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Sea becomes Falklands Klondike

Port Stanley soon free of need for British cash aid

By Andrew McEwen, Diplomatic Correspondent

Making their way through the lobby of one of London's smarter hotels yesterday, two senior Falkland Islands officials spotted a familiar figure half hidden behind a newspaper. Later, in the restaurant, they noticed more familiar faces behind menus.

The wary expressions worn by the officials told half the story: what should have been a mundane exercise in selling licences to fish around the Falklands has developed into a maritime Klondike, with 150 international fishing companies expected to make bids for three times as many licences as the islanders dare to sell, for fear of over-fishing.

By tonight the talks will be over, and the Falklands Government will begin choosing the winners and losers. A huge increase in licence revenue is expected, bringing the islands close to self-sufficiency except in defence.

The wealth of the Falklands' seas is turning a once-forgotten colony of sheep farmers into the new rich of the South Atlantic. The Falklands Government, which had a total revenue of £6 million in 1985/86, will this year earn nearly six times as much — almost £18,000 for each of the 1,919 inhabitants counted in the 1986 census.

About half of the revenue will be spent in Britain, going on contracts for road repairs, water works, a new telephone system, a secondary school, new houses and a British-run fisheries management scheme.

At the same time, the islanders are weaning them-

selves away from British aid. When the last tranche of the £31 million promised after the 1982 war has been used, the islanders hope to avoid asking for more. The aim is to be self-dependent within 18 months, but political independence is still mentioned only as a joke.

A nation the size of Northern Ireland, and populated by fewer than 800 people if Port Stanley is excluded, will remain dependent on defence by Britain for the foreseeable future. Last year, the garrison cost British taxpayer £234 million while a gradual write-down of the costs of the war accounted for a further £168 million.

"Sometimes I think they lie

But Mr John Cheek, a fifth-generation islander and a prominent councillor, pointed out that if things were that bad, there would not be such a clamour for licences.

There has even been a veiled attempt at an eco-political take-over. An organization called Europeche, representing the fishing interests of the Common Market passed a resolution saying that Europe should have priority for licences. It got short shrift. The only priority is reserved for the British, and even they have to be handled with caution.

It has taken the the Falklanders a little more than a year to discover that British-

buying second-hand trawlers, converting them and paying British crews to man them.

That 51 per cent stake remains paper money, because the companies are not yet big earners. One, indeed, is now in liquidation, leaving the Falkland Islands Government to repay a £2-million unsecured loan.

The indignant islanders have stopped the joint-venture payments from the end of this year, and have made the vital licences much more expensive.

The effect of this will be to boost the budget from £27.1 million in 1987/88 to £34.5 million in 1988/89.

They have also dropped elaborate schemes to dredge Port Stanley harbour and create on-shore bunkering, fish-freezing and ship-repair industries. Instead, they will put the money in the bank, building up reserves at about £8 million a year.

Two big British fishing firms remain involved in joint-venture companies and are fishing. The change in arrangements is likely to be a big setback for them, but when they expressed anxiety the islanders saw it as special pleading.

"The British (companies) have been used to working with subsidies, and I suspect they will try to get subsidies from the Falkland Islands Government," Mr Cheek said.

"Of course we want to help the British, but I don't think it should extend to operating subsidies. It is the wrong way to run a fishery".

⊙ Sometimes I think the international companies who want to fish our seas lie in wait to jump out and offer us money ⊙

in wait to jump out and offer us money," Mr Alastair Cameron, the Falklands official all the fishing "fat cats" want to impress, remarked over breakfast. It was a jest, but one which revealed the pressures of success.

The canny islanders are having to develop the scepticism of an unmarried heiress. Fishermen, like farmers, are always pleading poverty, and their arguments sound plausible. Although there were huge catches of illex squid this year, the world price fell through the floor. At the same time, catches of the even more valuable lolligo squid were exceptionally poor.

inspired arrangements hastily set up in 1987 were, as Mr Cameron put it, "not necessarily in the islanders' best interests". A less diplomatic person might have said that the islanders were ripped off.

The problems arose from a scheme under which licence fees were kept fairly low, but the licencees had to pay an equal sum into one of many joint-venture companies, each 51 per cent owned by a Falklands government company and 49 per cent by foreign companies.

This was meant to give the islands a stake in their own industry, but much of the money was spent in Britain on

Rebel attacks

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Mrs Denbow lays £19m keel for St Helena ship

COOPERS and Lybrand of London have been engaged by the ODA as consultants to carry out a marketing and tariff study of the St Helena Shipping Service.

Passengers and freight are currently moved to and from the isolated South Atlantic island by a mixed passenger/cargo vessel, the RMS St Helena.

This vessel is due to be replaced next year by a successor. The £19.5m ship is expected to be launched from Aberdeen's Hall Russell shipyard in May next year ready for hand-over at the end of the year. The ship should set out on her maiden voyage in January 1990.

She will be twice the size of the current vessel with a speed of 14.5 knots, passenger accommodation for 140 and a cargo capacity of 2,750 tonnes.

The picture shows Mrs Gay Denbow, the UK representative of the St Helena Government, who performed the keel-laying ceremony of the vessel at the Aberdeen shipyard. In the centre, Mr Bill Hobman, head of the ODA's South Atlantic and Gibraltar Department.





Sign Software
 Sciences News
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WHAT A CATCH!

We promised, in the last issue of SIGN, news of Software Sciences' Alan Whicker, alias John Hanks of our Database Group. John recently visited the Falkland Islands on behalf of their government's Fisheries Department and here gives us a blow by blow account of the delights of his Falkland's visit. The purpose of John's visit was to examine their existing computer system, written in dBase III and PASCAL, running on standalone Compaq 286 microcomputers, and to provide recommendations on how this could be amended and enhanced for migration to a network of Apricot 386 microcomputers.

The trip from Brize Norton into Stanley takes twenty one hours - the normal three hours for check-in and immigration control, an hour stopover for refuelling, sixteen hours flying and finally an hour's bumpy ride by landrover over pot-holes and dirt-track roads through the minefields.

Travelling by RAF Tri-Star is definitely for teetotallers and cataleptics. RAF flights are strictly "dry" and at Ascension Island there was almost a stampede for the duty-free bar. But be warned, over indulging can find you left there in the constant and humid 25°C waiting for the next plane. Tri-Star breakdowns are a frequent occurrence and with only one's hand luggage (nine pounds maximum), spending two to three days in the steamy bunk-houses at the transit camp is no fun. The inflight videos failed on the outward journey but were sorted out for the return flight - it wouldn't have been so bad if BA hadn't shown the same films the previous month when I was coming back from Singapore.

My arrival at the Falklands was greeted by brilliant sunshine which had all but removed the traces of snow which had fallen a few days previously. The weather generally for mid-winter was better than expected though the strong winds were bitterly cold. Stanley itself is a hive of activity with roads and pavements being broken up everywhere to allow new water and telephone systems to be laid. The houses, mostly constructed of wood and corrugated iron, climb up the hillside from the water's edge. Each has its own peat shed and in the evenings the smell from the fires hangs heavy on the air. The pubs, which have a

separate room for locals who prefer not to mix with the visitors, close sharp on 10pm but do have a glory hour on Sunday lunchtimes. Video but not TV has arrived, there are a few private clubs and the weekly newspaper has started to reappear fortnightly after a lengthy absence. The few shops and bank open for six hours a day but close between 12 and 2pm.

"... travelling by RAF Tri-Star is definitely for teetotallers and cataleptics!"

Jokes about portakabins before my departure were not far from the truth. The Fisheries Department moved out of theirs in June to the comparative luxury of a metal box on a floating warehouse dock originally used as a changing station by the armed forces.

The department, headed by Captain John Jackson, has four senior officers responsible on a rota system for patrolling the 150 mile conservation zone, an officer responsible for handling applications and issue of licences and another for monitoring the transshipping activity in the harbour. Fishing vessels report daily by radio on their catch and this information is analysed by scientists within the department and also by the Renewable Resource Assessment Group at Imperial Company. Ultimately the results of this analysis are used to determine the licence allocations for the next season.

A couple of miles from the office and in stark contrast to the barren open moorland with its grey rocky outcrops is the coast with its beaches of fine white sand and azure blue sea. Here among the sand dunes and tussock grass are the colonies of Gentoo penguins. Protected from human interference by a barbed wire fence and minefield it was only possible to bring one back 'captured' on film.

Following the evaluation of their present system, we have been awarded the contract for the development of a replacement system which is to be delivered and installed by the end of November, so how about some volunteers!



Sea King hovering over the Mys Frunze

Mercy trips to Russian seamen

A SEA KING helicopter of 78 Squadron, captained by Flt Lt Bill Arathoon, from Mount Pleasant was involved in a challenging SAR operation earlier this month when it flew a total of eight hours to take a seriously ill Russian sailor to hospital in the Falkland Islands.

It took three attempts and the loss of a highline before Viktor Goroshko, 46, could be winched off the deck of the Russian factory ship pitching in heavy seas.

The ship, the Mys Frunze, had previously radioed from a position some 600 miles north east of the Falklands that First Mate Goroshko had a suspected perforated stomach ulcer.

While the Russians steamed towards the Falklands, the Sea King took off accompanied by a C130 of 1312 Flight acting as top cover. The Hercules later flew ahead to locate the vessel.

Such was the extreme range that the Sea King had to refuel twice at sea on the deck of the RFA Black Rover which was ordered to make for the north east with all possible speed.

On the outward journey the Sea King shut down on Black Rover for a time to allow the range to narrow as the two ships sailed towards each other.

The operation took place on a day of strong winds with gusts reaching 45 knots. MALM Bill Payne made three attempts to descend by winch. On the first occasion a sudden dip of the bows snatched him from the arms of people on the deck. The second time he bumped against the bow and a highline which had been dropped beforehand exceeding its breaking strain of 200lb and snapped.

It was only when they could get the ship to start moving slowly into the wind that the transfer could be successfully accomplished. "I've been doing this sort of thing for 15 years," said Bill afterwards. "This was one of the more exciting ones."

In late August a 78 Squadron Sea King helicopter captained by Flt Lt Steve Martin was launched at maximum range to pluck a badly injured seaman from the deck of another Russian factory ship.

The Michail Wierbickji, radioed that a crewman had lost his left hand in an accident with a lathe and was suffering from severe shock and loss of blood.

At 185 nautical miles south-east of the Falklands the Sea King met the ship and winched the injured man aboard without difficulty. He was flown to hospital in Port Stanley, accompanied by his severed hand wrapped in ice.

RAF surgeons performed an emergency operation but were unable to attempt to rejoin the hand because of the time delay and the lack of specialised staff and equipment. However the man was reported well enough to rejoin his ship next day.

Falkland 'regulars' return for licences

THE Falkland Islands' London office is once again besieged by the eager representatives of foreign fishing companies anxious to submit their licence applications for next year's season.

Now approaching its third year, the fishery still attracts substantial interest from the Far East and Europeans and from a handful of British operators. Previous licensing rounds have been over-subscribed by over 100 per cent.

Large fishing nations like Japan, Taiwan and Korea are always on the look out for new opportunities and the waters of the South Atlantic provide just that.

However, things are beginning to quieten down after the gold rush mentality that characterised the first year of the Islands' fishery regime in 1986. Then, companies with no prior involvement in fishing became distant water fleet operators overnight.

A few of these 'licence brokers' have been sunk by lack of experience and the realities of managing a venture 8,000 miles away. The Falklands government too has learnt a few lessons from the problems of some enterprises — particularly the failure of the joint venture with Aberdeen based Seaboard which incurred a £9m. debt, now the subject of a Falklands Council enquiry.

Joint ventures with the Falklands government subsidiary, Stanley Fisheries, will not play a part in future licence allocations. The more commercially viable joint ventures will continue to operate as such but these will probably be a minority.

Trend

Alastair Cameron, former London representative of the Falklands and now running the Islands' fisheries, was in London this week to meet prospective licensees. After nearly 40 interviews in less than 10 days he and Lewis Clifton, the current London representative, can see a trend developing, with the same firms reapplying for fishing licences.

The Orientals are the keenest supporters of the fishery and are now more confident and more experienced in making their applications. If they were vulnerable to 'licence brokers' in the early days this is no longer the case.

The Eastern bloc, Japanese, Taiwanese and Koreans have traditionally fished in the South Atlantic, before the present management regime was established.

They also have the necessary expertise in this particular fishery which has enabled them to overcome market fluctuations rather better than some of their European counterparts.

Prices for *Illex* squid dropped well below anticipated levels this season causing some companies to question their participation in an industry so far removed from home and quite outside their experience.

But the future of the Falklands as a fishery resource is secure as far as finfish is con-

cerned — "We believe that we are in a good position to properly regulate the effort on these relatively stable stocks" said Mr. Cameron."

The state of both the *Illex* and *Loligo* squid stocks is more variable but scientists constantly monitor catches and vessels' logbooks to assess the size of resources.

If stocks don't collapse then the continuation of this international fishery seems assured, with its mixed bag of participants working alongside each other in relative harmony. Licence infringements have occurred but not on the scale predicted in 1986.

Spaniards apply for as many licences, probably more, than other Europeans, and are keener to get on with the business of fishing than become embroiled in political chicanery.

How the Falklands live with their neighbours is of course essential to the future health of the fishery but Islanders reaping the benefit of their valuable resource won't want to jeopardise this new found wealth if they can help it.

his institution for the poverty in the world," United Press International reported from West Berlin.

The final day of the annual meeting of the IMF and the World Bank was marred for by street protests, the fifth night of such demonstrations. Riot police clashed with about 1,000 demonstrators, detaining 131 in violent scuffles that lasted until the early hours of the morning.

Demonstrators broke windows in banks and shops and set two cars on fire to protest the policies of the IMF and World Bank, which they claim institutionalize poverty in the Third World.

"I do not believe they should blame us that poverty exists in the world," Mr. Conable told reporters.

He also said that commercial banks, who hold 70 percent of the debt of middle-income countries, have been too tough on Colombia, which he said is doing a good job in restructuring its economy.

On the other hand, he ruled out any further aid to Peru until it pays back the money it owes two lending organizations. Peru announced Wednesday it had resumed talks with the IMF on resolving the problem of its \$15 billion external debt.

Mr. Conable said there was no conflict between the World Bank and the IMF over the bank's surprise \$1.25 billion lending package for Argentina.

■ **Conable Defends Bank**

Mr. Conable, the head of the World Bank, said Thursday that "demonstrators should not blame

Banking on a deal

FOR MOST commercial bankers, passing a few idle days in Berlin at the annual IMF/World Bank meetings which ended yesterday, the most disturbing feature was the rift between the Fund and the Bank over Argentina.

If the Bank were to go ahead with its plan to bail the country out before the IMF had agreed changes in economic policy, the

whole power of the Fund to impose such changes would be gravely undermined. Since the commercial bankers really have only the Fund's influence on economic policy as a lever to ensure that they get some of their depositors' money back, the World Bank's go-it-alone policy in effect puts at risk commercial bank money as well.

The policy also attracted the wrath of Nigel Lawson and his US and West German counterparts. Mr Lawson, in particular, thinks the Bank is foolhardy for going ahead before the IMF has a deal in place.

Yesterday, Mr Barber Conable, president of the World Bank was defending his decision to press on. But there were already signs that the Bank is backing down in the face of the protests. Mr Conable made it quite clear yesterday that the first large chunk of money — \$350 million — was not due to Argentina until the end of June. He hinted strongly that it might not be paid over without some progress on the economic reforms that had been promised, and he came near to linking the Bank deal to the progress of the IMF deal.

There was, he said, plenty of time to get the other elements of the package straightened out — and, of course, the main one is that elusive IMF agreement.

World Bank officials were busy stressing to anybody who cared to listen the importance of Argentina making progress with the IMF before January. Meetings with the Fund are due to resume shortly and Argentina is showing willing by trying to catch up a little on its interest arrears to the commercial banks.

Speaking after his final press conference in Berlin, Mr Conable denied that payment of the first instalment in January was directly conditional on a deal with the IMF by then, which would, of course, be something of a climbdown for the bank.

But you can see the way a compromise could be patched up to satisfy the finance ministers. If there is no progress with the IMF, Argentina will have to twiddle its thumbs waiting for its World Bank money, too.

The key to what happens will be whether the finance ministers' opposition to the bank strategy crystallises in either abstentions or "no" votes from Britain, West Germany and the US at next month's meeting of the bank's executive board, when the Argentine deal comes up for formal approval.

Meanwhile the commercial bankers can sleep a little easier... but not much.

Alfonsin admits reforms defeat

Jeremy Morgan in Buenos Aires

ARGENTINA'S government has formally conceded defeat over constitutional reforms proposed by President Raul Alfonsin that would have allowed his successors, if not himself, to seek a second term, while cutting back the powers and period in office of the head of state.

In a letter to the various political parties, the Interior Minister, Mr Enrique Nosiglia, acknowledged that the reform was being shelved because of the rapidly approaching campaign for next year's elections.

The proposals would have cut the presidential term from six to four years and curbed his power by introducing a prime minister to represent the government in Congress. On the other hand it would have allowed presidents to seek reelection, ending a constitutional ban on them having two consecutive terms.

President Alfonsin abandoned any idea of getting the reforms approved and winning himself a second term some time ago, but remained keen on the proposals in order to leave his stamp on history as the man who devised a more stable system of democracy.

But the complicated efforts of Mr Nosiglia to do a deal with the opposition Peronists and other parties turned the issue into a political football, and it became hostage to almost every argument between the govern-

ment and Congress during the last two years.

In fact, leaders of both main parties want the reform, albeit for very different reasons.

The Peronist party president, Mr Antonio Cafiero, who is governor of Buenos Aires province, has nurtured hopes of becoming prime minister in a Peronist government ever since he lost the presidential nomination to Mr Carlos Menem in internal elections last July, and supports the changes. Mr Menem opposes this dilution of the president's powers.

The ruling Radical Party's candidate, Mr Eduardo Angeloz, says the time for constitutional change is not right. He wants the government to run the country better and give the Radicals some chance of winning.

Mr Nosiglia's most recent efforts to forge an agreement with Peronists who support constitutional change included two concessions.

He confirmed the Peronists' claim that neither their supporters nor their labour union allies were responsible for rioting at a rally on September 9. He also says the Radicals should agree to vote for the Peronists in the presidential electoral college, should they trail their rivals at the polls next year.

Mr Angeloz, instead, prefers to seek alliances with other non-Peronist parties, and observers here say this is probably his best chance of confounding the pollsters confidently predicting a Peronist landslide.

IMF to study ways of tackling several key monetary problems

By Philip Stephens and Stephen Fidler in Berlin

AN UPBEAT assessment of prospects for improvements to the international monetary system was delivered by Mr Michel Camdessus, managing director of the International Monetary Fund, in his winding-up speech at the Fund's annual meeting yesterday.

His comments were made as Mr Barber Conable, his counterpart at the World Bank, defended the Bank's decision to extend \$1.25bn (£0.74bn) in loans to Argentina before it has agreed an IMF adjustment programme.

The last day of the Fund and Bank gatherings, which have been marked by massive security and regular battles between police and protest groups, were marked by renewed demonstrations in the centre of Berlin, where some streets were blocked by blazing cars.

In his closing address, Mr Camdessus said he had been struck by the recognition among governments that it was time to look at ways to strengthen the present exchange rate system. There had been a "rising ferment" in favour of addressing a number of key monetary issues.

Mr Camdessus indicated that the Fund intended to examine in detail a number of options raised during the week. These included greater use of economic performance indicators in international policy co-ordination and an enhanced role for the SDR (special drawing rights) in exchange rate management. The Fund would not, however, seek a theoretical blueprint for a new monetary system.

The IMF leader, who earlier in the week was strongly criticised by Britain for suggesting it might need to tighten its fiscal policy, also insisted that the meeting had recognised that governments should not rely solely on interest rates to control their economies. Both fiscal and structural policies should play a more important role.

Mr Camdessus's comments on the debt crisis reflected the determination of most countries to stick with the present "case-by-case" approach. "I do not believe that a lasting solution to this complex problem can come from any other approach," he said.

However, it was similarly imperative that the strategy be

strengthened to enhance growth in developing countries and improve their debt-servicing capacity.

Mr Conable cited broad support for a "pragmatic evolutionary approach" to the debt crisis which should include the provision of new money and the voluntary reduction of debt. However, he said: "Performance by the indebted country is the real key."

The approach only made sense when the country had embarked upon economic adjustment that would lead to growth and an eventual return to the markets.

The Bank's controversial decision to recommend \$1.25bn of loans to Argentina before an IMF economic programme was in place was defended by Mr Conable at a press conference.

