hotly criticized contract for a commercial television network. The Socialists have organized impressive opposition, but the government is likely to get its way in a contest that will almost certainly have important implications for both the balance of power sharing in France and the success of its other, more important privatization ventures. [redacted]

The Stakes

The Chirac government proposes to sell France's oldest, biggest, and most popular state-owned television network. TF1 also has considerable real estate holdings, a large stock of valuable film assets, and a successful television production company. Critics of the plan—many of them journalists and television-oriented intellectuals—point to the network as a premier cultural asset—the venerable “Voice of France” and part of France's modern national patrimony. [redacted]

According to both press and US Embassy reports, the government agonized over selecting a test case of its

longstanding pledge to begin privatizing French TV.¹ The eventual choice of TF1 was apparently dictated by a mixture of commercial and political motives, notably that TF1 ran \$12 million in the red last year and that Prime Minister Chirac's cabinet could not agree on the sale of Atenne 2 or the regional network, FR3. [redacted]

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Estimates of TF1's value vary largely, but experts appear to agree that it is worth at least \$350 million including real estate valued at about \$40 million, and a stock of programs worth another \$70 million. One prospective buyer, the large Bouygues construction group, appears to value the network at about \$425 million, while one respected financial daily cites guesstimates as high as \$850 million. Most analysts appear to believe that TF1 is worth more than its balance sheet suggests, largely because the network's deficits appear to be due to its bloated work force. [redacted]

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In tandem with disposing of TF1, the government has also promised to restructure the authority that polices French broadcasting. The proposed new governing body, the National Communications and Liberties Commission (CNCL), would be constituted in much the same way as the present High Authority for Audiovisual Communication, but its role would change dramatically. Above all else, it will be required to see that licensees operate in the public

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¹ The issue of how to fulfill the governing coalition's election pledge to privatize TV reportedly sparked a heated row between those—led by Culture Minister Leotard—who saw this as an opportunity to begin widespread denationalization and those—mostly old-line Gaullists—who reportedly take a jaundiced view of privatization in general and who argued for restraint. Finance Minister Balladur apparently settled the dispute, and Leotard was forced to accept half a loaf, at least from the standpoint of tactics. Most important, however, although no final resolution to these conflicting views was achieved, the conservative coalition did manage to hammer out a consensus on its approach to this first instance of privatization— and without letting its disagreements boil over in public. [redacted]

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French Television at a Glance

TF1 was the first of three channels created by the government, and its experience is checkered with uncertainty about its mission, heavyhanded ministerial interference, roller coaster ratings, overmanagement, waste, and staff featherbedding. Its style is to emphasize French programming, with heavy doses of artistic and intellectual themes. Accused of being dull even by the standards of French television, TF1 lost viewers to the second channel until recently turning itself around, most notably by producing more entertaining dramatic programs (clearly based on American models) and by breezing up its news presentations (a la Antenne 2). [redacted]

Antenne 2 is reputedly the most Americanized of the networks, with solid emphasis on entertainment, heavy selections of US retreads—both films and series—and spiffy American-style news programming. Until a year ago, A2 was also reputed as most resistant to government meddling and even cultivated a reputation for criticizing the government when warranted. For a while the undisputed leader of the ratings game, A2 has recently surrendered first place to TF1, but not by much. Its claim to distinction lies in that fact that it turned a small profit last year. [redacted]

FR3 was created to service a regional niche, with programming directed to various localities. Heavy on public affairs themes, FR3 also broadcasts documentaries and sporting events. The third channel has long been considered the most politicized of the government-owned networks, with strong leftist input

to management. FR3 has also been most wrecked by internal disputes. It is widely assumed to also be bound for the auction block. [redacted]

Canal Plus was chartered under the Socialist government as France's first and only privately controlled cable network, offering second-run films (many of them American). A hefty 42 percent of its stock is owned by the government's Havas public relations agency. Canal Plus reportedly lost money early on but now appears headed toward the break-even mark. [redacted]

La '5' is France's new private commercial channel, owned by a consortium that includes Italian TV magnate Silvio Berlusconi. Controversial from its very inception—seen by many as a natural agent of Americanization—the fifth channel has lived up to its expectation, with a mix of movies and game shows, many of them foreign and unabashedly designed for decidedly lowbrow tastes. Mitterrand personally decided the contract for TV5, and the decision was castigated liberally by conservatives for being based on political considerations. Chirac has promised to nullify the contract. [redacted]