He said the Argentine economy was very fragile and was almost on the verge of hyperinflation. Quick action was necessary but the Fund had been consulted in each stage of the process.

"As far as I know, there is no serious problem about it," he said. "We thought it very important for the Argentines to get support."

Press Cuttings

from Broad Street Associates **The Daily Telegraph**

Short shrift from star banker Seipp

THE Starbanker of IMF Week is Walter Seipp of Commerzbank, who—most unconventionally, at these meetings—tells it like it is.

The World Bank's billion dollar care package for Argentina will draw not a pfennig from Commerzbank. Seipp says: "I have no intention of lending money to let the Argentine Cabinet have bigger bank accounts in Switzerland."

The Argentine loan—attacked from various directions as being soft, political, American-inspired, and an unprovoked invasion of the IMF's turf—is seen by its friends and foes as signalling a gentler approach to the debtor countries. Seipp is a foe.

He is also a foe of Alfred Herrhausen, head of Deutsche Bank, who has been using, right out loud, words like "debt forgiveness". A betrayal of every principle of banking, says Seipp.

Press Cuttings

from Broad Street Associates *The Daily Telegraph*

Thatcher's 'green concern' praised by World Bank official

By Daniel Johnson in West Berlin

MRS THATCHER'S speech this week, in which she outlined her vision of a planetary catastrophe, has been welcomed by Mr Kenneth Piddington, a leading World Bank official, at the Berlin Conference of the bank and the International Monetary Fund.

Mr Piddington, director of the bank's Environmental Department, said other conservative Western politicians had begun to disclose similar concerns because they accepted that the environmental issue was not just the domain of "radicals".

Mr Piddington said he had seen a "surge of ecological awareness" in the year since scientists first measured the hole in the ozone layer above the Antarctic and linked the "greenhouse effect", caused by the increase in carbon dioxide, to the destruction of tropical rain forests.

Both American presidential candidates are vying for the ecology vote, and the Berlin conference has heard Chancellor Kohl of West Germany promise major new funding for tropical countries which agree to preserve their rain forests.

Mr Piddington said Mrs Thatcher's speech to the Royal Society on Tuesday was like that of Dr Kohl in Berlin, because "it demonstrates that we are dealing now with facts which can no longer be treated as hypotheses".

However, not all countries welcome the new sense of urgency with which the industrial nations are tackling the environmental destruction of the developing world.

The Group of 24 poorer states issued a statement at the Berlin conference warning the World Bank, and the Western governments which fund it, against the idea of "conditionality" — attaching environmental strings to loans, debt-forgiveness and other aid.

The Piddington approach is to avoid a North-South conflict — "which we cannot possibly afford" — by painstaking case-studies of the dangers in each developing country. The studies would be followed by aid including "green dollars" (to pay for the disposal of toxic waste, for example) in the initial budget.

Mr Piddington believes the World Bank's progress has been "sensational", and points to the warnings against toxic waste dumping in the Third World. He said this was evidence that the World Bank was not turning a blind eye to the sins of the Western governments.

Besides "green dollars" for conservation, Mr Piddington wants to see richer nations paying the real cost of disposing of waste — with cash he jokingly calls "brown dollars".

In reply to a question on whether the "green" concerns of prosperous nations were just selfish "environmental colonialism", he admitted that it was hard to reconcile the legitimate desire of poor nations for higher living standards with the warnings in Mrs Thatcher's speech of "a massive experiment with the system of the planet itself".

He bases his hopes for the future on "the strength of natural systems", which "makes regeneration of damaged resources possible in quite short periods", and the acceleration of the "learning process" now under way.

He is critical of pressure groups such as Friends of the Earth, who held a conference in Berlin on the eve of the monetary meeting.

"The question is: how can economic development be reshaped, reorientated?" he said. He used Mauritius as an example of World Bank environmental efforts that have not slowed growth, and have even helped tourism.

Mr Piddington reiterated Mrs Thatcher's emphasis of the role of science as an environmental early warning system, and restated her point that the imposition of utilitarian requirements on research must be avoided.

"You have to find a way of allowing these incredible scientific enthusiasts to do their own thing," he said.

The "intellectual fascination" of conservation science requires more funds — which the Prime Minister has hinted at — and scientific administrators to mediate between the boffins and the Treasury.

Mr Piddington praised the American lobby system in preference to the World Bank's method of inviting ecologists into the heart of the administrative machine.

"I think the remarkable thing about the United States is the huge strength of the interchange between the executive government, academia and the non-governmental organisations," he said.

"If a bank is interested in doing some green things, then the source of advice needs to be there. In Britain there will be a need for access to the sort of expertise which certainly in Washington is sometimes freely available and sometimes commercially available."

Does Mr Piddington think we will win the race against planetary self-destruction? "In this business you've got to be an optimist," he replied.

Bankers expect interest payment

By Stephen Fidler
in West Berlin

ARGENTINIAN officials have indicated in private meetings with bankers in West Berlin that the country intended to make a "significant" payment of interest to commercial banks in the near future.

Argentina is more than \$1bn in arrears to the banks, dating back to April. US regulators meet next month to assess the standard of bank loans to developing countries.

Bankers said the Argentine Government was also expected to hold meetings with its bank advisory committee in New York early in October.

The payments however will not bring the country completely up to date but should reduce the delay on payments to less than 90 days, a critical period from the point of view of the US regulators.

● World Bank President Barber Conable said Peru's recent efforts to bolster its economy were appropriate and long overdue, AP reports.

Mr Conable said in Berlin that Peruvian officials had held low-level talks about ways in which the country could pay back the money it owed the bank.

Argentina halts constitution reform

By Gary Mead in Buenos Aires

LONG-STANDING plans to reform Argentina's constitution have come to a halt.

Mr Enrique Nosiglia, Interior Minister, in a document circulated to the leaders of the main political parties, said reform was impossible during the run-up to the presidential election in May next year and that the position would be reconsidered after vote.

President Raúl Alfonsín's Radical Party Government has since 1984 sought to alter Argentina's constitution in three crucial directions: to reduce government office from six to four years; to introduce a prime ministerial post alongside that of president, thereby reducing the executive power of the presidency; and to mod-

ify a rule requiring the president to be a member of the Roman Catholic faith.

In the last few weeks President Alfonsín has met with the Peronist presidential candidate, Mr Carlos Menem, and Mr Eduardo Angeloz, the Radical Party candidate, to agree terms for the constitutional changes. However, both have dismissed the plans as low on their list of priorities.

The stumbling block is that both believe they have a reasonable chance of success and see little point in diminishing the executive power of the presidency before they have a chance to take office.

In his declaration to the candidates, Mr Nosiglia, who has also taken charge of the For-

eign Ministry in the absence of Mr Dante Caputo at the United Nations, said he hoped all political parties would draw up documents stating their position on the reform proposals. But it is unlikely that any changes will occur before the next president takes over in December 1989.

In a related issue, the Congress is due to end its ordinary session at the end of September without having approved budgets for either 1987-88 or 1988-89. Last year's budget is almost a year overdue, and that for this year almost two weeks. Important legislation may be considered in an extraordinary session in November.

Such legislation includes not

only national budgets but deals to sell part of state-owned companies, a crucial element of the Government's structural economic reforms.

Agreements to sell 40 per cent of the national airline Aerolíneas Argentinas to Scandinavian Airline Systems (SAS) and the state-owned telephone company Entel to the Spanish telephone corporation Telefonica will not be approved by Congress before November at the earliest. Both Telefonica and SAS have suggested that such delays are discouraging.

Legislative delay and apparently indefinite postponement of constitutional reform are regarded as reflecting the Government's relative impotence during its final days of office.

The art of political packaging

Are politicians market leaders or simply hostage to public opinion? One thing is for sure, few want to be seen as marketing-led

There's a revealing story about the day President Reagan went to church in the middle of an international policy crisis. Newsmen were blocking the church entrance as Reagan arrived, but he agreed to make a statement only when the service was over.

Immediately a well rehearsed plan went into action and the President's private pollsters went to work to gauge the mood of the country. By the time the church service ended, Reagan was fully primed to speak with the authentic voice of America.

Of course, the story may be apocryphal, but it could point the way forward for the UK's increasingly marketing-conscious politicians.

Traditionally in the UK the rank and file has determined policy at party conferences. Right now the annual season is in full swing with the Social and Liberal Democrats

this week, Labour beginning on Monday and the Tories following a week later. But with marketing professionals apparently having a greater say in how the parties behave, many believe conferences have become little more than an exercise in media management.

So could someone like Robert Worcester of MORI — official Labour Party pollster for 18 years — become more important than transport workers' leader Ron Todd and his huge block vote? Worcester, perhaps naturally enough, says not: "I don't believe in management by opinion polls, whether in industry or politics." But he argues equally that market research is essential in a democracy. It reins in the wilder imaginings of politicians and helps them serve the electorate better.

"When Tony Benn, on the basis of several hundred letters said on the Thursday before the Task Force sailed to the Falklands that the British public was opposed, he no doubt believed it," says Worcester. "But the next day in a MORI poll in the *Economist* we were able to show that 78% were in favour."

The parties do make a substantial investment in continuing regular research, but Worcester denies this has increased. David Butler and Dennis Kavanagh* estimate the Tories spent around £100,000 a

year on market research between 1983 and 1987, while Labour were not far behind at around £85,000. Industry sources say that puts them both on a par with a major whisky brand like Bells.

Between them they spent just under £250,000 on research during the last election campaign. Overall, political polling was worth around £4m last year — the same as that commissioned by the tobacco industry — and accounted for about 2% of business, according to the Association of Market Survey Organisations.

The polls are undoubtedly reliable. Since 1970 — when admittedly they got it badly wrong — they have predicted the result of each General Election to within 3%. Meanwhile, new technology has allowed them to give a quicker response to clients. So surely in this case, politicians of any hue would be silly to ignore their help?

Surprisingly, both left and right argue vociferously that they never let pollsters near their policies. Jim Parish, senior campaigns officer at the Labour Party, is typical. "Conference decides policy," he says. "Opinion research doesn't." Even a major policy statement like the Labour party's offering last week in Ireland would not have been put out to research, he says. "The in-

formation is used purely to improve presentation."

But as any politician, PR executive or civil servant knows, it is rarely as simple as that. The essence of politics is precisely that the edges between policy, implementation and presentation blur.

Those who deny that the presentation of a policy has no bearing on its content or future implementation protest too much. What Parish does deny, however, is that negative research has ever caused Labour to drop a policy. "If 99% of people thought an idea was crazy, it wouldn't be our policy in the first place," he says.

Labour's position is particularly ambiguous. While Neil Kinnock strives to modernise the party machinery, the traditional left remains deeply suspicious. This surfaced strongly in February last year — following the Greenwich by-election, a Falkon-sponsored 10-minute radio debate would have outlawed pre-election polls passed its first vote by 116 votes to 103.

Robert Worcester points to the reason for that suspicion. "It's in the nature of polls to point to the centre," he says. And that's probably the reason why the polls find no more favour in the Tory ranks.

Saatchi and Saatchi director of planning and former Tory chief of

staff Michael Dobbs says: "I can't recall a single instance in which we took a policy on board or ditched one because of the polls."

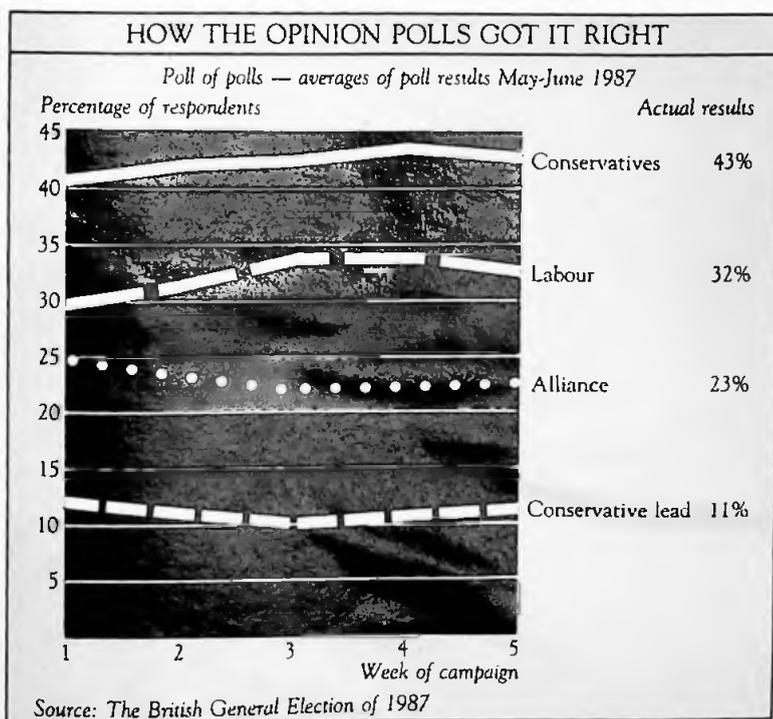
He agrees with Labour's Parish that research does, however, influence presentation. "Like products you can sell policies to different target audiences. But essentially the product remains the same."

The Conservative party takes marketing seriously, he says. "But it is not a marketing-led party. On the contrary, particularly under the Thatcher leadership, the party has pursued policies that initially were not thought popular but rapidly became accepted."

It all depends on your definition of marketing, of course. Ironically for a non-marketing-led party, that is the very approach recommended at the recent Marketing Society/CBI conference, in which traditional, reactive, research-led marketing was slated. To succeed, marketers now have to lead the consumer not follow. Far from being marketing novices, the political parties may have been in the forefront all along.

Steve Redmond

The British General Election of 1987, by David Butler and Dennis Kavanagh. Published by Macmillan Press. Price: £14.95





Thatcher . . . leads a party that has seen initially unpopular policies become rapidly accepted

RENFEATERS

POLLS TAKE CENTRE STAGE IN THE PAPERS		
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Unrest simmers in Argentine military

By Cristina Bonasegna in Buenos Aires

ARGENTINA's highest military court has sentenced 10 air force officers to terms of one to 12 years in jail for staging an uprising earlier this year. Air Commodore Luis Estrella was sentenced to 12 years for leading the take-over of Buenos Aires airport on Jan 18.

His defence lawyer said he was trying to prevent the air force from taking part in the suppression of an army rebellion of middle-ranking officers led by Lt Col Aldo Rico.

The military court's verdict, which is to be appealed before civilian courts, is the first in a series of cases connected with two uprisings by middle-ranking officers in April 1987 and January this year.

The trials are expected to add to tension in Argentina's restive armed forces, which observers believe may reach a peak by the end of the year.

Recent incidents of army indiscipline seem only the symptom of still unresolved crises between the military and the civilian government and between an unruly army and its estranged leadership.

Only a few days ago, Lt Col Rico, who is under arrest pending a court-martial expected to start in December, urged other officers to "jump the fence". This was widely interpreted as an invitation to overthrow the government.

The remark, in a written statement allegedly signed by Lt Col Rico, has drawn attention to long-standing military problems. President Raul Alfonsin still faces little over a year away from completing his six-year term.

Although military men and civilian observers agree that there is virtually no chance of a military coup at present, the word has begun to crop up with unsettling frequency.

No elected government in Argentina in the past 36 years has completed its term, though Señor Alfonsin has repeatedly promised to put an end to the cycle of military intervention.

But his promises — in the wake of Argentina's defeat in the Falklands conflict — to reorganise the obsolete armed forces have not yet materialised.

Tension between the military and the civilian government has been mounting since Señor Alfonsin took over from the military regime five years ago.

He ordered trials of military men for human rights violations



Gen Galtieri: facing trial

during the "dirty war" under the 1976-1983 military regime, and halved the defence budget from four per cent to two per cent of the gross domestic product, a cut made more serious in real terms by rising inflation.

Military opposition to the trials sparked the Easter 1987 military uprising, but was greatly reduced with the passing of the Due Obedience Law, soon after the rebellion. Under the law, more than 300 middle and lower-ranking officers were cleared of charges because they were merely following orders.

But the cases of 17 generals — including Leopoldo Galtieri, the former military ruler — and two admirals will be re-opened before five federal appeals courts next month because the Due Obedience Law did not apply to higher ranks.

Another factor likely to increase tension is the navy's reluctance to carry out an order issued by the president in December 1987 to retire Alfredo Astiz, the naval officer alleged to have tortured a Swedish girl during the "dirty war".

There remains the court-martial of Lt Col Rico, while his sympathisers seem destined for early retirement as the armed forces decide promotions in November.

If still unresolved, these problems will be a heavy burden for whichever government takes over after the general election, possibly in May next year.

Rich debtors

MR LAWSON in Berlin yesterday hit out at moves to make extra cash available to relatively rich debtor countries, like Argentina, Brazil and Mexico, without ensuring that they make an effort first to put their own houses in order.

Foreign posting

FRIENDS of the former Liberal leader, David Steel, are suggesting that he use some of the spare time he has these days to put in for the Commonwealth Secretary-Generalship.

Sir Shridath Ramphal, the present Secretary-General, ends his third term of office in 1990 and a discreet search is under way for a successor, who will be elected by Commonwealth heads of government next year. The front runners are thought to be former Australian Prime Minister, Malcolm Fraser, and Chief Emeka Anyaoku from Nigeria, the deputy Secretary-General, although both fail to meet with Mrs Thatcher's approval.

Steel's qualifications are impeccable, having taken a strong stand against apartheid and a close interest in Africa, where he spent much of his childhood. The Prime Minister, however, is rumoured to be interested in another consensus advocate, David Owen.

Greening of IMF

IF September goes down in domestic history as the month Mrs Thatcher discovered the environment it may also be remembered — in the wake of the joint annual meeting of the IMF and the World Bank — as the moment, six years on, when the world financial community realised that the problem of Third World debt would not evaporate with time. The complacency begat by the fact that no developing country has actually called in a receiver has been shattered by the remorseless chronicle of statistical decline. Instead of rich nations helping those in need there has actually been a net transfer of resources from poorer countries to richer ones of \$30 billion a year since 1982. This is like victims being required to help the Red Cross. Last year the drain of resources went even higher to \$43 billion as impoverished nations were forced to cough up more in interest charges and repayments than they received in new loans. In addition the developed world cut its aid to the poor by over five per cent last year.

If the Third World is to have any chance of paying back even part of its debts it will have to earn money from increased exports. Yet during the past six years exports have been almost static and imports have collapsed by 40 per cent since the turn

of the decade. Most poorer countries have not been able to lay down new investment to improve the "supply side" of their economies. This goes against conventional wisdom that the best way to help developing countries is to orchestrate higher world growth which would boost Third World commodity prices and exports.

It hasn't happened this time because counter-inflation policies have limited the rise of commodity prices, developing countries haven't been able to afford to invest enough and protectionist policies in the West (and Japan) have limited the import access into industrialised countries.

The IMF and the World Bank have not only been turning "green," but have at last woken up to the fact that the poorest nations can't help themselves without different macro-economic policies in the developed world. Mr Barber Conable, the conservative nominated as President of the World Bank by Mr Reagan, warned this week of the "moral outrage" of allowing a billion people not to have even minimally acceptable standards of living. It was not just an outrage, he said, but bad economics.

Change is now at hand. The World Bank has announced a \$1.25 billion loan to Argentina without the onerous economic strings on which the IMF normally insists; Japan has launched another initiative to recycle some of its embarrassing trade surplus to middling debtor countries and the Lawson write-down of African debts has fanned out into a wider recognition of the need to write down at least the unrepayable part of debts in Latin America and elsewhere.

What developing countries really need is not just a partial write-off of yesterday's burdens, but positive measures to propel them back into the mainstream of world growth. That means more aid, not less and substantial new loans. It also entails a greater responsibility on the part of rich countries to dismantle trade barriers which keep out the prod-

ucts of poorer countries. Any short-term increase in unemployment ought to be offset by the extra spending power generated in the producing countries. This could be a mutually rewarding exercise during the early 1990s as demographic trends in the West produce a labour shortage at the younger end of the market.

And in the red corner . . . the big boys tussle over world debt

Peter Rodgers and
Christopher Huhne in Berlin

THE CHANCELLOR yesterday brought the simmering power struggle between the International Monetary Fund and the World Bank into the open.

He made it clear that he was concerned about a \$1.25 billion deal stitched up by the Bank and Argentina last weekend without IMF involvement.

He voiced fears that loans agreed without a parallel IMF programme could be "money down the drain".

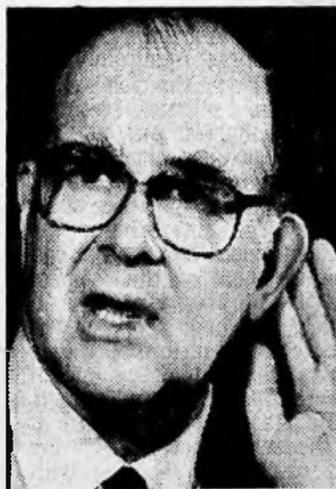
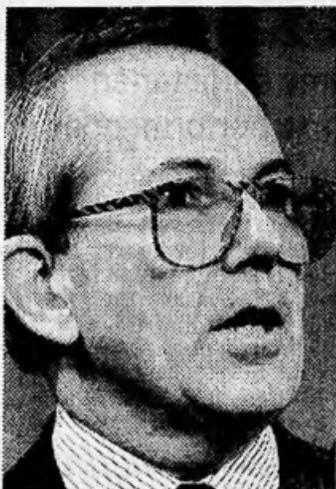
It was the first time that a top finance minister had criticised the rescue package unveiled by the Bank in a joint announcement with Argentine finance minister Mr Juan Sourrouille.

It was also the first time that the World Bank president Mr Barber Conable had agreed in principle to provide large-scale rescue funds for one of the major Latin American debtors without the seal of approval of a previously agreed IMF economic reform programme.

The deal crystallised a growing schizophrenia in both institutions about their proper role in the world economic system of the 1990s.

The hard guy of the duo was traditionally the IMF, but even there stirrings of unease about its role as debt collector in the Third World have begun to surface. The US, West Germany and Britain, the conservative troika which for the moment dominates the IMF, do not like it one bit.

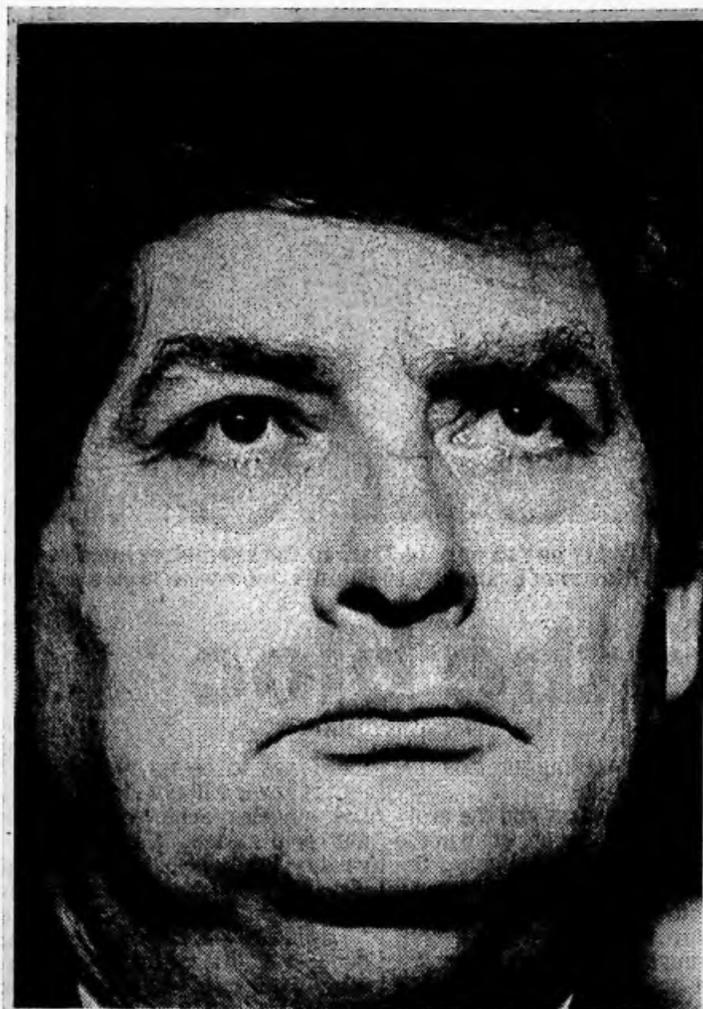
Both the World Bank's higher profile and the Gallic tendency of the IMF's managing director Mr Michel Camdessus to flirt with novel ideas for solving the debt problem have raised their hackles. One monetary official said: "We shall be watching Camdessus carefully."



Camdessus (top left) and Conable

Asked about the roles of the Bank and the Fund, Mr Lawson said in a BBC World Service interview: "I think there are problems there." He hoped that they could be sorted out because it was certainly desirable that the Bank and the fund should co-operate.

He added that the Bank "should not usurp the role of the fund, that is very important", and he stressed the need for the fund to maintain its standards.



Putting their money where his mouth is: Lawson,

There was no point in lending to a country taking no steps to put its own economy in order.

Defining the orthodoxy about the fund, he added that it was very important that it should be in the lead position. "The fund should be arbitrator, it should be the fund's good housekeeping seal of approval that internationally counts."

But the orthodox view is being challenged because of a number of powerful trends.

The IMF was designed as a

revolving fund to cope with short-term economic problems, but the debt crisis has involved vast sums over a long period. At the same time, resistance to IMF economic packages among the debtors has left it as a net recipient of funds from repayments on old loans, not a lender, for the last few years.

Meanwhile, the World Bank, devoted to longer-term development spending based on specific projects, has increasingly filled the vacuum left by the

IMF. Some of its loans and conditions are little different from the Fund's balance of payments support. Now it has actually carried out a rescue.

Most important of all, ambitious proposals for unorthodox solutions to the debt problem were once the preserve of people without any money.

Now they have been taken up by the world's paymasters, the Japanese, the people mainly responsible for funding the huge US trade deficit. Though the Japanese have been having second thoughts about the details of finance minister Kiichi Miyazawa's plan for Latin America launched at the Toronto summit, they are unlikely to drop the search for unsettlingly new ideas.

Meanwhile, the only common ground in the disputes is that the Bank has to take a bigger role because the IMF is not designed to deal with long-term problems.

A year ago, the Bank knew that the annual meeting was likely to face vigorous demonstrations and it devised a nine-month programme of visits by officials to brief Germans on its programmes and isolate the sensible campaigners from what one Bank official called the "crazies".

He said that the riots and protest meetings had not influenced the Bank during the meeting. But the programme of visits had done so.

The combination of the Bank's expertise at the project level and its growing involvement in debtor nations' economic policy is a formidable challenge to the IMF. If the IMF cannot make its good housekeeping seal mandatory once more, with the backing of Mr Lawson, what role does it have left? As for the Bank, its greatest risk, now that it has taken the initiative, is that it will be let down by Argentina.

Talks on \$1bn interest

ARGENTINA is considering paying some of its \$1bn of interest ahead of next month's negotiations on a new loan package with banks, according to banking sources in Berlin.

In talks this week commercial banks have been pressing Argentina to resume payments before talks begin. The development comes against a background of continuing controversy over the World Bank's decision to go ahead with new loans for Argentine without waiting for the IMF to finalise its negotiations.

Yesterday Nigel Lawson, the Chancellor, attacked the World Bank. "It should not usurp the role of the Fund. It is very important that the Fund should be in the lead position," he told the BBC World Service.

Echoing similar disquiet expressed by other finance ministers in Berlin that the World Bank could undermine the IMF, Mr Lawson said it was very important the IMF kept up its standards. "There is absolutely no point in simply lending money if the country concerned is not taking the steps to put its own economy in order. If it isn't doing that it is just going to be money down the drain."

According to commercial bankers Argentina is now keen to start negotiating with the banks in the first two weeks of October in the hope of wrapping up a deal before elections next year. However bankers insist they will not lend new money without the backing of an IMF programme.

Rebels jailed

Buenos Aires (AP) — Argentina's highest military court handed out sentences as long as 12 years in prison to nine Air Force dissidents who briefly took over an airport in the capital in January.

Lawson attack on 'money down the drain' loan aid

From Bailey Morris, West Berlin

Lending money to debtor nations which do not put their economies in order was "just like throwing money down the drain," Mr Nigel Lawson, the Chancellor, said yesterday.

He made the comment in an interview with the BBC in Berlin in which he also said that the International Monetary Fund's "good housekeeping seal of approval" was necessary to keep the debtor nations on the right track.

In his final press conference before leaving the annual meetings of the IMF and the World Bank, Mr Lawson said the fund should be the lead agency in negotiating economic restructuring programmes with debtor nations, and that it should take a very strong approach.

A proposed \$1.25 billion (£744 million) loan programme for Argentina is the catalyst for a spirited argument over which agency should take precedence in writing the economic prescriptions which will allow nations to grow out of their debt and qualify for new loans.

He said that although the World Bank had a role to play in resolving the protracted problems of middle income debtors, there was still no substitute for an IMF economic programme.

The loan for Argentina marks the first time the World Bank has taken the lead in negotiating a financing package tied to macroeconomic reforms that some of the big donor nations fear would be less stringent than the IMF's



BERLIN

demands. The row over Argentina heightened the debate at the meetings over whether the industrialized nations are on the right course to resolve the debt crisis.

There are concerns that M Michel Camdessus, the IMF managing director, has ceded too much power to the Bank in dealing with middle-income debtor nations, and is trying to get it back, by proposing an IMF broader role.

Japan's new debt initiative drew a mixed response. Details of the plan, which envisions the securitization of some of the debt and the creation of reserve accounts funded by the debtor nations but held in trust by the IMF, are hazy.

Mr Lawson said he found the plan "a little bit elusive" but would welcome it if it fitted into the framework of the current debt strategy. The plan would not be welcome if it involved a transfer of risk from private to public sector.

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Case-by-case approach supplants grand schemes

SIX YEARS into the debt crisis, debt fatigue is well established. But it only took six days of events surrounding the IMF and World Bank annual meetings in Berlin for debt-initiative fatigue to start setting in.

Despite this and even in the middle of the deluge of words produced during such meetings, some important messages are emerging.

While differences persist over the question of whether developing country debts should be forgiven - implying that debts are simply written off and the creditors get nothing in return - there has been almost no mention, inside the huge International Conference Centre at least, of the grand solutions that dominated the early debate.

Furthermore, there are few detractors from the view that debt relief in some form - either through forgiveness or through the many market-oriented voluntary forms of lowering a country's foreign debt burden that bankers call collectively debt reduction - must play a significant role if the debt problem is ever to be resolved. There is, then, broad consensus that a case-by-case approach remains the appropriate way to tackle the problem.

This indeed formed part of the proposal from Mr Gustavo Petricoli, the Mexican Finance Minister for a Berlin Pact to help Latin American debtors. Speaking on behalf of the Latin American governors of the fund, he said the aim of the pact would be to "reconcile debt reduction and new flows of development financing."

The 10-point pact would include adjustment programmes which explicitly promote growth and World Bank

Stephen Fidler reports on the onset of debt-initiative fatigue after six years of crisis

loans to offset principal and interest paid by developing countries. It also called for financial authorities in the industrial countries to remove impediments to debt reduction operations, and suggested industrial countries or the international institutions could provide guarantees to help countries buy their debts at a discount.

The attempts by Peru to return to more normal relations with its international creditors have caused a stir, although the enormity of the task and political realities inside Peru means there is widespread scepticism about the whether the attempt will succeed.

Of course, the move is viewed as reflecting the failure of the confrontational approach to the debt problem. The arguments were well run over in the case of Brazil, which last week declared a formal end to the debt moratorium launched in February 1987.

That moratorium is now viewed by the Brazilian government as an error, and bank economists estimate that it cost the country between \$1½bn and \$2bn.

This happened in five ways, they say. Brazil lost income on its reserves because it had to move them to the Bank for International Settlements in Basle so they could not be

seized. Brazilian banks overseas became illiquid and the country lost trade credit lines and maturities were shortened by banks to seven days or less - virtually useless for trade. Official credits were lost, capital flight increased and as a result reserves fell.

Colombia must find it tough these days to justify being one of only two Latin American countries that has never rescheduled. It has been having a hard time persuading banks that they should help it avoid its first rescheduling, since some bankers would apparently rather deal with the country as a rescheduler. Colombia is looking for a refinancing loan of \$1.85bn over 1988 and 1989, a relatively small amount for each of its bank lenders.

Banks think it could get away with \$1.5bn and there the situation stands. Although it must be said that the country could improve on its tactics - offering banks more options instead of a bread-and-butter loan - its position is symbolic. What, it must be asked, is the much vaunted advantage of aspiring to the voluntary market?

As the Philippines' bankers prepare for their meetings on the country's requests for new money, the Argentina debate rolls on. In meetings here bankers said they have learned nothing more specific about that country's needs. However, they are advising the Argentines that come October, when the joint committee of bank regulators meets in the US, there had better be some progress on the country's arrears, totalling more than \$1bn. A downgrading of these loans to at least substandard is in prospect.

Sea becomes an icy Klondike

Falklands nears end of reliance on British cash

By Andrew McEwen, Diplomatic Correspondent

Making their way through the lobby of one of London's smarter hotels yesterday, two senior Falkland Islands officials spotted a familiar figure half hidden behind a newspaper. Later, in the restaurant, they noticed more familiar faces behind menus.

The wary expressions worn by the officials told half the story: what should have been a mundane exercise in selling licences to fish around the Falklands has developed into a maritime Klondike, with 150 international fishing companies expected to make bids for three times as many licences as the islanders dare to sell, for fear of over-fishing.

By tonight the talks will be over, and the Falklands Government will begin choosing the winners and losers. A huge increase in licence revenue is expected, bringing the islands close to self-sufficiency except in defence.

The wealth of the Falklands' seas, which have been dotted with icebergs during the southern winter, is turning a once-forgotten colony of sheep farmers into the new

rich of the South Atlantic. The Falklands Government, which had a total revenue of £6 million in 1985/86, will this year earn nearly six times as much — almost £18,000 for each of the 1,919 inhabitants counted in the 1986 census.

About half of the revenue will be spent in Britain, going on contracts for road repairs, water works, a new telephone system, a secondary school, new houses and a British-run fisheries management scheme.

At the same time, the islanders are weaning themselves away from British aid. When the last tranche of the £31 million promised after the 1982 war has been used, the islanders hope to avoid asking for more. The aim is to be self-dependent within 18 months, but political independence is still mentioned only as a joke.

A nation the size of Northern Ireland, and populated by fewer than 800 people if Port Stanley is excluded, will remain dependent on defence by

Fishing links with Buenos Aires

Indirect contacts between Britain and Buenos Aires on fishing in the waters between the Falkland Islands and Argentina are still underway, it was disclosed yesterday. The contacts, which started in January 1987, deal with ways of avoiding military incidents over disputed zones and with conservation of stocks.

Sir Geoffrey Howe, the Foreign Secretary, said yesterday: "The right of the Falkland Islanders to self-determination cannot be compromised, but my country will continue energetically to seek ways of restoring more normal relations with Argentina."

Britain for the foreseeable future. Last year, the garrison cost British taxpayer £234 million while a gradual write-down of the costs of the war accounted for a further £168 million.

"Sometimes I think they lie in wait to jump out and offer us money," Mr Alastair Cameron, the Falklands official all the fishing "fat cats" want to impress, remarked over breakfast. It was a jest, but one which revealed the pressures of success.

The canny islanders are having to develop the scepticism of an unmarried heiress. Fishermen, like farmers, are always pleading poverty, and their arguments sound plausible. Although there were huge catches of illex squid this year, the world price fell through the floor. At the same time, catches of the even more valuable lolligo squid were exceptionally poor.

But Mr John Cheek, a fifth-generation islander and a prominent councillor, pointed out that if things were that bad, there would not be such a clamour for licences.

There has even been a veiled attempt at an ecological takeover. An organization called *Europêche*, representing the fishing interests of the Common Market, resolved that Europe should have priority for licences. It got short shrift. The only priority is reserved for the British, and even they have to be handled with caution.

It has taken the the Falklanders a little more than a year to discover that British-inspired arrangements hastily set up in 1987 were, as Mr Cameron put it, "not necessarily in the islanders' best interests". A less diplomatic person might have said that the islanders were ripped off.

The problems arose from a scheme under which licence fees were kept fairly low, but the licencees had to pay an equal sum into one of many joint-venture companies, each 51 per cent owned by a Falklands government company and 49 per cent by foreign companies.

This was meant to give the islands a stake in their own industry, but much of the money was spent in Britain on buying second-hand trawlers, converting them, and paying British crews to man them. That 51 per cent stake remains paper money, because the companies are not yet big earners. One, indeed, is now in liquidation, leaving the Falkland Islands Government to repay a £2-million unsecured loan.

The indignant islanders have stopped the joint-venture payments from the end of this year, and have made the vital licences much more expensive. The effect of this will be to boost the budget from £27.1 million in 1987/88 to £34.5 million in 1988/89.

Lawson warns on World Bank role

By Stephen Fidler in West Berlin

MR NIGEL LAWSON, the Chancellor of the Exchequer, yesterday expressed British opposition to any attempts by the World Bank to take the role of the leading institution dealing with the debt crisis.

The World Bank had a role to play in dealing with the problems of middle-income debtor-countries, but it should not usurp the role of the International Monetary Fund, he told the BBC World Service.



He acknowledged problems surrounding the decision of the World Bank's executive, announced earlier this week, to recommend the go-ahead for \$1.25bn in loans to Argentina, before an IMF economic programme was in place. However, he was confident these problems could be sorted out.

He stressed that the standards of IMF economic conditions should be maintained and that it should be the Fund which sets the conditions on which other creditors depended to join financings.

"It's very important that the Fund should be in the lead position, that the Fund should be the arbiter. It should be the Fund's good-housekeeping seal of approval that, internationally, counts," he said.

The World Bank move has unleashed controversy in Berlin because of the suggestion that it has been pushed into the leading role in the Argentine case by the US Administration, against IMF staff opposition. There is also a worry that macro-economic targets set by the World Bank in its accord with Argentina will weaken IMF conditionality.

Traditionally, the World Bank has fallen in with other creditors behind IMF developing country programmes.

Air force rebel jailed for 12 years

By Gary Mead

COMMODORE Luis Estrella, who in January this year staged an attempted rebellion at the civilian domestic airport in Buenos Aires, has been sentenced by the Armed Forces' supreme council to 12 years' imprisonment and stripped of his rank. Eight other air force officers were jailed for up to eight years for their part in the incident.

Ex-Commodore Estrella's

abortive uprising coincided with the second rebellion by army units under the lead of ex-Lieutenant Colonel Aldo Rico, who is now under detention awaiting trial. Lt Col Rico rallied to himself troops protesting against the continuation of trials of army officers for alleged abuses of human rights. He is expected to receive up to 15 years' jail for the mutinies; Government offi-

cial have recently stated that his trial will be before the end of this year.

However, a fresh twist was yesterday given to the Rico case, with the resignation of retired Colonel Luis Premoli and other military lawyers from their functions as legal representatives for Rico and others awaiting trial. They argue there is no chance of an impartial hearing for Rico.

Argentine industrialists hit back

By Gary Mead in Buenos Aires

MR Juan Ciminari, Argentina's Minister for Foreign Trade and Industry, has been attacked by the Argentine Industrial Union (UIA) as part of a battle developing between the Government and Argentina's manufacturers.

The UIA, which gave cautious backing to the Government's new economic measures at the beginning of August, called remarks of Mr Ciminari "offensive, injurious and alarming". Earlier this

week Mr Ciminari described Argentine industrialists as "true courtesans" who overcharge for their products. The UIA added that Mr Ciminari "had never visited an Argentine factory during his term of office".

The row is in context of recent government moves to open up the economy to imports by removing more than 2,000 goods from a list of previously prohibited products. This was one condition

imposed by the World Bank as part of a deal to lend \$1.2bn.

Heavily-protected Argentine industry sees the move as a threat to the survival of small and medium-scale manufacturers, who are dependent on producing for the domestic market. They also point to an over-valued local currency presently favouring imports. Discord between the Government and the UIA threatens the already fragile agreement to hold prices down.



Bankers dancing to a new Latin tune

BANKERS will sleep more easily after this International Monetary Fund meeting.

They can at last see a clear prospect of whittling down the £700 billion world debt mountain, of which £200 billion worth of loans are at risk, mainly in Latin America.

Governments may do their part with aid and debt reduction packages.

But the banks are excited about the exploding market in Latin American debt swaps which enable them to switch from doubtful debts into stakes in Brazilian coffee plantations, Mexican hotels, Chilean copper mines and Argentine beef herds.

They are forecasting that this market, which was worth £2 billion in 1984, will soar to £15 billion in 1988 and £24 billion next year thanks to new interest by IMF officials and debtor governments in Berlin this week.

Brazil and Mexico, which account for nearly half of all Latin debts, are already active in this market and other Third World debtors like Chile and the Philippines are dabbling in it.

Bankers predict a boom in both the volume and nature of debt swaps over the next few years with deals involving South American exports like oil and construction work coming in to play and "swaps for nature" deals involving rain forest projects.