TV6—the music channel—is owned by the same syndicate as La Cinq. It has yet to establish a reputation and broadcasts only four hours per day. [redacted]

interest. CNCL will have full power to pull the plug on channels that fail to meet certain general standards, but will not have power to make high-level management appointments in a privatized TF1, nor to meddle in programming decisions—two practices that mark and discredit the High Authority. [redacted]

The Plan and the Players

The proposal tabled by Culture and Communications Minister Leotard is almost certain to pass legislative

muster and will probably be presented for Mitterrand's signature in July. It calls for total government divestiture of TF1, with 50 percent of the stock earmarked for private investors who will operate the network, 40 percent to the public on the exchange, and 10 percent to network employees. No single person will be allowed to own more than 30 percent of the stock, and the new governing authority will select

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among bidders for the 50-percent "operator" share on the basis of both economic and cultural criteria. According to the plan, the plum will go to the high bidder—probably a consortium—who offers the highest "quality programming," a phrase that is assumed to include restraints on advertising, public-service obligations, and a commitment to broadcast a certain proportion of French-made programs. []

Only a few French entrepreneurs can play in the multibillion-franc league, and ego has clearly become a big factor in assembling the cast of moguls for the privatization melodrama. Rightwing press baron Robert Hersant announced early on that he intends to add a television network to his collection of newspapers and magazines. A former Vichy official and bete noir of the left, Hersant's highly politicized media empire includes *Le Figaro* and *France Soir* newspapers and numerous regional dailies. It has waxed even larger in recent months as Hersant flaunted his violations of longstanding laws aimed at limiting press monopolies by buying up hard-pressed regional dailies. TF1 would be the jewel in Hersant's crown, and he has made it clear that if Chirac wants his support for a run at the presidency in 1988 the price will be one television network. []

Hersant's chief rival is Jean-Luc Lagardere, chairman of the Hachette publishing group who recently acquired Europe 1 Radio. Francis Bouygues, founder and chairman of the construction firm that bears his name, recently tossed his hat into the ring and pledged almost \$70 million to the task of outflanking Hersant and Lagardere. Bouygues probably calculates that his tender will buy about 30 percent of any operating consortium. The Luxembourg-based broadcasting group CLT (Compagnie Luxembougeoise de Telediffusion) could become a junior partner to any of the contenders. []

Each player brings different assets to the game. Hersant has political clout that he proved recently by getting at least eight disciples, including his son, elected to the National Assembly. In Chirac's paper-thin, two-vote majority, Hersant's deputies constitute a powerful lobby, and Chirac may be unable to resist such pressure. Lagardere and Bouygues have better

images in banking circles, while CLT has plenty of broadcasting experience. No one knows how the "operator" slice of the TV pie will be cut, but Bouygues and CLT are probably inclined to join Hersant in an irresistible bid. Lagardere is likely to try to put together an anti-Hersant syndicate, or failing this, would probably opt to sit out the TF1 privatization in favor of the government's possible denationalization of the third network, FR3, and the redistribution of the existing private channels. []

The Risks

Apart from the political hoopla surrounding the selloff of TF1, France's financial community will be watching the issue closely this summer as an early example of how the Chirac government will tackle privatization. Because of the political sensitivity of the state's transferring control of such a powerful broadcasting vehicle, TF1 privatization is in many respects a special, emotionally, and politically charged case. Nevertheless, the way in which the government approaches the TF1 issue is likely to give important clues to how it will set about privatizing banks and industrial companies. []

Given the importance of this issue, the government is almost certain to make passage of the bill a matter of confidence. There is, therefore, little doubt it will pass, but there is still plenty of room for botching the public relations side of it. If there is a widespread public perception that the government has made a poor show of its maiden voyage into privatization, if it appears that the sale is being rigged in Hersant's favor for political gain, or if the new network's programming flops with viewers it will almost certainly set back the government's overall denationalization scheme—at a time of building indications that Chirac's program is languishing and of mounting evidence that the French economy is not performing as well as the right had predicted. Alternatively, if denationalization of TF1 is widely perceived as having been a success, this would almost certainly give the government's economic policy a much-needed boost and would encourage Chirac to press ahead boldly with privatization. []