In the 1970s the banks loaned money almost without ties in their haste to re-cycle the petro-billions.

In the 1980s they have been counting the cost.

In the 1990s they believe they will enjoy the payback because the new deals are secured on assets and shares.

If investors can be wooed to the idea of the big four High Street banks owning shares in

commercial companies as the German banks and the British merchant banks have done for years, the new swap deals could work wonders for their shares which offer dividend deals of nearly 7 per cent and sell for only five years' earnings.

And if the big Latin countries can lay off big chunks of their debt and return to past growth patterns, it could do wonders for world trade.

Tories 'going for the green vote'

Thatcher takes on challenge of environment

By Philip Johnston, Charles Clover, George Jones and Nigel Reynolds

THE PRIME MINISTER gave a warning before an audience of distinguished scientists last night that mankind may have "unwittingly begun a massive experiment with the system of this planet itself". She described the protection of the environment and the balance of nature as "one of the great challenges of the late 20th Century".

Mrs Thatcher said at the annual dinner of the Royal Society, of which she is a fellow, that governments faced a huge task in considering the implications of climatic and atmospheric changes, now causing growing concern among scientists.

But she declared: "Stable prosperity can be achieved throughout the world provided the environment is nurtured and safeguarded."

The speech, the first by a British Prime Minister on the danger to the global environment, places climatic change at the top of the world-wide political agenda.

Its recognition of the importance of the gradual warming of the global climate, known as the "greenhouse effect", has enormous implications for domestic and foreign policy.

Domestically, Opposition parties will suspect the Prime Minister is moving in on the "green" vote, which many MPs believe is becoming increasingly significant.

The Social and Liberal Democrats decided at their conference yesterday to go all out for the "green" vote. They signalled their determination to push environmental issues, including phasing out nuclear power, to the top of the political agenda.

Mrs Thatcher, who was a research chemist, said: "For generations we have assumed that the efforts of mankind would leave the fundamental equilibrium of the world's systems and atmosphere stable."

"But it is possible that, with all those enormous changes—population, agricultural, use of fossil fuels—concentrated into such a short period of time, we have unwittingly begun a massive experiment with the system of the planet itself."

She doubted whether the implications of the hole in the ozone layer over Antarctica and its links with the "greenhouse effect" had been fully appreciated.

Britain last year supported an international agreement to halve world consumption of chlorofluorocarbons, which are blamed

for creating a global heat trap, but Mrs Thatcher said this may be insufficient to limit ozone depletion.

She said the likely effects of environmental change "needs to be considered in more detail within precise time scales".

She added: "We need to consider the wider implications for policy—for energy production, for fuel efficiency and for reforestation."

"This is no small task, for the annual increase in atmospheric carbon dioxide alone is of the order of three billion tons. And half the carbon emitted since the Industrial Revolution remains in the atmosphere."

Mrs Thatcher defended the Government's insistence that research funds should be carefully managed. Earlier this year,

there were complaints from scientists that the science budget, which now totals £1,404 million, had not been increased enough.

A £40 million increase is planned for the next financial year, and Mrs Thatcher insisted: "No nation has unlimited funds and it will have even less if it wastes them. A commitment to basic science cannot mean a blank cheque for everyone with a bee in his bonnet."

But the cost of anti-pollution measures, such as reducing the level of power station sulphur emissions which cause acid rain, was money well spent "because the health of the economy and of our environment are totally dependent upon each other".

Mrs Thatcher said it was necessary to guard against two dangerous fallacies. "First that research should be driven wholly by utilitarian considerations and, second, that excellence in science cannot be attained if work is undertaken for economic or other useful purposes."

Both industry and scientists had a responsibility to recognise the practical value of the ideas which were being developed.

Leading environmental figures warmly welcomed the speech.

Lord Nathan, the longest serving member of the Royal Commission on Environmental Pollution, said: "It is enormously important because the equilibrium of the environment is fundamental to our continued existence and she has made a speech making clear that she understands that now."

He expected the speech, which disclosed a big change in Mrs Thatcher's thinking, to be influential throughout the world.

Mr Tom Burke, director of the Green Alliance and adviser to the SLD on environmental matters, said: "The speech is an enormously interesting development. The importance of the greenhouse effect is at last getting through to world leaders."

"Both Bush and Dukakis have made it an issue in the American presidential campaign and Mr Bush has promised to host a global conference on environmental matters."

Mr Paddy Ashdown, SLD leader, it is understood, has written a speech to be delivered today, dealing with the global environment.

Mr Jonathon Porritt, director of Friends of the Earth, said of Mrs Thatcher's comments on the world climate: "Blimey. I'm amazed. I think of clichés about the road to Damascus, but it's of that scale."

"This speech is impressive, a milestone for the environment. It is important that she is concentrating on climate change because it implies wide-ranging policy changes."

The Environmental pressure group Greenpeace said, however, that Mrs Thatcher's statements meant nothing when the Government had cut the budgets of the Natural Environment Research Council and consistently held back measures in the European Community to combat environmental damage.

Press Cuttings

from Broad Street Associates

FINANCIAL TIMES 28 SEP 1988

Latin America debt

In a report yesterday, "Latin America move on debt", it was stated that ministers from Argentina, Brazil, Venezuela and Colombia met to discuss a plan to reduce the debts owed by countries in the region to each other. The report should have referred to ministers from Argentina, Brazil, Venezuela and Mexico.

**Alfonsín comes
under attack
from Peronist**

By Gary Mead

MR CARLOS MENEM, Peronist Party presidential candidate, has criticised President Raúl Alfonsín for having publicly condemned Peronism as "corporatist" and a threat to Argentina's democracy.

Mr Menem said he found it "painful" that the "President of all the Argentines has changed into the campaign chief for one of the parties" involved in next May's presidential election.

Mr Menem, governor of La Rioja province, accused the Government of having planned a riot in Buenos Aires on September 9 and suggested that Argentine embassies abroad had received doctored video tapes of the incidents, as part of an anti-Peronist smear campaign.

Garcia slams on the brakes

Fierce austerity threatens chaos in Peru, reports Robert Graham

THE LOOKS on the faces of people in shops and markets in Lima tell all: sheer incredulity. Brutally steep price rises have converted even the most basic purchase into an agonising sacrifice.

Since the government of President Alan Garcia introduced an austerity package on September 6, the cost of household essentials has almost tripled. One recent opinion poll showed 61 per cent could no longer meet their weekly outgoings. A kilo of rice, one of the staples in the Peruvian diet, has gone up from 25 intis to 60 intis.

"In these circumstances you would expect a rash of spontaneous protests; but people seem too stunned to react," says Mr Enrique Zilieri, editor of the weekly magazine, *Caretas*. Looting of stores has occurred both in Lima and in provincial towns, but the scale of violence has been less than might have been expected from the explosive potential in Peru today.

Peru is moving into perilously uncharted waters. President Garcia is trying to control an inflationary spiral and stem the tide of recession when the country's reserves are exhausted and when its relations with the international financial community are at an all time low. Arrears to the International Monetary Fund stand at \$560m, the World Bank is owed \$374m, while total unpaid foreign debts will reach \$6bn at year-end, half the country's total foreign debt when President Garcia took office in July 1985.

The situation is compounded by the unstable and increasingly depressive personality of a president who has seen a vertiginous decline in his popularity and credibility. This month's economic package, the third adjustment this year, is the complete antithesis of everything that "Alan" has stood for. Until now he has presented himself as a radical nationalist championing the poor and the underprivileged. His popularity was based on conceding higher wages, increased subsidies and stimulating a domestic boom through non-payment of foreign debts. The new austerity



Alan Garcia: reversing everything he has stood for

heralds sharp recession with unemployment, cuts in subsidies and a reduction in purchasing power which will probably wipe out the gains in growth achieved under his presidency.

President Garcia cannot deflect blame. Lima is rife with rumours of his threats to resign and of a military intervention. Such rumours are symptomatic of President Garcia's isolation, and of the military's frustration at seeing the country slide towards poverty and ungovernability.

In the wake of the austerity package, Mr Daniel Carbonetto, his closest and most influential advisor, resigned. Mr Carbonetto, an Argentine

citizen who has been running the President's powerful kitchen cabinet, was forced out by a combination of pressure from within the ruling Apra party and from the military who regarded him as exercising undue influence.

The military and elements within Apra, headed by Mr Armando Villanueva, the Prime Minister since June, have asserted themselves though not necessarily in concert. Mr Villanueva, a veteran party politician with long-standing links to Mr Garcia's family, has begun to inject a note of pragmatism. The military meanwhile has

warned Apra to heal sharp internal divisions which have been playing into the hands of the communist-backed opposition coalition, Izquierda Unida.

With Peru now facing serious recession (some suggest an 8-10 per cent fall in GDP within the next nine months) fears for social unrest are well-founded. Increased poverty, even without political instability, provides a fertile breeding ground for the fanatical maoist guerrilla movement, Sendero Luminoso (Shining Path). The latter has been steadily extending its influence from the remote Andean uplands across the country and to Lima, where over 40 per cent of the population now live. Despite successes by the security forces, Sendero has penetrated student organisations, the police and the shanty towns.

"We are looking over the edge into the abyss and no one likes what they see," commented a leading businessman. Precisely because the future of democracy is at stake and the economy is so debilitated, there is a sense among businessmen, politicians, and even the military, of rallying to avoid the worst. The military, according to insiders, recognise that overt intervention could create more problems than it purported to solve.

The basic aim behind the austerity package is sound - to reduce the fiscal deficit (over 10 per cent excluding debt arrears), boost exports and curb inflation, running in August at 23 per cent a month. However, the details look as though they have been worked out on the back of an envelope. So many have deserted the economic team that no matter how well intentioned Mr Abel Salinas, the new finance minister, might be, he lacks the experience and has little back-up.

Some of the worst distortions in the exchange rate that encouraged corruption and contraband have been removed. However, the official rate of 250 intis to the dollar is way out of line with the street rate of 380-400. On policy itself, after less than two weeks, the government backtracked over prices. It has lifted the 120-day price freeze, since this merely encouraged companies to jack

up prices as much as possible in advance of the freeze.

Within the next month the impact of higher prices, more expensive credit, an inadequate exchange policy and falling demand will seriously hit company cash flows. Demand has already fallen over 40 per cent since the package was introduced. This might put the trade balance into marginal surplus but it is hard to see exports picking up unless business confidence improves and investment funds can be found from somewhere.

President Garcia alienated local business last year by his bungled handling of the nationalisation of the banks. Foreign investors for their part have the example of Royal Dutch Shell as a warning. Talks were broken off at the end of August on the \$1.3bn development of a rich gas find. The Shell project, the largest foreign investment in prospect, is now in doubt.

Business confidence is only likely to be restored when Peru begins to mend its fences with the international financial community. Despite sending Mr Salinas to the IMF meeting in Berlin, President Garcia remains emotionally opposed to dealing with the Fund, which he has cast as the Great Satan. Circumstances may force him to change his mind.

Argentine industrialists in fight to keep import curbs

By Gary Mead in Buenos Aires

LEADERS of Argentine industry have condemned the Government's plan to remove import duties on more than 2,000 products, claiming they need protection from foreign competition.

One of the conditions of Argentina's recent agreement with the World Bank for a \$1.2bn loan is the removal of import barriers. Since 1982 Argentina has operated a list (called Anexo II) of almost 4,000 goods requiring authorisation before they can be imported. Local industry has had sufficient lobbying power to exclude virtually any of the goods on the list.

In August, when the Government launched new economic measures to control inflation and stabilise the economy, it

also promised to slash import barriers by halving the list of products from Anexo II and cutting duties on products remaining on the list. Originally that move was scheduled for the end of September but under pressure from Argentine manufacturers it has been postponed a month.

Two leading industrial organisations, the General Economic Confederation (CGE) and the General Industrial Confederation (CGI) have now called on President Raúl Alfonsín to grant exceptions, which in effect would continue to bar as yet unspecified industrial products from easily entering the country. Mr Juan Ciminari, Foreign Trade and Industry Secretary, said their suggestions would be noted.

Stephen Fidler on developing countries' debt

Third phase of crisis approaches

THE SIX years since the world debt crisis erupted are conventionally divided into two phases; the dividing line marked by the 1985 initiative launched by James Baker, the US Treasury Secretary, at the International Monetary Fund meeting in Seoul.

Before 1985, the health of the industrial world's banking system was seen as the prime concern. The measures introduced with the collaboration of most debtor countries were designed to shore up the tottering edifice of the banking system and usually entailed severe IMF-inspired austerity measures in the countries themselves.

The strategy outlined by Baker recognised that the debt crisis was not a short-term phenomenon and that, because its solution would take years to resolve, the prospect could not be envisaged of long-term austerity in the debtor countries. Salvation from the debt crisis should come through growth.

The IMF would be there to encourage the correct economic policies, which would be supported by flows of new funds from the multinational financial organisations and the commercial banks.

Three years after Baker, it is clear that his approach has brought the international financial system to the point where, although not immune from disaster, it has been significantly fortified. It is also abundantly clear that the scale of funding envisaged from the developed world has not been forthcoming. Indeed, the devel-

oping countries have been returning capital to the industrial world to a degree which many observers believe is untenable, particularly given the explosiveness of debt as a political issue in many debtor countries.

These two critical elements are behind expectations that the third phase of the debt crisis may be around the corner.

What will help to shape it are the large provisions made by US and other banks last year to cushion them against possible loan losses. These provisions may be the most significant legacy of the Brazilian debt moratorium declared in February 1987, and subsequently abandoned as the Brazilians returned towards a co-operative approach with the banks and the IMF.

The banks have objected to the view that provisions make debt forgiveness – defined as across-the-board debt relief – more likely. However, it has opened up the field for voluntary debt reductions, under which debtor countries can obtain significant benefits from

the discounts available on their loans in the fast-growing secondary market.

Some bankers like to characterise the debt reduction schemes – debt-for-equity swaps, debt-for-bonds swaps and the like – as merely an addition to the growing “menu of options” that have become available to countries seeking new finance or to reschedule their obligations. Nevertheless, the voluntary recognition of losses by banks on significant amounts of loans has pushed this range of options into another dimension.

Two years ago, the young market in debt-to-equity swaps was viewed as only a peripheral issue to the debt crisis, its relevance limited to nibbling away at the edges of the problem. Now bankers are saying that debt reduction should be central to its resolution, along with other elements, including the continued provision of new money.

Brazil's advisory committee, for example, believes that by the end of 1993, debt reduction could lead to a fall in Brazil's

Developing Countries: Medium- and Long-term Debt and Debt Service (\$bn)									
	All developing countries			Highly indebted countries ¹			Sub-Saharan Africa		
	1980-85	1986	1987 ²	1980-85	1986	1987 ²	1980-85	1986	1987 ²
Debt	604.2	884.9	886.0	299.7	420.8	440.6	58.3	89.6	100.3
Official	324.0	357.4	353.0	83.1	98.3	102.9	34.0	59.0	65.9
Private	280.2	527.5	533.0	216.6	322.5	337.7	24.3	30.6	34.4
Debt as % of GNP	29.3	41.2	38.5	36.9	55.2	56.9	34.8	61.6	79.0
Debt service ³	94.0	116.9	123.4	50.3	48.7	46.7	6.5	7.1	7.1
Interest	46.3	55.6	56.0	28.4	30.0	28.1	2.8	2.8	3.1
Official	8.7	15.3	17.0	3.0	5.5	6.5	0.8	1.4	1.6
Private	37.6	40.3	39.0	25.4	24.5	21.6	2.0	1.4	1.5
Amortisation	47.7	61.3	67.4	21.9	18.7	18.6	3.7	4.3	4.0
Official	10.3	18.0	21.0	3.8	6.6	7.0	0.9	1.6	1.5
Private	37.4	43.3	45.8	18.1	12.1	11.6	2.8	2.7	2.5
Debt service as % of exports of goods and services	15.6	25.2	23.8	32.9	37.6	31.9	15.7	22.0	21.5

NOTE: Covers public and publicly guaranteed and nonguaranteed private debt for the 109 countries in the World Bank's Debt Reporting System.

1. Includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ivory Coast, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia; 2. Preliminary (end June 1988 data); 3. Cash basis, that is, actual payments.

Source: The World Bank

debt from \$66bn at the start of this year to \$47bn by the end of 1993.

This is not motivated, of course, by a new sense of international responsibility among commercial banks, but by a change in their perception of self-interest brought about by the provisioning of 1987.

Nevertheless, it still remains to be seen whether the scale of reduction now taking place in some banks' portfolios is compatible with the continued provision of new money.

However, the so-called menu of options is increasing the ways in which banks may contribute new money. Links of new loans with World Bank financings, for instance, mean that banks in some countries do not have to provision on the new money to the same extent they have on the old. New money lenders can now get enhanced rights for swaps into equity or bonds, or lend new funds as trade financings or "on-lend" to borrowers within the country.

Indeed, all of these features were included in the new Bra-

zilian package, and if one is put together for Argentina this year, most bankers believe another option, that of interest capitalisation, will be added - a move for which European banks have been pressing for some time.

Both commercial banks and the multilateral organisations are criticised for not doing enough. For their part, the multilateral organisations are attempting to answer this, although not to everybody's satisfaction. The IMF has introduced an Enhanced Structural Adjustment Facility aimed at lengthening the horizon of IMF programmes, while the World Bank has moved to increase its role in enhancing commercial lending.

Mr Barber Conable, the president of the World Bank, has also said that he believes the Bank can help more on debt reduction schemes, although that process does not seem to have advanced much since he first expressed the view last March.

There are expectations that the next significant government initiative on the crisis may come from Japan.

It proposed in Toronto that the IMF should set up a special account into which indebted countries would deposit resources that would guarantee debt service payments on newly securitised and restructured debt.

The idea has apparently been put on the back burner at least until after the elections in the US, where a new administration could well decide that it was time to address the debt question anew.

Indeed, there is still more the governments of the market economies can do both individually and collectively to ameliorate the debt problem and to improve the prospects for the type of solutions outlined above.

While most of the big debtors still appear to view a co-operative approach as the best way of tackling their debt problems, there are signs that their patience with the process might be running out.

The spectre at the Berlin feast

Martin Wolf examines the predicament of deeply indebted countries and their limited options

Six years from the onset of the "debt crisis", the principal debtors are still running to stand still. Being pretty unfit to start off with, it is little wonder that the best are showing severe fatigue, while the worst are dropping out of the race.

In 1986 and 1987, nine Latin American countries (Brazil, Bolivia, Costa Rica, Dominican Republic, Ecuador, Guyana, Nicaragua, Paraguay and Peru) as well as the Ivory Coast, Nigeria and several smaller African countries accumulated arrears on payment of interest to private creditors.

When the problem first erupted in August 1982 many thought it would involve no more than a temporary interruption of liquidity. Few can still suffer from this illusion. It turned out to be more manageable than expected in the short term, but more severe than feared in the long term.

The adjustment since 1982 has been concentrated on the external accounts of the indebted countries. The World Bank calls 17 countries "highly indebted": Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ivory Coast, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia. Their total outstanding debt at the end of 1987 was \$485bn. They enjoyed an aggregate net inflow of resources of \$65bn between 1978 and 1982, only to suffer a net outflow of \$100bn between 1983 and 1987. The speed and scale of this turnaround has strengthened the creditors against the consequences of default while impairing the capacity of the debtors to avoid it.

UNCTAD's Trade and Development Report of 1988 puts the external adjustment of the highly indebted countries (more precisely, the "Baker 15", the countries listed above, less Costa Rica and Jamaica) in its domestic context. As shown in the chart, the net transfer (current account balance less net interest payments) from these countries moved from an inflow equal to 1 per cent of gross domestic product to an outflow of 5 per cent of GDP in the space of only two years.

What has made the transfer more painful is the manner in which it has been achieved. Since 1980 the volume of exports from the highly indebted developing countries has changed very little, while the volume of imports fell by more than 30 per cent between 1981 and 1983, only to fall still further by 1987, to a level some 40 per cent below that at the beginning of the decade. Import compression on this

scale has its domestic counterpart in the reduction of investment, as the chart shows.

The severe decline in investment has been the natural response to the decline in both real output and income. In 1987 output per head in the highly indebted developing countries was still 4 per cent below the 1980 level. The deterioration in the terms of trade, the relative price of exports and imports, has made the fall in real income even more serious than in output. The terms of trade of these countries fell to 25 per cent below the 1980 level by 1986. Income per head (adjusted for terms of trade changes) fell by 10 per cent between 1980 and 1983, before stabilising and then recovering slightly in 1987.