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The mechanisms the government has adopted for privatizing TF1—including how it has apportioned holdings among various types of investors—may also be a model for future denationalizations. Many details of the TF1 privatization have to be worked out, and the government has been honing its strategy and altering some of its plans as it has gone along. The original plan, for example, called for the state to keep a 1-percent holding in the network, but this apparently has been dropped. One of the question marks in Chirac's privatization program is whether the state will hold on to a piece of the denationalized companies, possibly akin to the British "golden share" system. Chirac reportedly opposes this approach, and, if the current approach to privatizing television is an indication, his government will divest itself entirely of denationalized companies and rely on other regulatory and supervisory mechanisms—for instance, the CNCL—to maintain a measure of control.

Some problems have already surfaced. Media labor unions are up in arms, largely out of fear that new operators will streamline management and cut presently bloated staffs. The government also faces a mounting challenge from other bastions of organized labor over the question of denationalization, and the TF1 episode could become the dreadful little preface to a "hot autumn" of industrial actions that offer to complicate and possibly set back the conservatives' privatization plans. The experience with TF1—especially since it will be played out with exceptionally high visibility—may also teach the opposition a few tricks and add to their panoply of tactics for obstructing future denationalizations.

Chirac also faces tough sloggng in public opinion. Powerful critics—including luminaries of the previous government, the academic community, and representatives of broadcasting and the arts—charge that the move is strictly political, aimed at creating media allies for Chirac's swing for the brass ring in 1988. Others predict that privatization will further debase (read Americanize) French civilization, introducing still more pathogens of "Coca-Cola culture" to complement the insidious effects of the already popular *Dallas*, Bruce Springsteen, and the looming catastrophe of the century—Disney World in the shadow of Notre Dame.

Divided Public Opinion ^a

Percent

Question: Are you for or against the privatization of TF1?

	Overall	Right	Left
For	29	45	12
Against	56	40	80
No opinion	15	15	8

^a Based on a national sample of 800 adults, surveyed on 28 May 1986 by IPSOS-Le Point.

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Recent public opinion surveys suggest that critics are carrying the day with voters. Fifty-six percent of a national sample opposed privatization of TF1, with conservatives among them about evenly divided and leftists overwhelmingly opposed. A clear majority also disapproved of Chirac's recent criticisms of the political bias of television journalists, and again conservatives split evenly on the issue.

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Political careers are also clearly on the line; none more than that of Culture and Communications Minister Leotard—the boy wonder of reborn French liberalism and an aspiring presidential hopeful. Leotard's southern charm (a la Francaise), squeaky clean athleticism, and youthful "Ah shucks" approach to politics play brilliantly on the medium he is eager to privatize. Despite some reverses in his original plans and the apparent unpopularity of privatization, his public approval ratings are still high, having fallen less than those of other conservative politicians. Some accounts even suggest that his personal campaign to sell privatization of TV is turning public attitudes around. If successful in this and if viewers ultimately agree that privatized television has better programming, Leotard's claim to conservative leadership and a potential presidential candidacy will be enhanced.

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Yugoslavia: The 13th Party Congress

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The Communist Party Congress in late June was one of the liveliest in recent Yugoslav history but offered few new solutions to the country's pressing economic, ethnic, and political problems. The congress took a small step toward checking the flow of power to the eight dominant regional elites by giving some new authority to the party center and introducing a few democratic trappings. It also elected a crop of new, younger leaders, who may be more pragmatic—but also more parochial—than their Tito-era elders. The congress reaffirmed Belgrade's nonaligned foreign policy and directed a few barbs at the United States. Moscow's participation was correct but showed that Gorbachev has other priorities.

curtailed public transit between Kosovo and Belgrade during the congress, a move that probably did little to burnish the regime's image of openness.

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Nonetheless, Kosovo and other contentious issues surfaced from the congress floor with a vengeance unknown in most Communist countries. Several delegates gave impetus to the country's burgeoning antinuclear movement, speaking against plans—so far still on hold—to proceed with several new plants. And some military officials warned of growing pacifism among youth in the northern Republic of Slovenia.

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Domestic Issues

Like the last congress in 1982, the agenda of the 13th Yugoslav Party Congress, held in Belgrade on 25-28 June, was overshadowed by the country's serious economic problems. In the main congress speech, outgoing party chief Vidoje Zarkovic candidly admitted the leadership's lackluster performance in coping with heavy foreign debts, rampant inflation, falling living standards, widespread joblessness, and a growing gap between a richer north and poorer south. But he offered few solutions beyond removing regional obstructions to carrying out set policy. Premier Branko Mikulic, speaking at a commission session, had even harsher words about flaunting decisions and urged support for new government proposals now before parliament. The proposals garnered support from some delegates, but the congress took no official stand.

Institutional Changes

Perhaps more significant than the rhetoric were some statutory and procedural changes made at the congress and at some of the eight regional congresses leading up to it. The congress adopted a revised party statute intended to give the party center a few more tools to deal with recalcitrant regional bosses. It reportedly strengthened the Leninist principle of democratic centralism, the linchpin of intraparty discipline. It also reportedly gave the Central Committee the right to monitor more closely the regional Central Committees and call special regional party congresses when major national decisions are defied.

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The congress was spared disruptions—but just barely—by several increasingly vocal public pressure groups. Shortly before the conclave opened, security forces in Kosovo Province dispersed hundreds of ethnic Serbs who were preparing to march on Belgrade to protest discrimination by ethnic Albanians. Western press reports said the authorities

Election procedures also were altered at the expense of regional brokers. In the regional congresses, competitive multiple candidates elections—optional under both the old and new statutes—were applied more widely than at any time since the liberalization era of the late 1960s, in some cases complicating the plans of party bosses. And at the national congress, a statutory change gave the delegates the right, for the first time in two decades, to reject the regions' choices for key national posts. While the delegates ended up

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Secret**Recent Party Congresses**

Congress	Date	Major Outcome	Soviet Representative
9	March 1969	Endorsed and carried forward the process of decentralization that began three years earlier; gave regional parties the right to draw up own statutes and appoint choices to top national parties bodies.	^a
10	May 1974	Confirmed a partial return to stronger central party authority, a greater party role in the political system following the crushing of the Croatian liberal-nationalist movement in 1971.	Politburo and Secretariat member Kirilenko.
11	June 1978	Tito's last congress capped several years of political stability, economic progress, and increased international standing; streamlined Presidium but made few policy changes.	Politburo and Secretariat member Kulakov.
12	June 1982	First congress since Tito's death, reflected growing leadership concern, lack of direction as the country was thrown into economic crisis.	Politburo candidate member Kuznetsov.
13	June 1986	Took limited organizational steps to strengthen party central authority, ushered in younger leadership, tolerated more open airing of competing interests.	Politburo member Aliyev.

^a Boycott by CPSU and most Soviet Bloc parties following Belgrade's denunciation of the invasion of Czechoslovakia the previous summer.

[Redacted]

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approving all the regions' choices, tallies varied widely, with many well-known figures faring shoddily.¹ [Redacted]

more pragmatic and sophisticated—but also more tied to parochial regional interests—than their predecessors. [Redacted]

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New Leadership

One of the more pronounced effects of the elections was generational turnover. The mean age of the 165-member Central Committee and 23-member Presidium dropped by nearly 10 years to about 46 and 51, respectively, thus eclipsing the class of leaders from Tito's partisan generation. In their place is a diverse new group that appears to be better educated,

Age factors aside, the backgrounds and reputations of many of the newly elected leaders suggest that factional infighting probably will increase on several key issues:

- *Interregional economic relations.* Disputes are likely to sharpen over allocating scarce resources among the diverse regions. Several of the more Pan-Yugoslav leaders have retired, and many of the new members—such as the new titular party head

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Milanko Renovica, of Bosnia, Macedonia's Jakov Lazaroski, Serbia's Dusan Ckrebic and Slobodan Milosevic, Slovenia's Franc Setinc, and Vojvodina's Bosko Kronic—have built their careers on defending local interests.