An indication of the inefficiency of the adjustment process has been the inability to control fiscal deficits (far from surprising in stagnant economies) has undermined two ambitious currency reform programmes, the widely-heralded "heterodox shocks" in Argentina and Brazil.

In short, the price of external adjustment has been stagnation. According to information provided in the World Bank's World Debt Tables, 1988, only three highly indebted developing countries (Brazil, Colombia and Morocco) managed positive growth of consumption per head between 1980 and 1987.

It is the unfavourable external environment that has made the problem so severe. This has two aspects: the decline in commodity prices and the high nominal and real interest rates on borrowing abroad.

One definition of the real rate of interest is the nominal

interest rate deflated by the price of exports. The World Bank report shows that, thus defined, the real rate of interest for the developing countries has been well above 10 per cent in every year since 1981, except 1987 (largely because of the recovery of commodity prices in that year). With these rates even a huge adjustment of the external accounts has been insufficient to stabilise the ratios of debt to exports, as the chart shows. The ratio of debt to gross national product for the highly indebted countries has also risen, but by less.

Developing countries have, indeed, been running to stand still. Is there any reasonable prospect then that they will be able to grow back to creditworthiness?

Nominal rates of interest have fallen by comparison with

2

the early 1980s, commodity prices recovered both last year and this, while arrears on interest payments accumulated. As is shown in the chart, the ratio of interest to exports stabilised after 1982 and fell somewhat in 1987. The issue for the future is the scale of the resource transfer from indebted countries consistent with improving debt profiles. This depends, in turn, on the future relationship between the market rate of interest, on the one hand, and the growth of GNP and exports, on the other. If there were a permanent improvement in these relationships then, at last, the problem might go away.

Rapid growth of real GDP and exports will surely be constrained for some time by low levels of past investment. Rapid growth of nominal exports would be helped, however, by a continued recovery

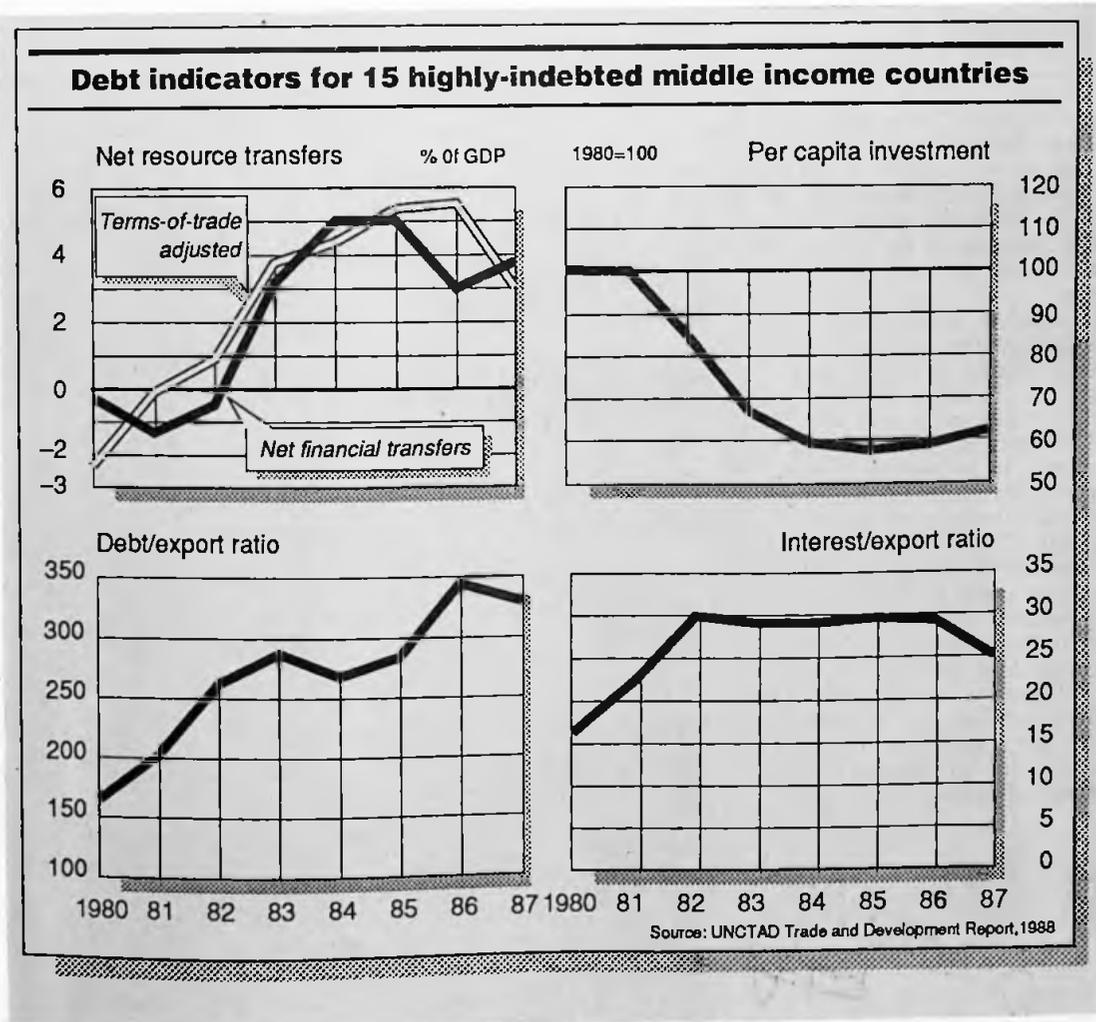
of commodity prices. The likelihood of that is, however, adversely related to the prospects for interest rates. The main threat to the present buoyancy of output in the industrial economies is a steep rise in inflation. The sort of recovery in commodity prices that would help the indebted countries would also threaten a rise in industrial country inflation. The reaction would be tighter monetary policy and higher interest rates.

In short, under plausible assumptions a significant improvement in debt profiles would involve continuing negative transfers from the indebted countries. While a country can almost always pay its debts, it is difficult to believe that many will be willing to pay the price.

It is this depressing prognosis that makes forgiveness of debt (in covert and overt forms) increasingly likely. The

danger is that the process will be disorderly, with the worst performers dropping out first.

There are at least two respects in which things have changed for the better since 1982: the strengthening of the balance sheets of the main commercial banks and the awareness in many indebted countries of the mistakes that need to be avoided in future. These two should be married, by exploiting the greater strength of the banks to reward those who have made decisive policy changes. For that, official involvement and probably some official resources will be required. The spectre at the annual feast of the IMF and World Bank is unlikely to vanish of its own accord. The meetings will prove productive if the policy makers and financiers there convened decide, instead, on exorcism.



ARGIE BARGY

COPS were amazed when a man barged in with a four-foot-long Argie machine gun from the Falklands War.

It happened at Newquay, Cornwall, under the police firearms amnesty.

The gun belonged to an old flatmate, a former soldier.

Now it will go to a museum or be destroyed.



Pushing out the lifeboat

BRITISH banks like Lloyds, Midland and Barclays, which are shipping a heavy load of Latin American debts, are being thrown a lifeline from an unexpected quarter.

Japan suddenly launched a new lifeboat fund yesterday aimed at rescuing what are called "middle income countries undertaking IMF adjustment programmes."

No sums are men-

FROM TREVOR WEBSTER AT THE IMF IN BERLIN

tioned but International Monetary Fund managing director, Michel Camdessus who described it as "a big step forward which should promote growth in developing countries and a solution for the world debt problem."

The IMF chief em-

phasised that this is different from anything Japan has done before.

It is putting up extra money which is not tied to the importing of Japanese goods, and will work in close harness with the fund's own growth and adjustment programmes.

The move may not be entirely charitable because Japan is seeking a bigger role in the fund and its case will be considered at next April's half yearly IMF meeting.

It could be the best news to come from this year's IMF meeting—a welcome addition to the "Lawson plan" to relieve the poor countries of Africa of £300 million of debt which was provisionally agreed early this year and rubber-stamped at the weekend.

There is less of a consensus about a World Bank £700 million loan package to Argentina to prop up that country's shaky finances. Some whisper that the new cash will be used to pay Argentina's £600 million debt arrears and that the IMF is furious the bank has rushed in

So is Susie still happy?

COMMENT in American polo circles that the separations of the Duchess of York's mother Susie from her Argentinian husband Hector Barrantes may lead to a permanent state of affairs are being discounted by his patron Peter Brant, an American newsprint multi-millionaire.

'I saw them together here a week, maybe two weeks ago and they seemed perfectly happy,' says Brant, 41, who has been trying to set up a major polo centre on his 1,500 acre Greenwich, Connecticut estate, with the advice and assistance of Hector who has the use of a house close by.

Susie, 51, was due alone in Australia yesterday to be with the Duchess who is ensconced at Admiralty House,

Sydney. She will also meet up with her elder daughter Jane Makim who has lived in Australia for ten years with her husband Alex — Andrew and Fergie will be spending a few days on their remote 8,000 acre spread after their official tour.

Hector, 50, has his home 400 miles from Buenos Aires where he breeds polo ponies and cattle, and did not accompany his wife — they married 13 years ago — to London when she arrived before the birth of granddaughter Beatrice to spend nearly a fortnight in England.

By coincidence, the same polo circles are saying that all is not well with the marriage

of Brant whose wife Sandra — the couple had front pew seats at the Westminster Abbey wedding — is rarely seen with him.

'It is not true that we are getting a divorce or splitting up,' he told me categorically from America.



Polo people: Hector Barrantes and wife Susie, and inset, Peter Brant with wife Sandra

Press Cuttings

from Broad Street Associates

SCOTLAND'S NEWSPAPER

GLASGOW HERALD

27 SEP 1988

FALKLANDS WEAPON

A HEAVY machine gun, used against the British in the Falklands, has been handed in to police as part of the nationwide firearms amnesty. A man dumped the 4ft long Czech-made weapon on the inquiry desk at Newquay police station in Cornwall. The weapon was used by the Argentinians and sneaked back to Britain as a souvenir after being captured.

Argentina talks bid

ARGENTINA has reaffirmed its claim to the Falklands, and said London was refusing to start talks over the islands.

The Argentine Foreign Minister, Susana Ruiz Cerutti, repeated that her country was

willing to begin negotiations, without preconditions.

But she told the UN General Assembly her country's willingness to talk "is now hampered repeatedly by the attitude of the British Government."

Gales in store for army and navy

HAVING LED the Royal Navy through the victorious Falklands campaign, Admiral Sir John "Sandy" Woodward has finally tasted defeat—at the hands of his own side.

For the first time in ten years, the Services are entering next year's 33,000 mile Whitbread Round the World Yacht race, and the Navy challenge, led by the Admiral, thought they had a flying start over their rivals, includ-



Woodward: scuppered

ing a combined Army and RAF crew.

They had the expertise, naturally, a lucrative sponsorship deal from the tobacco company Rothman's; and an impressive new vessel, the Maxi Yacht, under construction at Lymington.

Now the sponsorship deal has fallen through because someone high up considered Rothman's to be ideologically unsound; to rub salt in the wound the Army/RAF has made off with the Maxi Yacht.

The City firm which fixed up the yacht, Sports Sponsorship International, abruptly decided to accept

the Army entry instead of the Navy's. According to one source at the firm, "the army are more reasonable partners."

In a gesture finely poised between generosity and sarcasm, the Army then offered Woodward the chance to supply a couple of crew members. But, with a year still to go before the 33,000 mile race starts, the Navy is determined to press on with an independent entry.

Today I hear that they have found another yacht and a new sponsor, although Guy Edwards, the former racing driver who is navigating the Navy through the commercial waters, says that the details will not be released until January. All he would say is that the sponsor is "more suitable to the philosophy of the RN entry."

Perhaps this means that the Navy has chosen the Player's tobacco firm instead. At least they have a sailor on their cigarette packets.

Falklands machine-gun is part of amnesty haul

A HEAVY machine gun used against the British in the Falklands has been handed in to startled police as part of the nationwide firearms amnesty.

A man dumped the four-foot long Czech-made weapon on the inquiry desk at Newquay police station in Cornwall.

The weapon was used by the Argentinians and sneaked back to Britain as a souvenir after being captured.

A Devon and Cornwall Police spokesman said yesterday: "If you fitted a belt of ammunition to it, it would start blasting away."

The machine-gun is one of 1,384 weapons handed in to the Devon and Cornwall force during the amnesty. Grenades, a sten gun and 56,799 rounds of ammunition have also been surrendered.

"We've enough to start a small war," said the spokesman.

The officer who took charge of the machine-gun said: "It looks like a cannon and is very heavy. It certainly took us by surprise. This man just walked in and dumped it on the counter."

All weapons handed in are being taken to force headquarters in Exeter, where the vast majority will be destroyed.

But the war relic might be spared and given to a museum. The identity of the man who handed it in is being kept secret because police have guaranteed anonymity.

The man first asked the inquiry desk clerk: "Can I hand in a firearm under the amnesty?" He then went to the boot of his car and returned with the heavy machine-gun, dropping it on to the counter.

The man explained that the gun had belonged to a flatmate who fought as a soldier in the Falklands. He had since left, leaving the war relic behind.

27 SEP 1988

Press Cuttings

from Broad Street Associates

WEST END FINAL

Evening Standard

Cruel sea

HAVING LED the Royal Navy through the Falklands campaign, Admiral Sir John "Sandy" Woodward has finally tasted defeat—at the hands of his own side.

For the first time in 10 years, the Services are entering next year's Whitbread Round the World Yacht race, and the Navy challenge, led by the Admiral, thought they had a flying start.

They had the expertise, lucrative sponsorship from Rothman's and an impressive new vessel, the Maxi Yacht. But then their efforts struck the rocks.

The sponsorship deal fell through because someone

high up considered a tobacco company to be ideologically unsound and the Army/RAF has made off with the Maxi Yacht.

In a gesture poised between generosity and sarcasm, the Army then offered Woodward a couple of places in the crew. That was haughtily rejected; the Navy is determined to press on with an independent entry.

World Economy: Debt Strategies

Debt-Equity Swaps: A Match Gone Awry

By Marybeth Nibley

LONDON — Coping with the developing world's debts calls for creativity. When innovators sought means of lightening the debt load in a way that would attract foreign investment they thought of debt to equity conversions.

The union of the two seemed like a good marriage of convenience. Critics argue that it is far from a perfect match.

"If it's done the right way, it can be very beneficial," said Sir William Rynie, executive vice president of the International Finance Corporation, a World Bank affiliate. "We at the IFC are rather keen on the idea of debt-equity swaps."

These swaps are part of the global trend toward the securitization of debt. An example of how a conversion works would involve a commercial bank worried about whether one of its loans to a country will be repaid.

The commercial bank decides to get the questionable loan off its books by dumping it on the secondary market at a discount. For a loan of \$100 million, the commercial bank might sell it through a merchant bank for \$70 million and take a loss of \$30 million. The size of the discount depends on the loan's quality.

The conversion of the loan into equity occurs next. The merchant bank finds a client which needs the currency of the debtor country, such as a multinational corporation planning to expand an operation. The bank arranges for the sale of the loan to the client.

After buying the loan, the company negotiates with the central bank of the debtor country, such as a multinational corporation planning to expand an operation. The bank arranges for the sale of the loan to the client.

After buying the loan, the company negotiates with the central bank of the debtor country to buy the loan for say 80 percent to 90 percent of its value in local currency, allowing the company to obtain local currency at a discount.

For acting as intermediary, the merchant bank charges a fee based on a percentage of the value of the overall deal.

"There is no standard fee in this business at all," according to Gordon Wood, who specializes in this field for Shearson Lehman Hutton International Inc. in London.

The fees vary because the complexity of the deals varies. There are few simple sales of debt prefer to exchange a loan for another loan thought to be less risky.

Reasons for selling the loans also vary. Banks' motivations for reshuffling their loan portfolios may reflect a desire to reduce a category of risk, manage tax exposure or alter a portfolio's life.

The secondary market in Third World debt, which straddles Wall Street and London, operates as a type of matchmaker between buyers and sellers. Typically, a deal will begin when an investment house is asked by a company to locate a loan of sufficient size to produce a desired amount of local currency of a country in which the company intends to invest.

The amount of debt sold in the market has been estimated at \$3 billion to \$5 billion a year. How much of that volume reflects debt eventually transformed into equity is impossible to quantify precisely.

But banking sources say that since the market started operating and the debt-equity swap process began in 1983, only a small percentage of all outstanding loans have been converted. For certain countries that administer formal schemes under which their commercial bank debt goes through the metamorphosis — such as Chile — the percentage is higher.

Chile's scheme is generally regarded as the most efficiently run of the dozen or so in existence. Other countries with such government-regulated programs or that are planning to start them include Argentina, Brazil, Costa Rica, Ecuador, Jamaica, the Philippines and Venezuela. The Mexican scheme was suspended in November 1987.

Elsewhere, the process takes place along less formal lines. The debt of Nigeria, Poland, Yugoslavia and Zambia also has been involved in conversions.

Conversions sometimes are conducted outside the framework of a country's scheme so market sources are reluctant to give even approximate totals of the amount of a country's debt that has been changed into equity.

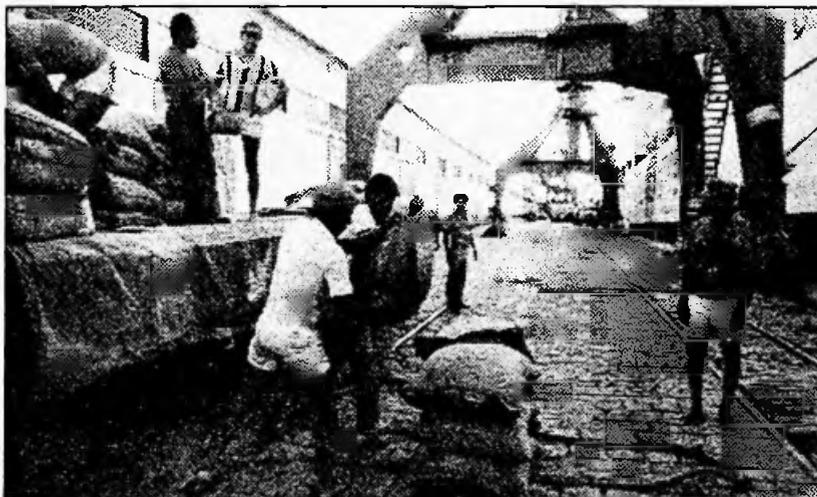
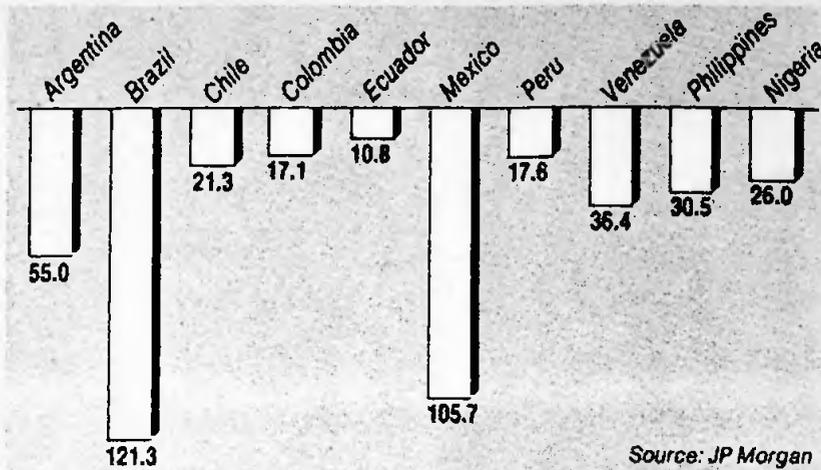
According to rough estimates prepared by one banker, more than \$3.1 billion of Chile's \$12.7 billion of commercial bank debt have been converted into equity investment since the country launched its scheme in 1985.

The same banker estimates Brazilian debt converted into equity amounts to about \$4 billion. Brazil's commercial debt comes to \$66 billion.

Comparing conversion totals with debt aggregates is misleading, however. Debt-equity

The World's Top Debtors

1987 figures, in billions of U.S. dollars



Inter-American Development Bank

A rise in Brazilian agricultural exports is helping to alleviate debt problems.

Lou Craca/International Herald Tribune

'For most countries, the problem is how to pay interest, not whether debt is rising or falling. That means, you want a solution that attacks the interest problem, not the debt problem.'

Talk of Relief Brings A Palpable Change In Creditor Attitudes

By Carl Gewirtz

BERLIN — Debt relief, dirty words rarely spoken during the six-year-old debt crisis of developing countries, is finally becoming a subject of polite conversation.

Although the debt strategy is on the official agenda of this week's annual meeting of the International Monetary Fund and World Bank in West Berlin, no dramatic new approaches are expected to be adopted.

The upcoming U.S. presidential election casts a huge shadow over the meetings, with everyone waiting for the new administration to take office before seriously attempting to reshape the official strategy of coping with the problem.

But debt relief will be a major talking point — not only among the participants, finance ministers and central bank officials, but also among the important invited guests, the world's leading commercial bankers whose institutions hold a huge chunk of the debt.

The effervescence of changing attitudes among creditors is palpable.

The major industrialized countries, which hold the bulk of the debt of the poorest nations in sub-Saharan Africa, have already shown their willingness to reduce the debt burden of those countries through partial write-offs, interest rate cuts or stretched-out repayment periods.

The more serious — and still unaddressed — question concerns the relatively small group of 17 most highly indebted developing countries.

Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Ivory Coast, Jamaica, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia account for half the total debt of all 109 developing nations and about 70 percent of the debt extended by commercial banks.

In the run-up to the IMF-World Bank annual meeting, the United Nations Conference on Trade and Development called on commercial banks to write off 30 percent of the debt, a radical proposal rejected out of hand not only by bankers but also by analysts at the IMF and the World Bank.

But even the IMF and the World Bank, whose studied caution reflects an unwillingness to get out in front of their principal

shareholder, the United States, are signaling that the time has come to rethink the official strategy.

The World Bank, citing "a pattern of shortfalls from reasonable expectations" in the implementation of that strategy, warned that progress "cannot be sustained in the medium term."

A recent World Bank study said that "the need to find new forms of consensual debt relief is growing for some countries. As for the IMF, it said that "solutions to the debt difficulties ... must take into account market realities." That reality is the steep discount at which banks are willing to sell their loans — discounts which the developing countries want to share.

In his pre-meeting press conference in West Berlin last week, the IMF's managing director, Michel Camdessus, was more explicit, stating that debt reduction is "now recognized as a necessary part of the process to alleviate the debt burden."

Member governments of these organizations, and not just the debtor countries, are also pushing for new thinking on the subject. Japan, for example, has signaled its intention to seek an airing at the West Berlin meetings of a plan it failed to get a hearing for at the Toronto economic summit meeting of the seven leading industrialized nations in June.

The Japanese proposal would have the IMF administer a special trustee fund, set up with foreign reserves transferred by debtor countries, to guarantee bonds that the debtors issue in exchange for existing loans owed to commercial banks. The loans would be swapped for bonds at a discount.

The French government, which was in the forefront pushing for relief for the poorest African states, is also known to be working on a plan that would benefit the middle-income countries so heavily indebted to commercial banks.

Meanwhile, commercial bankers, with the Deutsche Bank chairman, Alfred Herrhausen, in the lead, speak openly of the need for partial debt forgiveness.

A panel of U.S. bankers, chaired by Anthony Solomon, now head of S.G. Warburg (USA) and former president of the New York Federal Reserve Bank, has called for "voluntary debt

Continued on page 9

For Latin Lenders, The Crisis Is Over

By William A. Orme Jr.

FOR most international banks, the debt emergency of the 1980s is over. The biggest creditors have built up reserve buffers against moratorium threats. "Busy assets" traders are assiduously purging portfolios of Latin loans. At steepening discounts, at least \$15 billion in Latin American debts have been bought by foreign investors, local entrepreneurs and, most interestingly, the sovereign debtors themselves.

"There is no real debt crisis anymore," asserted a top Latin American debt specialist at a leading Wall Street investment bank. "The international financial system is not in jeopardy. There are only 11 or 12 major banks in the world that are still in real trouble because of their LDC portfolios."

But in Latin America, as in much of the rest of the socioeconomically diverse world known to bankers as the Less Developed Countries, the debt crisis is stubbornly alive and kicking. In most countries, interest payments continue to consume one-third or more of export earnings. Per capita economic growth is still stuck on zero, as it has been since the decade began.

Falling real wages and rising foreign debt payments are pushing fiscally orthodox governments out of power and promoting a new wave of populism. From Carlos Saul Menem in Argentina to Cuauhtémoc Cárdenas in Mexico, nationalist politicians throughout the region are skillfully tapping popular resentment against foreign banks and, more critically, against the local officials with whom the creditors negotiate.

"The irony is that the more militant, recalcitrant types may do better in debt negotiations than the governments that have tried to be cooperative," commented a New York banker involved with Latin American debt. "Threats of moratorium seem real from these guys. The negotiators who are more experienced, the people we get along with, may understand our regulatory problems and shareholder problems a little too well."

He singled out Mexico's public credit director, Angel Gurria, who is widely respected among bankers for the professionalism and doggedness with which he has pursued better rescheduling terms since Mexico's debt crisis started six years ago. Having served two governments to date and expected to maintain a key role in the incoming Salinas administration, Mr. Gurria is by far the most experienced member of Latin America's debt negotiating corps.

Now, however, Mr. Gurria is meeting stiff resistance from bankers as he pushes a plan for new debt-reducing bonds bearing both interest and principal guarantees from creditor countries.

"It is so easy to say no to Angel," the banker said. "He knows where we are coming from."

Yet even Mr. Gurria, who has always scrupulously avoided any suggestion of con-

frontation, is betraying increasing despair at the slow pace of debt reform. Pointing to the deep loan discounts on the secondary market, the stronger reserves position of the banks and the continuing net transfer of funds out of Latin America into creditor coffers, Mr. Gurria says that Mexico's debt servicing obligations should be chopped in half.

The United Nations Economic Commission for Latin America and the Caribbean calculates that the net transfer of financial resources from this poor region to the industrialized nations totaled an extraordinary \$147 billion between 1982 and 1987; last year alone Latin America sent \$16.9 billion more to creditors than it received.

As the World Bank notes in its newly released annual report, the aggregate per capita gross domestic product of Latin America and the Caribbean increased a paltry 0.4 percent last year. Yet the World Bank's net new lending to the entire developing world came to barely \$4 billion in the past June-to-June fiscal year; if interest payments are included along with amortization, poor countries paid \$1.9 billion more to the World Bank in the year than they got back in new credits.

IN LATIN America, only the rural Andes and Central America, plus Haiti and northeastern Brazil, truly belong to the Fourth World of absolute impoverishment. Bankers point to the recent Bolivian buy-back plan as a possible model for the region's smaller, poorer debtors: paying 11 cents on the dollar in a voluntary agreement with private creditors, Bolivia has canceled the bulk of its \$4 billion debt.

"I don't see why Peru couldn't do a buy-back, and Central America is another interesting area," said Martin Schubert of Eurinam, a New York investment bank that is credited with starting the secondary loan market five years ago.

The five Central American countries together hold debts with a face value of \$17.3 billion. But the commercial component of these loans are traded on average for 15 cents on the dollar or less. A coordinated repurchasing effort with backing from Washington could quickly and inexpensively relieve the economic pressure on the war-battered isthmus, bankers note.

Most Latin Americans, however, live in a society that is too urbanized, industrialized and — relatively — stable to qualify for concessionary buy-backs or write-downs. And in the biggest economies — Brazil, Mexico, Argentina, Venezuela and Chile — the major banks "simply have too much at stake to walk away," one New York banker said.

"As soon as Mexican or Brazilian debt falls below 50 cents, the big banks start buying," a loan trader at a New York brokerage said last month. "Their perception is that the debts have gotten too cheap, and

with all that Mexican and Brazilian debt on their books, they want to protect the value of their assets."

Yet many bankers say they recognize that, while creditors could generally survive the debt problem under current payment norms, many debtors cannot.

Calls for debt relief normally ascend in parallel with dollar interest rates. What is unusual is that arguments advanced for years by Latin American finance ministers are now being articulated by bankers of impeccable establishment credentials.

The 2-point rise in the London interbank rate since January "will add at least \$8 billion to the debt-servicing costs of capital-importing developing countries," noted a recent debt study group chaired by Anthony Solomon, a former New York Federal Reserve president, and Rodney B. Wagner, a vice chairman of the Credit Policy Committee of Morgan Guaranty Trust.

The study group, which also included such Latin American debt stalwarts as William Rhodes, the perennial steering committee chairman, and Eugene Rotberg, formerly of the World Bank, now with Merrill Lynch, warned that rising interest rates and sluggish international economic growth "could make it difficult for even some of the stronger troubled debtor countries to make their payments."

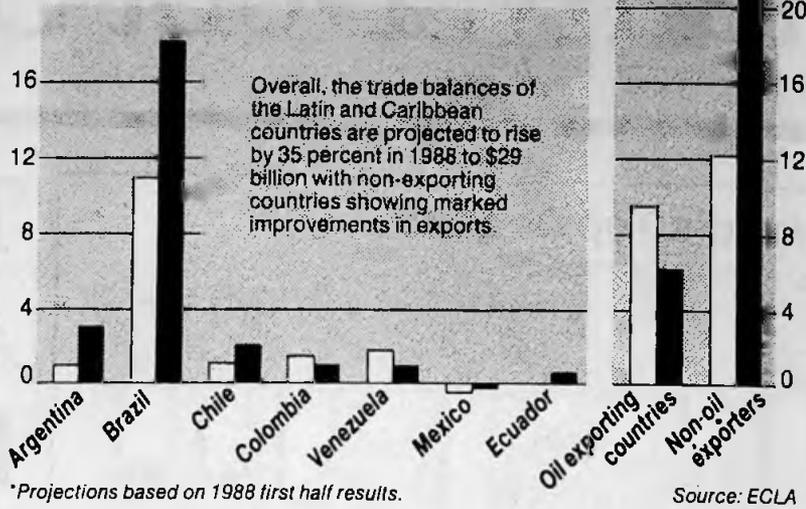
While asserting that debt relief alone will not produce economic growth unless coupled with market-oriented economic policies, the group pointedly added that the "gap between debt-servicing outflows and financial inflows from all sources may be so large as to impede sustained economic growth by a debtor country, even one that has enacted effective reforms."

In its key recommendation, the panel said it had concluded after six months of discussion that voluntary cuts in debt servicing "should be considered as an alternative to increased borrowing." The group, sponsored by the United Nations Association of the United States of America, said in its report that "in most cases, some combination of debt reduction and new money will be required to solve the problem."

Not all bankers agree. Susan Segal, the

Swing in Trade Balances

(In billions of U.S. dollars) □ 1987 ■ 1988*



International Herald Tribune

senior vice president of heavily exposed Manufacturers Hanover, formally dissented from the panel's consensus call for partial, voluntary debt relief.

"Although we agree with the report's conclusion that debt service reduction programs should remain voluntary, we feel that, in many instances, their broad application, even on a cooperative and negotiated basis, could very well hinder the flow of funds necessary to keep these countries on the road toward sustained economic growth," she wrote.

Opposition to across-the-board debt relief is also strong among regional banks in the United States and Europe. But the Institute of International Finance, a research and lobbying organization directly supported by money center banks, is now publicly warning that private lenders are unwilling to supply the amount of fresh loans that Latin and other Third World debtors need to keep current on payments.

"There is a major risk that sharply rising world interest rates will jeopardize further [economic] progress, even in countries which have struggled to maintain consistently strong adjustment efforts and service outstanding debts," Horst Schulman, the institute's managing director, said this month.

Mr. Schulman, unsurprisingly, voices the bankers' view that, "It is clear that debt relief schemes which involve the involuntary participation of private creditors do not provide a solution." Commercial bankers would rather see the World Bank and the IMF step up their own lending while underwriting bond conversions and other debt reduction mechanisms.

The World Bank responds that private creditors should give the Third World another \$9 billion or so in fresh money every year. Implicitly, though, official and commercial lenders alike are acknowledging that the present debt system is unsustainable, and without reform further unilateral servicing stoppages are probable.

WILLIAM A. ORME JR. is editor of *LatinFinance*, a monthly magazine published by *Euromoney* in Miami.

Evidence Is Overwhelming On Need for Debt Reduction

By Jeffrey Sachs

CAMBRIDGE, Massachusetts — We have arrived at a critical juncture in the international debt crisis. Until this year, the creditor world has maintained a unified stand regarding developing country debt, insisting that all interest must be paid at market rates and that no principal should be forgiven, no matter what the economic cost to the debtor countries. This position has now collapsed under the weight of the worsening economic and political crisis in Africa and Latin America.

Leading bankers have finally acknowledged the need for significant reduction of the debt burden. Several creditor governments have arrived at a similar view. Even the defenders of orthodoxy, the management of the International Monetary Fund, have acknowledged quietly that the debt must be reduced to a manageable level.

The IMF, however, has been reticent to come forward with this view, because of its wish to avoid a confrontation with its leading "shareholder," the United States.

The evidence of the need for debt reduction is by now overwhelming. Despite six years of IMF-supervised adjustment, the middle-income countries of

parties that make a popular case for a debt moratorium.

With the economic and political weight of the debt having reached a critical level, the real fight now is over who should pay for the needed debt relief. In the poorest countries, where the bank debt is low, the answer is clear that the official creditors will have to accept losses. At the Toronto summit meeting, this much was acknowledged.

For the middle-income countries of Latin America, however, where most of the debt is owed to banks, the debate is sharper. Many of the big banks, with the surprising ally of the U.S. Treasury, make the case that the burden should be eased through more official lending to the debtor world, rather than through smaller debt payments to the banks. The banks, of course, are hoping for a disguised bailout in which taxpayer money supports loans by the World Bank and IMF that help the debtor countries to pay their interest bill to the banks.

This bailout scenario is far advanced, even though the taxpayers in the creditor world don't yet understand it.

Consider the case of Argentina, for example. Almost all professional economists recognize that Argentina can afford to pay only a small fraction of its debts. Indeed, the secondary market price of Argentine debt is now \$22 per \$100 face value, reflecting the widespread expectation that Argentina will pay little more than one-fifth of the debt due.

Yet when Argentina fell into deep arrears this year on the bank debt, the response of the official creditor world was to provide Argentina with fresh official funds with which to make full interest payments to the banks. The IMF is now at work on a \$1.2 billion loan to Argentina, and the World Bank expects to announce soon new balance of payments support of around \$800 million for the next 12 months. This \$2 billion of official lending should enable the banks to receive interest payment from Argentina, in excess of new loans, of about \$2 billion.

More generally, the banks expect that the new \$75 billion general capital increase of the World Bank, and new funding next year for the IMF, will help to pay for a continued flow of interest payments to the banks. The bankers' lobbying association, the Institute of International Finance, was fairly explicit on the banks' strategy last week when it notified the IMF that the private banks will no longer contribute much in the way of new funds to the developing world, calling instead for more official lending.

There is, of course, a more efficient and fair way to bring about the necessary debt reduction, and that would be for the commercial banks to recognize their losses on their developing country loans by offering the developing world a sustained reduction in interest rates and principal. The taxpayers could support this debt reduction by having the IMF and World Bank guarantee a portion of the debt that remains after the debt reduction.

The banking system is now capable of absorbing losses on developing country debt without fundamental risk to its capital base. Reducing the burden on bank debt would not only be fair and manageable, but would likely benefit the banks themselves in the coming years, by stabilizing the economic and political environment of the troubled debtor countries, thereby allowing these countries to start growing again.

JEFFREY SACHS, a professor of economics at Harvard University, is an adviser to several Latin American governments on macroeconomic stabilization policy.

COMMENTARY

Latin America, and the poor countries of Africa, have not resumed economic growth or even rudimentary economic stability.

Latin America, Argentina, Brazil and Peru are now suffering from inflation rates in excess of 1,000 percent per year. Many other countries, including Mexico, Ecuador and Venezuela, are fending off high inflation rates at the cost of a prolonged internal depression. In low-income Africa, the situation is even more grim, because of the extreme poverty of these countries.

The debt has proved to be a crucial barrier to renewed growth. The direct burden of the debt is clear enough. Debt payments have deprived governments of the funds needed to provide the most basic public services and public investment, and have led many governments, especially in Latin America, to resort to printing money in order to meet local expenses. The result has typically been a collapse of public services and explosive inflation.

The political burden of the debt is equally pernicious. In many of the largest debtor countries, such as Argentina, Bolivia, Brazil, Ecuador, Peru and the Philippines, new democratic governments in the 1980s have inherited the financial mess left behind by authoritarian regimes that put the country deeply into debt.

The new democracies would like to undertake the economic reforms urged upon them by the creditor world, but the debt burden itself undermines the political case for these reforms.

To the citizens in the debtor countries, every proposed reform seems to be for the sake of foreign creditors. For example, budget cuts, which are needed to restrain inflation, are attacked as unjust ways to increase payments to the foreign banks. Democratic governments that play by the international rules and continue to pay their debts are finding themselves undermined by growing and powerful opposition

Creditors Talking of Debt Relief

Continued from page 7

service reduction — including debt exchanges, debt equity conversions and exit bonds — to be pursued as a serious alternative and complement to more lending."

William Rhodes, Citibank's chief debt negotiator, speaking for the bank but expressing a view of most of the American banks, supports "voluntary debt reduction" by the banks but says that "we oppose global schemes" or "debt forgiveness."

The Canadians, with fourth-largest Bank of Nova Scotia in the lead, have proposed a complex plan that includes substantial and temporary interest rate reductions "geared to some concept of 'ability to pay'."

An estimated annual interest cut of 2 percentage points could save the 17 most indebted countries \$5 billion to \$6 billion per year.

At present — and likely for a while — all this talk is still a cacophony. Behind the widening recognition that relief is needed, there are strongly divergent views: Should it be across the board, or only available to debtors undertaking far-reaching economic reforms? If relief is negotiated in exchange for reforms, how can that conditionality be controlled?

The debtors have established a terrible track record, repeatedly failing to live up to undertakings for reforms made in exchange for loans from the IMF and commercial banks.

Part of their failure to live up to promises is linked to the still unresolved institutional conflict between the sister international organizations, the IMF and the World Bank. The IMF's overly short horizon rarely stretches beyond 18 months while the World Bank, a long-term lender of 20-year money, does not see itself as an economic policeman.

"The problem in the middle-income countries," said an official who asked not to be named, "is one-third fiscal mismanagement, which could be taken care of by the IMF, and two-thirds long-term structural mismanagement, which can't be corrected unless you monitor and survey it for years."

Another fundamental divergence in the call for debt relief is whether or not that includes commercial banks continuing to lend new money. Continental European bankers are readier to discuss relief schemes, the Americans say, but not readier to lend money.

"There is an extraordinary misunderstanding on debt relief," said Rudiger Dornbusch, professor of international economics at the Massachusetts Institute of Technology.

"Today, the only way for banks to be kept current on debt service is to pay themselves half the interest. Suppose the banks write off half the debt, they write off the part they have been financing with new money. The country still has half the debt they were paying interest on, so nothing has changed. The only thing changed is that debt isn't piling up on debt anymore."

"But the problem of paying half the interest — which is crucifying them now — would be exactly unchanged. And that's a problem. It's puzzling why this is not understood."

He warned of a "terrible disillusionment" among creditors as well as debtors if banks were to write off half their debt and countries still had an insupportable external debt problem. To relieve the debt burden, he said, 95 percent of the debt would have to be forgiven.

"For some countries, like Mexico, that's crazy. If the price of oil doubles in two years — that's not certain, but probable — Mexico will have no problem servicing its debt. So why write it off instead of restructuring it?"

"For most countries," he insisted, "the problem is how to pay interest, not whether debt is rising or falling. That means, you want a solution that attacks the interest problem, not the debt problem."

Recycling of interest payments to debtor countries would solve much of their problems, Professor Dornbusch said. That means interest payments to the banks remain invested in the country for 10 years. "Creditors get their money, but have to wait 10 years to take it out. And those 10 years give Mexico the time to reconstruct its economy to support the debt service," he said.

"Because the banks are not taking the money out, the country's foreign exchange crisis is gone. There is investment in Mexico again, and because the economy is taking off, private capital comes back. Then there's money to pay back the banks" in foreign currency, he added.

"As with a bank run, we have to suspend convertibility, get the thing restructured and in the end everyone can have their money. In a run, nobody gets it."

Professor Dornbusch would apply such a program to Mexico, before it slips back into a current-account deficit — which he sees as

inevitable next year. He would have the banks reward the country for its reform efforts to date by offering to recycle interest before next year's payments difficulties and inevitable political crisis over servicing the debt.

Symbolically significant — albeit insignificant compared to the total overhang — relief of commercial bank debt has been taking place. Banks' willingness to unload some of their loans at a discount, to investors who use the face amount to make investments in the debtor countries, has eliminated some of the debt.

Short- and long-term external debt, excluding loans from the IMF, owed by all developing countries totaled \$1.2 trillion at the end of last year, up 47 percent from the \$815 million outstanding in 1982, when the crisis erupted.