- *Freedom of expression.* The members will probably be sharply divided over the limits on freedom of expression and the press. The new Presidium includes outspoken opponents of liberal dissent such as Croatia's Stipe Suvar and Ivica Racan, Bosnia's Ivan Brigic, and Vojvodina's Bosko Kronic. Facing them will be such probable moderates as the six Serbian and Slovene delegates and a shaggy young, US-educated Macedonian, Vasil Tupurkovski.
- *Market forces.* Differences will probably also surface over the introduction of more market forces in the country's unorthodox Communist economy. The ideologues and traditionalists will probably favor heavy use of administrative measures—such as wage and price controls—while several pragmatists are likely to see market forces as essential to recovery.
- *The Serbia problem.* Strains between Serbia and its autonomous provinces of Kosovo and Vojvodina over distributing authority in the republic may also increase because several more moderate representatives from these regions have been replaced by staunch advocates of local interests.

[redacted]

Foreign Relations

The congress reaffirmed Belgrade's traditional nonaligned foreign policy in advance of a Nonaligned Summit this August and its interest in balancing its position between the United States and the USSR. From the US standpoint, the congress's foreign policy resolution took a disappointingly equivocal stand on terrorism—criticizing pressures on alleged sponsors of terrorism as well as attempts to equate liberation movements with terrorism. Judging from previous, more positive comments by a Yugoslav official to US diplomats, the resolution probably was altered after the US bombing of Libya. Party chief Zarkovic also took a swipe at the US Administration for statements on the SALT II accord, reflecting Belgrade's

increasingly skeptical comment on US arms control policy. And several speakers aired tensions with neighboring Albania, Bulgaria, and Greece over longstanding ethnic disputes. [redacted]

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Moscow sent a full Politburo member, Geydar Aliyev, to the congress. This is a formal upgrading in representation from the last congress but is still below the level of Soviet representation at the recent gatherings in East Germany, Bulgaria, and Poland and does not involve a heavy hitter on the Politburo. Most of Moscow's East European allies sent the equivalent of Politburo/Secretariat members. The Soviet party greetings to the congress took fewer pains than in 1982 to endorse Yugoslav principles governing relations among sovereign states. [redacted]

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Outlook

The statutory amendments—probably the result of an understanding between southern centralists and northern conservatives—lay at least the legal groundwork for a modest revival of central authority. The leadership may find this right particularly useful if it feels the need to intervene in such regions as Kosovo and Serbia to stem growing nationalism. But implementation, as always, will depend on the will and issue-oriented alignments of the regional elites, and the incoming national leadership looks at least as divided as the previous one. The experiments with competitive elections will probably continue, albeit haphazardly, and may mark a partial step toward renewal of some of the more stultified regional parties. [redacted]

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The relatively harmonious atmosphere at the congress suggests that the party is becoming increasingly tolerant of divergent views. This contrasts with the highly charged atmosphere of less than two years ago, when some debates over reforming the system grew so sharp as to seem to call into question the very ability of the country to hold together. In this sense, the party is becoming more and more a mirror of the real, competing interest groups in one of the Communist world's most fragmented societies. The regional parties also showed restraint but aired their respective positions at each of their congresses. [redacted]

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Despite this hint of increased maturity, the party still left open the key question of how to exercise a constructive role in the unorthodox, complex political system where—unlike in more traditional authoritarian Communist systems—nonparty bodies play an important role and the pace of change and implementation is slow at best. Chances are that the same question will continue to dog party leaders in the period ahead and as they prepare for their next congress four years from now.

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Economic News In Brief

Western Europe

EC Finance Ministers and the European Parliament have both approved a revised 1986 EC budget raising agricultural and regional spending . . . EC may still face a \$1.5 billion farm-spending shortfall this autumn . . . revision forced by EC's European Court ruling invalidating the previous 1986 budget because the member states and Europarliament had never finally agreed on its spending levels.

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Spanish Government approved new decree liberalizing foreign investment . . . removes restrictions on capital transferred out of Spain and earnings from dividends and profits, simplifies regulations on direct investments, and allows freer portfolio and real estate investments . . . includes such sensitive sectors as mining, petroleum refining, air transport, and shipping . . . aimed at adapting current norms to EC requirements.

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Portuguese parliament approved new law making it more difficult for firms to withhold salary payments . . . if salaries are more than 30 days overdue, workers may end labor contracts and are entitled to compensation . . . they may also apply for unemployment subsidies and will be given priority for retraining courses . . . firms not meeting guidelines will be subject to penalties.

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US Embassy reports Netherlands Government plans 2-percent real increase in defense spending . . . subject to improvement in economy . . . deferred decision on nuclear capability for 155-mm artillery.

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