The long-term debt owed just to the banks has risen 58 percent — to \$427 billion at the end of last year.

These gross numbers admittedly exaggerate the situation. The extension of new debt has actually been quite a bit smaller. The distortion comes from counting the debt denominated in a variety of monies in a common currency, the U.S. dollar, which has depreciated sharply. In 1982, it was worth 2.42 Deutsche marks and 249 yen. At the end of last year, the dollar was worth 1.58 DM and 123 yen while currently it is worth about 1.87 DM and 134 yen.

The real increase in credit extended is estimated by the Organization for Economic Cooperation and Development to have risen 29 percent between 1982 and 1987.

Despite this increase, the annual outlay to service the debt has declined. Thanks to repeated reschedulings, 35 countries have restructured some \$300 billion in debt, postponing repayments of principal and reducing interest margins paid to the banks. In addition, the banks have provided \$40 billion of new money and special short-term credit lines of about \$36 billion. At the same time, world interest rates declined. As a result, the annual debt service payments of all debtors last year amounted to \$120.4 billion compared to a high of \$127.8 billion in 1985.

That decline may now be over. The London interbank offered rate, the base rate for the bulk of the debt owed to the banks, has risen 1½ percentage points since the end of last year. A one percentage point change in Libor is estimated to equal a \$3.25 billion change in annual interest charges for the debtors.

The total debt has continued to expand because, on average, half the annual interest on the commercial debt — \$50 billion last year — is financed by new loans from the banks.

That is the crux of the current problem.

The banks are reluctant to continue lending, adding to debt that cannot be serviced.

The debtors, meanwhile, say that additional debt will only add to their huge interest payments that diverts money that could and should be spent on investment to make their economies more competitive and, ultimately, better able to service the external debt.

CARL GEWIRTZ is an associate editor of the International Herald Tribune.

Africa Addresses Issue Of Cost of Borrowing

By Fiammetta Rocco

LONDON — It is very rare that the difficulties of small, impoverished countries capture the imagination of the rest of the world with sufficient force that a solution to their immediate problems, even if only temporary, is hammered out.

Bob Geldof's Band Aid concert for the starving in Ethiopia was one such example, and, on a broader level, so was the world's response to the plight of the "boat people" of Southeast Asia in the early 1980s.

In mid-1988, the economic difficulties that had tormented Africa for nearly two decades finally caught the global spotlight when the even leaders at the Western summit meeting in Toronto put the continent's mounting debt problem high on their agenda.

The issue had been growing in importance for well over a year, ever since Chancellor of the Exchequer Nigel Lawson had announced a British proposal and the United Nations subsequently published the findings of a special investigation into the subject.

But it was only in Toronto, when President François Mitterrand of France put forward yet another proposal, that Africa's debt as a topic of world concern really took off.

The summit discussed three options: canceling one-third of the government and government-backed commercial loans to black Africa, stretching out repayment schedules on existing debt to 25 years at market rates, and fixing maturities at 15 years with interest rates reduced by as much as half.

This last could offer the continent as much as \$500 million in relief from interest payments between 1988 and 1990 alone, according to French calculations.

The options offered donor countries "the maximum number of possibilities with the least number of exits," as one observer put it. And President Mitterrand soon found support for the plan from such unexpected quarters as the United States and West Germany.

The initiative was unprecedented. Not only was it being openly discussed at a world political level, but the solutions proposed — debt forgiveness and concessions on interest rates — would have been considered heretical two years previously, and probably thrown out altogether.

The move signaled "a better understanding to bring help to Africa," Ide Omarou, the secretary-general of the Organization of African Unity, said after the summit. What is more, it was a political endeavor that addressed for the first time the issue of the cost of debt rather than calling for simple increases in capital flows to the continent that had been the solution previously.

All told, it showed significant progress. But much is in danger of being brushed over in the general hullabaloo that surrounded the Toronto pronouncements. Most significant is the fact that the Mitterrand proposals make no attempt to deal with the problem of the existing debt stock, a large portion of which has been



Wares on display at a market in Zaire.

chalked up as recapitalized obligations rather than inflows of new money.

Nor do the proposals offer African governments, for whom rescheduling debt has become virtually a full-time process, the opportunity of planning long-term for the future.

At \$218 billion, black Africa's debt is about the same size as Brazil's. But the makeup of the continent's indebtedness points to difficulties that far outweigh the size of the obligations.

Only a small handful of African countries have never had to reschedule, among them Kenya and Zimbabwe. The process is immensely time-consuming and has led Babacar N'Diaye, president of the African Development Bank, to observe that, "to be a good finance minister in Africa today you first have to be a good debt negotiator."

Yet the relief afforded by these reschedulings is largely illusory, since much of the unpaid debt is simply rolled forward at higher rates. Zaire, for example, has been back to the rescheduling table so many times that 50 percent of its external debt consists of recapitalized interest.

Mr. N'Diaye's own debt plan, launched at a special OAU session on African debt last December, addressed this problem directly. Devised with the help of the London merchant bank S.G. Warburg & Co., the N'Diaye plan works something like a home mortgage.

Using Zaire as a test case, it proposes converting the country's \$5 billion bilateral government and commercial bank debt into 20-year tradable securities. The paper would carry concessional, 4 percent interest, and repayment of the principal would be guaranteed at maturity by a sinking fund into which Zaire would pay 2 percent of the principal every year.

These terms are based on Zaire's debt-servicing record — it kept payments to a steady 18 percent of export earnings between 1981-86.

As the sinking fund fills up, the theory goes, Zaire's stock in the market would improve, as will its access to new development money. Moreover, Zaire would continue to implement a program of economic reform spelled out by the World Bank and the International Monetary Fund, and its performance would be monitored by a trustee board of its major creditors, which would also administer the sinking fund.

In the nine months since the plan was first put forward, creditors have accepted the idea that a distinction can be made between creditors without risk of what they call the domino effect and the concept of concessional rates, since Toronto, is much more acceptable.

Their greatest fear, however, in accepting Mr. N'Diaye's proposals is that creditors will be giving up a bargaining trump if they agree to a single 20-year deal rather than the annual rescheduling arrangements that currently exist — that they will be unable to use the threat of leaving the rescheduling table in order to exact concessions on economic management.

Whether that fear will be overcome remains to be seen. Mr. N'Diaye's plan has been edged out of the center of the debt stage by Mr. Mitterrand's proposals in Toronto.

FIAMMETTA ROCCO is a contributing editor to *Institutional Investor* and author of "The African Development Bank: Financing Growth to the 1990s," London 1985.

Debt-Equity Swaps Prove Far From Perfect Match

Continued from page 7

swaps were not designed to expunge debt from the developing world. Rather, they were intended to make the debt servicing burden more manageable.

As for debt reduction, the conversion process cancels a debt claim, replacing it with an equity obligation. The net liability position of a country does not change much, if at all, because the claims on it are just reclassified.

Among the arguments in favor of using the process, the one cited most often is that it encourages investment in countries that desperately need it but might not be able to get it without offering investors the incentive of a currency discount.

"It may swing into action those investors who were not prepared to put in cold cash," said Giovanni Vacchelli, the IFC's special representative in Europe.

While the IFC believes it is better for developing countries to receive traditional cash investments, debt conversions have a role in fostering incremental investment increases, Mr. Vacchelli said.

It also can be argued, he added, that they improve the investment climate by demonstrating a country's willingness to accept foreign input in domestic enterprise.

From the standpoint of indebted countries, conversions are seen as methods of handling external debt that will help restore creditworthiness and encourage investment that will stimulate private sector growth.

Most countries with formal schemes channel this investment into particular industries, such as export-oriented ones in hopes of improving the trade performance. No scheme allows unrestricted investment and at the very least some countries screen the planned investment to determine its merit.

There also are restrictions after the investments are made to prevent capital from flowing out of the countries as fast as it comes in. In many cases, a number of years must elapse before an investor can remit capital overseas.

Perhaps the biggest criticism of debt-equity swaps is that they might inhibit additional investment in the countries concerned. The debate centers on the question of how much money might have entered a country anyway — without the sweetener of a currency discount. If the answer is that money would have flowed in regardless, then swaps are siphoning off some of that amount.

Professor Richard Portes, director of the Center for Economic Policy Research in London, said that resolving the debate about "additionality" is impossible because it would require knowing the reasons for every investment decision.

His main objection to debt-equity conversions is that they give foreign investors preferential exchange rates.

"It's a very inefficient way of allocating investment resources," he said. "The debt repurchase part at a discount is fine — I'm all for that. The investment side should be done quite separately."

After totting up the advantages and disadvantages of conversions, he said: "They don't give substantial benefit to the debtor countries."

The only beneficiaries are banks that can take comfort in knowing they can discard problem loans and investors who can get money on the cheap, he said.

Other drawbacks focus on the impact conversions have on the monetary and fiscal policies of countries redeeming the debt.

Research reported in the International Monetary Fund and World Bank publication Finance and Development showed the banks could lead to increases of 33 percent to 59 percent in the domestic money supplies of four of the major debtor countries.

There are tools available to neutralize the inflationary effects. The tools must be handled deftly to avoid negative consequences for domestic capital markets.

Countries have dealt with this problem by setting monthly quotas on conversions. In Chile, rights to conversion are auctioned off to domestic banks which distribute them to customers.

A twist on the theme has been the establishment of conversion funds aimed at boosting foreign demand for swaps. Some of these funds, such as a \$100 million Brazilian fund managed by Morgan Grenfell, invest the proceeds of a debt sale in a diversified portfolio of equities.

International monetary authorities have been promoting the concept of conversion funds by touting the relatively good performance of stock markets in many developing countries. Because the funds typically prohibit investors from repatriating capital for a number of years, the funds are more suited to investors seeking long-term holdings.

As one item on a menu of options for handling the debt crisis, conversions have had some pleasing results for banks, debtor countries and investors.

Mr. Vacchelli of the IFC says the concept was slow in catching on but now there is a growing acceptance of it as an alternative method of making investments in developing countries.

"Frankly, the volumes we are seeing are more than we might have expected in 1983," he noted.

A recent report by the Commonwealth Secretariat on mobilizing capital for development concluded:

"It is clear that debt-equity swaps may be useful but are not a panacea for debt or an alternative, in terms of raising new foreign equity, to creating a more favorable investment climate overall."

The report added: "It is, however, possible to point to interesting, innovative arrangements where unconventional sources of foreign investment have been mobilized for what seems to be developmentally valuable activities."

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Conversions Become Key Strategy Among U.S. Banks

By Linda Keslar

NEW YORK — Until this year, U.S. banks were handicapped in converting their Third World debt into equity shares in nonbanking companies by the American Federal Reserve's "Regulation K," which limited their investment in nonfinancial assets.

Now that this rule has been eased, gold mines, fisheries and forest companies are just a few Third World companies in which U.S. banks hold stakes.

In fact, debt-equity conversions have become a key strategy among banks like Citicorp and Bankers Trust as a way to reduce their Third World loan exposure. Other initiatives include the outright sale of the loans, write-offs and debt for debt swaps to quickly dispose of troubled foreign loans.

As a result of such tactics, "banks don't view LDC debt as life-threatening issue any more," said Noel Dugat, vice chairman of International Capital Corp., an American Express subsidiary. And, since many U.S. banks have also been raising more capital, Third World loans have declined both absolutely and relatively.

For the 13 largest banks in the United States, loans to developing countries have shrunk to 101 percent of total equity capital for the first half of this year, from 137 percent a year ago, according to Salomon Brothers.

Citicorp's effort has been most aggressive. It reduced its loan exposure to developing countries by \$2 billion just a year after it announced its \$3 billion loan loss provision.

Some banks, though, have done very little. BankAmerica Corp., which accounts for more than 70 percent of the Third World exposure for the four largest California banks, reduced its exposure by only 9 percent in the past year, according to the Salomon study.

The most popular strategy for many have been outright sales, possible because of the growing secondary market for Third World debt. The biggest sellers have been the American regional banks, such as First Interstate, which in the second quarter sold almost all its Argentine loans.

The bigger banks have also been selling loans, but many are hindered by the sliding bid prices reflecting the oversupply of debt in the secondary market for troubled loans.

Debt-for-debt swaps are another strategy, particularly in the private sector in Brazil, Mexico and Argentina. Through a deal it organized for Mexico that involved the U.S. Treasury, Morgan Guaranty canceled some \$400 million in its exposure there earlier this year. The bond for debt swap also reduced the Mexican government's foreign bank debt by \$1.1 billion.

LINDA KESLAR is a financial journalist based in New York.

Storm warning for the forces over spending

Britain's admirals, generals and air marshals are at odds. Defence editor JOHN KEEGAN reports on the problems facing Mrs Thatcher as the three branches of the armed services fight for a bigger slice of the defence budget

THE PRIME MINISTER, admitted one of her advisers last week, "has good reason to feel that the Ministry of Defence has the evil eye for her government. Under John Nott its naval reduction programme gave rise to the Falklands crisis. Under Michael Heseltine its procurement policy produced the Westland affair. At least George Younger has given her a quiet life..."

"Up to now," observers of the Ministry of Defence might answer guardedly.

Mr George Younger, as Secretary of State, has indeed assured the Prime Minister three quiet years on the defence front, by pursuing a deliberate policy of not making waves. There are signs now, however, of a gathering storm. The economic climate has turned harsher. And there is trouble aboard ship as the crew squabble — in private — over the money that is available.

Nuclear weapons are not the cause of the trouble. The Ministry's argument that Trident is a cheap system is, in broad terms, correct and the alternative — joining nuclear forces with the French — always faced weighty political difficulties. The reasons for looking to the French turned on fears, raised by the INF negotiations, that an American Administration might not complete the delivery of Trident. Those fears have been quelled by the growing unlikelihood of Washington agreeing further measures of nuclear disarmament with Moscow, at least until after the missiles have been delivered.

The financial difficulties lie on the other side of the military threshold, with conventional weapons, and they are heightened by Mr Gorbachev's growing difficulty in forcing through *perestroika* within the Soviet Union. For, if there is one certainty in forecasting how Soviet policy will develop at this time, it is that Mr Gorbachev will not add to his problems by cutting the armed forces. Cripplingly expensive though they are, he cannot put himself wrong simultaneously with the generals and the bureaucrats, particularly when he needs the generals' goodwill to cope with the nationalities and unwilling East European allies.

As long as the Warsaw Pact — which means the Soviet Union — sustains its large superiority in conventional forces in Central Europe, Nato must maintain its defences. And that means Britain continuing to bear its large share of the burden, and perhaps even increasing it if a new American Administration persists in the demand, much voiced during the current presidential campaign, that the European allies contribute more.

Britain is, among the major Nato allies, the second largest spender per capita on defence. What it spends buys, for Nato, three first-rate divisions in Germany, a large tactical air force and the anti-submarine navy for the Eastern Atlantic. It also buys a home defence force and an "intervention" capability, some of it earmarked to Nato, some "out of area", like the Armilla Patrol in the Gulf.

And it is here that the arguments begin. Britain manages to spend a gratifyingly high proportion of the

defence budget, about 43 per cent, on equipment procurement. But it is now trying to re-equip the front line of two of its services — the army and the air force — while maintaining adequate numbers of escorts for the anti-submarine navy. The ministry needs the European Fighter Aircraft (EFA), a joint project with Germany, Italy and Spain, and would like to buy 350 of them. It must shortly replace half its tank fleet and is torn between ordering the unbuilt British Challenger 2 or purchasing the American Abrams M1A1.

It also needs to re-equip half its self-propelled artillery, all the more urgently after an expensive fiasco with an unsuccessful prototype. And it needs to build at least three escorts a year in order to keep the anti-submarine navy at a promised strength of 50 ships, below which it has just slipped.

Press Cuttings

from Broad Street Associates *The Daily Telegraph* 27 SEP 1988 (2)

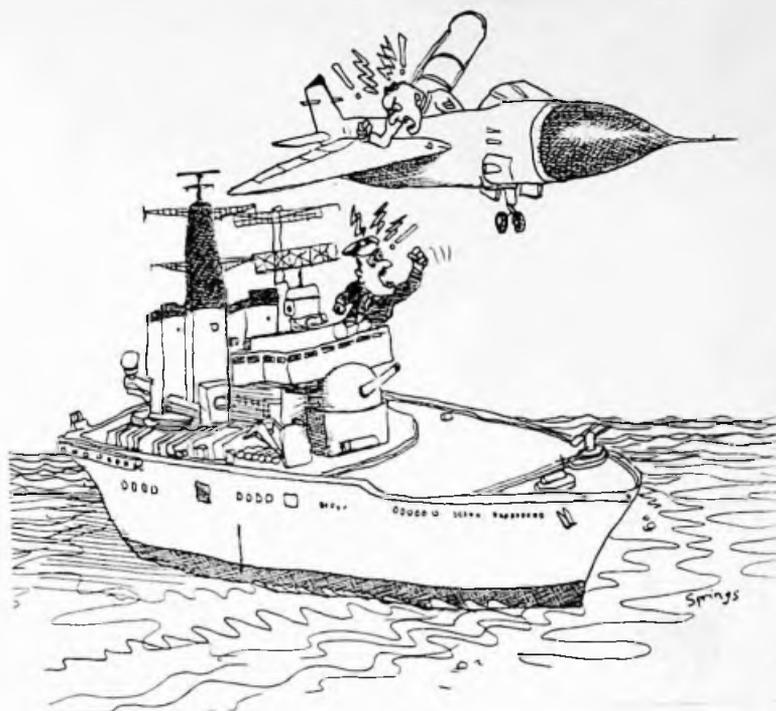
THESSE programmes are in conflict. To take one example: there is probably the money for either the tank or the self-propelled gun, but not both. Taking another: a development time "slippage" is concealing the probability that there is the money for only 250 EFAs. And, while the Navy ordered three escorts this year, it will probably not be able to do so next.

The admirals, the generals and the air marshals are therefore at odds. Or, to be more precise, the admirals are at odds with the rest. For, when it comes to making common cause, and this is such a time, the generals and air marshals feel that the Navy is consuming more of the money than it should. And it believes — a belief shared by the ministry's senior officialdom — that the anti-submarine navy could be adequately sustained if the maritime "intervention" capability were trimmed. In short, the Harrier carriers and the Royal Marines' amphibious ships do not currently have army or air force friends.

There is a reticence about airing this unfriendliness in public. Unlike the American services, the British do not do open battle over money. Moreover, the Navy's intervention forces have been enjoying a good press. The Harrier carriers are still covered with Falklands laurels, and the Armilla Patrol, though it derogates from the Atlantic anti-submarine commitment, has been a brilliant success as well as an admirable exercise in Great Power responsibility.

Nevertheless the costs involved are driving the generals and air marshals to mutter, if not yet to speak out. The Army is particularly impatient because it feels that clear-minded debate within the Ministry has been stifled by a sleight of hand which shuffled its chief of staff, Field Marshal Sir Nigel Bagnall, into retirement when he was in line to become Chief of the Defence Staff. Field Marshal Bagnall is undoubtedly the finest mind any of the services has had as chief since the war — he is an Honorary Fellow of Balliol in a private capacity — and would have brought unremitting rationality to the review that the ministry must now conduct.

What should the review say? Part of the trouble an outside observer has in suggesting answers stems from the obscurity which shrouds the defence budget. The annual estimates drip statistics. But they do not put a cost on any of the thousands of elements which compose the "Ministry of Defence". Those elements comprise about 230 "units of force" — 115 combat battalions, 90 combat ships and 25 combat air squadrons. But they also comprise 180,000 civil servants, the largest workforce in Whitehall, and 3,000 separate sites in the "defence estate", the third largest landholding in Britain.



The disparities seem obvious. But until recently the ministry itself did not know what any one of the elements cost. It has recently, by "cost centred accounting", begun to try to find out. But it has far to go. And it is impeded by its own employees. "Not my job" and "not my workplace" are, naturally, the instantaneous reactions of all defence civil servants when the first hint of an economy campaign is rumoured. And although there has been some reduction of "non industrials" over the last five years — about 15,000 — the workforce has been remarkably successful in keeping public money flowing both to preserve its jobs and its places of employment.

The time has come for Mr Younger to harden his heart against them. It may be that he will also have to address hard choices on the operational front. Ruthless analysis may reveal that the Navy's "intervention" capability is a luxury the country cannot afford. It certainly ought not to be afforded at the expense of the Navy's anti-submarine role which, as throughout the century, assures the nation's lifeline. And it certainly cannot be afforded at the expense of the Army's armoured battalions or the RAF's tactical squadrons when Mr Gorbachev's tank fleet keeps steel in the Iron Curtain.

But, before hard operational choices are made, Mr Younger should take a sharp knife to the soft parts of his ministry, cut hard and keep cutting.

THE MINISTRY simply does not need all the seven (by my count — there may be more) enormous office buildings it keeps in central London. It does not need five enormous defence research establishments, two of which are largely in the business of making work for themselves. It does not need a fifth of its stock of 80,000 service married quarters, as the servicemen's refusal to live in them demonstrates. Above all it cannot justify retaining 3,000 separate sites in its defence estate. They represent not only current expense but potential capital realisation, many in areas where development pressure is very high.

All this will mean "making waves" and the end of a quiet life at the Ministry of Defence. But if a defence row over operational essentials breaks out in public, involving the service chiefs, the procurement agency and the defence industrialists, the noise will reach 10 Downing Street too. Then Mrs Thatcher may have reason to feel that the evil eye has been switched on again. She is very unlikely to have much patience with anyone responsible for a third defence disturbance during her premiership.



IMF refuses to be rushed on Argentine loan

THE International Monetary Fund will not be rushed into an agreement with Argentina as a result of the World Bank's controversial decision to go ahead with a \$1.25bn (£750m) package of loans, according to sources in West Berlin.

Bankers and officials in Berlin at the annual meeting of the IMF and World Bank were still digesting the implications yesterday of the Bank's decision to agree new loans for Argentina before it had agreed to an IMF economic programme.

Michel Camdessus, managing director of the IMF, appeared relaxed about the development: "I cannot be anything but happy about the World Bank loans," he said, adding that the money would help to support Argentina at a critical time.

However, privately IMF officials said they were "bewildered" at the World Bank's willingness to take the risk of going ahead with the loans to Argentina at this stage and insisted that the move would not hasten progress in IMF negotiations.

Officials suggested that the IMF would take more convincing than the World Bank about the efficacy of the economic adjustment measures Argentina has proposed.

From Peter Wilson-Smith
in Berlin

"Argentina has built up a certain track record with the Fund and that makes the Fund rather cautious," an IMF source said.

There is also scepticism within the IMF about whether negotiations with Argentina can be completed within 10 to 15 days as suggested by Jean Sourrouille, the Argentine economy minister.

"It could be done that fast, but I would be surprised," said one official yesterday, adding that it appeared that Argentina was trying to drive a wedge between the IMF and World Bank as a way of pushing the IMF to agree less stringent economic conditions.

The World Bank loans to Argentina still have to be approved by the board of the Bank. So far, the package has not been discussed at board level, but it is expected to come up early next month.

There are widespread suspicions in Berlin that pressure from the US Government led to the World Bank taking such a high-profile and making such an unusual move. The details of the World Bank agreement with Argentina are likely to be closely examined by the institution's board.

World Bank takes a risk

The \$1.25bn World Bank package for Argentina unveiled in Berlin has prompted much speculation about the role played by the US. It has also raised questions about the management of the debt problem. The deal is highly unusual because it marks a break with the normal pattern whereby debtor countries first agree an economic programme with the International Monetary Fund and this in turn unlocks longer-term World Bank finance and renewed commercial bank lending.

It is widely thought that the US has been responsible for thrusting the World Bank into the front line on Argentina. Some delegates at Berlin believe the motive is a simple political one: it serves US foreign policy to help the democratic government of President Alfonsin ahead of next year's elections. In addition, there is speculation about divisions between Michel Camdessus, managing director of the IMF, and the US adminis-

tration over the debt strategy.

Although disbursements of the World Bank loans depend on Argentina moving to free up its trade sector, cut subsidies, improve its over-regulated financial markets and reduce the public sector deficit by 1989, it is a much less precise form of conditionality than that imposed by the IMF. IMF programmes are shorter-term and are based on countries meeting specific economic performance criteria.

For the World Bank, its approach to Argentina carries risks. The reforms agreed are sensible but if there are problems finalising an IMF agreement, the Bank could find itself out on a limb.

Servicing the Forces

IF NOT YET a budgetary crisis, then it is certainly a very serious budgetary problem that our Defence Editor highlights in his adjoining article today. The Armed Forces have deserved well of their country in the last two decades. During the several "winters of discontent" they uncomplainingly and efficiently carried on essential services other public bodies refused to perform. During the Falklands War they won, on a shoestring, a victory which restored respect for the rule of international law around the world. And for nearly 20 years they have battled to restore communal peace in Ulster, while stoutly resisting the temptation to transgress civil law to which the armed forces of other countries have regularly succumbed.

Throughout the same period they have also maintained Britain's deterrent rôle within the Atlantic alliance, though with increasing difficulty as their strength has been whittled away by economy measures. The service chiefs have been insistent throughout that a very high proportion of the defence budget should be spent on equipment and that only the best weapons should be bought, even when this has meant that service numbers have had to be reduced. That trend has gone far enough. The services continue to need the best equipment. But their numbers have declined to an irreducible minimum.

It is also difficult to see how Britain's defence commitments can be reduced without damage either to the defence of the realm or the country's alliance obligations. Yet these, too, should be carefully reviewed. It must be a matter for regret that the forceful Sir Nigel Bagnall is not Chief of Defence Staff at this difficult time. Mr George Younger, the Defence Secretary, who has yet to make a significant mark upon his office, has an opportunity to do so, by recognising that the days of fudge must end.

Chancellor gets tough on Latin American debt

By Anne Segall, Economics Correspondent, in Berlin

MR LAWSON, Chancellor of the Exchequer, is resisting international pressure for a global debt scheme which would let relatively rich Latin American countries off the hook. He said any attempt to shift the burden of Latin America's unpaid debts on to the British taxpayer would be unacceptable.

Mr Lawson was speaking in Berlin, where he is attending the annual meeting of the World Bank and International Monetary Fund.

The French and Japanese want a sinking fund for Latin-American debts. Mr Lawson's view is that relatively rich countries, such as Argentina, Brazil and Venezuela do not need such concessions.

His main problem is to prevent the initiative he has taken on African debts being used as an excuse for richer countries.

He also points out that the money at stake in Latin America is bank money, whereas most African debts are to governments.

British anxiety has been heightened by news that the World Bank has agreed to make a \$1.25 billion (£750 million) loan to Argentina without waiting for Argentina to agree an economic reform package with the IMF.

Mr Frank Cassell, who represents Britain on the board of the World Bank, is expected to express Britain's concern at the next board meeting.

Claims by Argentina that it is near agreement on an IMF programme were hotly disputed by senior Fund officials yesterday.

Mr Lawson said: "I am increasingly concerned at the tendency for Fund programmes to get weaker and weaker. I don't think that is in the interests of anyone."

Yesterday he welcomed the fact that an African relief package was finally agreed in Berlin at the weekend.

He told a joint IMF-World Bank committee that under the agreement, creditor countries would provide relief by reducing the interest payable, writing off a portion of the debt or extending the pay-back period.

He estimates the package could eventually save the poor countries involved about £300 million a year, with Britain chipping in about £20 million a year. Britain has also promised the World Bank £250 million for its special programme for Africa and is making an important contribution towards the IMF's new adjustment facility for hard-pressed debtors.

● Daniel Johnson in West Berlin writes: Though Britain is cautious about attaching rigorous environmental conditions to World Bank loans to developing countries, there is growing pressure, and Mr Lawson gave "full support" yesterday to the Bank's environmental emphasis.

A gulf was meanwhile opening between richer states, concerned to protect environment, and poorer nations desperate for economic growth.

But in a statement yesterday on Amazon rain forests the World Bank's Environmental Department said the Bank "is now giving highest priority to protection of tropical forests in all the projects it funds".

Today, Chancellor Kohl of West Germany will open the official proceedings of the conference with a speech in which he is expected to reiterate Bonn's demand for much more stringent environmental controls on the use of World Bank resources.

US import cuts 'would set back debtor nations'

By Peter Montagnon, World Trade Editor

DEBT-RIDDEN developing countries risk a further setback in their efforts to revive their creditworthiness by lifting exports, if the US cuts imports so as to reduce its own trade deficit, according to an internal study by the US Commerce Department.

The study - an analysis rather than a policy document - draws attention to the heavy dependence of leading debtors on exports to the US, particularly of manufactured goods.

Sluggish export growth among debtor countries has already impaired their efforts to recover from the debt crisis. "The heavy dependence of LDC debtors on the US market means that large reductions in the US trade deficit could have a major impact on the exports of Mexico, Brazil and other debtors," it warns.

Manufactured goods exports, mostly to the US, have been the only bright spot in a lacklustre trade picture, which left overall exports of highly indebted countries to the industrialised world at just \$90bn in 1986 - well below the \$98.4bn of 1980.

Preliminary estimates suggest a recovery of exports in 1987 to \$102.9bn, but the report says a matter of particular concern is the uneven division of the performance.

The strong export achievements of Mexico and Brazil mask a substantial deterioration in the performance of the 15 other most heavily indebted countries, whose exports fell by 27 per cent from 1980

through 1986, says the study, which was prepared by the Commerce Department's Trade Information and Analysis Division.

The other 15 countries are: Argentina, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Ivory Coast, Jamaica, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia. These, with Mexico and Brazil, account for almost half of all LDC debt. US imports of manufactured goods from these countries increased by \$11bn from 1980 through 1986, and the increase was particularly strong in the cases of Mexico and Brazil, the study says. EC and Japanese imports of manufactures from the same group grew by only \$1.8bn and \$1.6bn respectively.

Moreover, growth of debtor exports of manufactures has been concentrated in products most vulnerable to protectionist curbs, such as motor vehicles and parts, clothing, footwear, iron and steel, it says.

A protectionist solution to the US trade problem would "seriously affect" debtor exports and could lead to an intensification of the debt problem, but this scenario might be averted if the US were able to tackle its own trade deficit by increasing exports rather than by reducing demand for imported goods.

That in turn would require "robust and prolonged" economic growth in Europe and Japan, fuelled by domestic demand as well as an increase in the low US savings rate.

Alfonsín attacks Peronist candidate

By Gary Mead in
Buenos Aires

PRESIDENT Raúl Alfonsín of Argentina has strongly criticised the opposition Peronist party, suggesting that it poses a threat to stable democracy.

He hinted that Mr Carlos Menem, the Peronist Presidential candidate, wanted to return Argentina to old-style corporatist politics, to the detriment of the nation. Argentina is due to go to the polls to elect a new President in May 1989.

It appears that President Alfonsín is now beginning to put his weight behind the campaign to elect another President from among the ranks of the Radical Party after weeks of speculation that the Radicals were divided about the choice of Mr Eduardo Angeloz, governor of the province of Córdoba.

In a speech last week President Alfonsín called on the electorate to vote for what he

described as the "serious man" and to reject the "frivolous man" in the election. While avoiding naming Mr Menem, it was evident Mr Alfonsín was instructing voters to consider Mr Angeloz as the "serious man".

President Alfonsín's latest attack on Peronism singled out Mr Menem's pledge to rally the nation by appointing a trade union leader as Minister of Labour and a businessman as Economy Minister.

"This cannot be, this doesn't comply with authentic democracy," said Mr Alfonsín. He warned Argentines that "we either go forward or backwards". His audience of 500 women Radical Party delegates were left in no doubt about which direction Mr Menem represented.

In recent opinion polls Mr Menem, governor of the province of La Rioja, leads Mr Angeloz by a wide margin of 15 percentage points. But Argentina traditionally has a large number of floating voters, now apparently totalling nearly 30 per cent.

The crucial issue in the election is likely to be the Radicals' poor handling of the economy, with Mr Menem promising trade unionists substantially improved living standards.

Latin America move on debt

By Stephen Fidler in West Berlin

FINANCE ministers from the large debtor countries in Latin America have agreed in West Berlin to push forward a plan to reduce the significant debts owed by countries in the region to each other.

The meeting of the ministers, from Argentina, Brazil, Venezuela and Colombia, has cleared the way for a declaration on the subject by Latin American heads of state when they meet in Punta del Este at the end of October.

While the four are the largest debtors in Latin America, they are also the biggest inter-regional creditors. Brazil alone has about \$3bn to \$4bn of official export credits outstanding to other states.

Uruguay, Colombia and Peru are also expected to join the programme which is expected to involve what amounts to the swapping of assets.

A precedent was set by the reduction in Costa Rica's debt to Mexico engineered by the purchase by Costa Rica of Mexican loans in the secondary market at significant discounts to face value. The ministers have now established technical groups to explore the options which include the reduction of private as well as public sector debt.

Latin American countries have been pursuing debt reduction strategies, mostly relating to commercial bank loans, with varying vigour. Brazil, for

example, expects to reduce its outstanding debt by 5 to 7 per cent this year.

Mr Mailson da Nobrega, the Brazilian Finance Minister, whose country formally declared an end to its moratorium on commercial bank interest bank payments last week, said debt reduction was one of three elements in the country's external financial strategy now that the signing of a commercial bank financial package was nearly complete.

The aim was to increase foreign project financing in Brazil: discussions have been held with the Japanese government on so-called recycling credits and with the Italian government, for example.

World bankers accused of harming poor

By Leslie Collitt

THE International Monetary Fund and the World Bank were yesterday accused of "grave violations" of their original goals and the principles of international law at the opening session of the Permanent People's Tribunal at West Berlin's Free University.

The tribunal has been organised by the left-wing Lelio Basso Foundation in Rome. Its jury includes Mr Adolfo Perez Esquivel, the Argentine Nobel Peace Prize winner and Professor George Wald of the US who won the Nobel prize for biology in 1967. Mr Dilson Funaro, Brazil's former finance minister, is to speak today on the subject of what would happen if IMF policies were applied to the most indebted country, the US.

Professor Robert Triffin, a former IMF economist who unofficially acted as the defence said the tribunal failed to note that the Third World's major indebtedness was to the US and not to the IMF.

For his part Professor Wald described the indebtedness of Third World nations as national "peonage" or debt slavery. Third World hunger was directly related to indebtedness as the constant pressure for hard currency to pay external debts forced poor countries to grow cash crops in place of food which they now had to import.

World Bank threatens to usurp IMF role

Stephen Fidler on the World Bank proposal to take the lead on a loan to Argentina

THE decision of Mr Barber Conable, the World Bank president, to recommend \$1.25bn in new loans for Argentina before an economic programme from the International Monetary Fund is in place, has stirred up a hornets' nest in Berlin.

It has raised questions about the future relationship between the Bank and the Fund, which are central to the question of how the debt crisis, unresolved after six difficult years, is to be approached.

The tradition has been that the IMF takes the leading role in the management of each country's problem. Only after a fund programme is in place do the other elements follow: World Bank sector reform loans, reschedulings with the Paris Club of western creditor nations and private financing from the banks.

In the Argentine case, the World Bank appears to be taking the lead, incorporating in the agreement certain macroeconomic conditions, some of which one could expect to see in an IMF letter of intent.

The claim is that by taking the lead in this fashion, the World Bank is usurping the role of the IMF, which traditionally looks after macroeconomic policy. The insinuation is that the US administration, anxious for the debt crisis not to blow up during the election period, has pushed the World Bank into this more central role, a role, it is claimed, supported by some of Mr Conable's expansionist lieutenants.

Another worry is that the World Bank's macroeconomic conditions paint the IMF into a corner in its continuing talks with the Argentine government. This, it is suggested, will inevitably lead to a weakening of IMF conditions, a development of more general concern to a number of prominent IMF members, including the British government.

Yet, while the World Bank has clearly never played such a leading role in such a promi-

nent case, officials of the institutions insist that the arguments have been overplayed.

For example, a senior fund official said yesterday that it had been envisaged since August that the World Bank would be the first to put in place a financing in the Argentine case. He cited it as proof that the institutions were indeed taking a case-by-case approach to the debt crisis.

Officials said this did not set precedents for the handling of future cases, however. Neither was the IMF, which under the leadership of Mr Michel Camdessus has until now been expanding its participation in attempts to resolve the debt crisis, now thinking of shrinking its role.

The suggestion that the World Bank had established the equivalent of an IMF letter of intent in its accord with Argentina also underestimates the breadth of an IMF agreement.

While there is an explicit target for the fiscal deficit in the World Bank agreement - a maximum of 2.4 per cent of gross domestic product in 1989 compared with the expected 4.6

per cent this year - there is no attempt to write, as the IMF does, a complete macroeconomic framework for the loans. There is no monitoring of the external sector of the economy, although there are forecasts, nor are there targets for growth or the balance of payments.

Furthermore, without targets for the fiscal deficit, the sector reform loans would not have addressed the problems they were meant to, bank officials argue.

Critical to the question of whether the IMF's role can be usurped is the reaction of other creditors. The Paris Club of western creditor nations will not go ahead with reschedulings without IMF agreement.

From the point of view of creditor banks, the position is similar. Mr Willard Butcher, chairman of Chase Manhattan

Bank said yesterday that, while he welcomed the World Bank loans, an IMF accord would still be critical to an agreement with bank creditors.

There is no doubt that the

move, however, entails risk for the sister institutions. The fiscal deficit target in the World Bank agreement is clearly a maximum. Yet, there is clearly a question about whether it will be possible to persuade Argentina that a tighter deficit target is needed on its IMF programme than on its World Bank programme. If the two targets turn out to be the same, however, this would smack of the dreaded cross-conditionality from which the institutions have been trying to move away.

The IMF has expressed support for the economic action taken so far by Argentina but this by no means guarantees agreement. It is thus conceivable, though not likely, that the World Bank - assuming its board gives the go ahead to the loans - could be left high and dry on Argentina. Alternatively, there are risks to the fund's credibility if it appears to fall tamerly into place behind the bank.

Latin American debt plan,
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56 survive air crash

All 56 people aboard an Argentine airliner escaped unhurt when the Boeing 737 ran off the runway in the southern city of Ushuaia into the icy waters of the Beagle Channel.

Lawson sticks to stance on taxes

Continued from Page 1

is not. However, because of the UK-Argentina political situation, any criticism that Mr Lawson makes of this deal is likely to be interpreted as sour grapes.

Meanwhile, Labour has challenged Mr Lawson to state publicly that he will not "rig" the inflation statistics by removing rising mortgage interest rates from the calculations.

Mr John Smith, Shadow Chancellor, made the challenge amid growing Opposition suspicions that the Government is poised to do this to give what Labour MPs describe as "spurious respectability" to the monthly inflation figures.

Although Whitehall sources have admitted that members of a Government-sponsored committee on prices have been invited to reconvene, they say this issue will definitely not be on the agenda.

Britain is virtually the only industrialised Western country to include mortgage interest rates in its inflation calculations. Inflation rose from 4.8% to 5.7% in August, and much of the increase was blamed on mortgage payments.

Mr Smith said in a statement: "If the Government changes the retail price index to exclude mortgage interest increases it will be an outrage. It would cor-

rupt the basis of a crucial economic statistic.

"Millions of people now paying large increases in mortgage payments would see their very real cost discounted by official sleight of hand. The Chancellor has now to make a public statement that it will not happen."

Mr Smith added: "We want a retail price index — not a rigged price index."

Later Labour Employment spokesman Mr Michael Meacher issued a statement saying the Government's advisory committee reported in 1986 that a survey showed more than 80% of consumers favoured the inclusion of mortgage rates in the inflation statistics.

Despite the apparent economic problems, the Confederation of British Industry said the sharp rise in interest rates during the summer has barely dented industry's confidence.

Its monthly survey of 1295 firms found the surge in inflation starting to show through in factory gate prices, but that order books were still well above normal.

The stability of the pound also helped export confidence, although the CBI believes the high level of interest rates, up from 7.5% to 12% since the start of June, will affect the ability of firms to sell competitively both at home and abroad.

Lawson renews pledge on taxes

From ROBERT MARTIN
in BERLIN

THE CHANCELLOR of the Exchequer, Mr Nigel Lawson, made it clear here yesterday that he is not going to raise marginal tax rates in order to damp down consumer demand. However, he would not comment on the possibility that National Insurance rates might be increased.

Mr Lawson, ahead of next week's formal opening of the annual meeting of the International Monetary Fund and World Bank, told the policy making interim committee of the IMF: "We must continue to resist those siren voices who want to use fiscal policy in a vain attempt at short-term demand management."

In his opinion, tax changes are quite unsuited for controlling short-term demand. He went on to repeat his conviction that if the requirement is to control inflation the prime instrument is interest rates.

The central theme in Berlin is the problem of the huge debts amassed by developing countries, a problem which lay at the heart of a massive street demonstration yesterday.

Mr Lawson is delighted that a proposal he first made in the spring of last year, to help the poorest sub-Saharan African countries has now been agreed. It should lead to these countries having the use of an extra \$500m of resources by writing off debt, offering concessional interest rates, and lengthening repayment terms.

On top of this it was announced yesterday that the poorest countries are to receive an extra \$650m over the next five years from the International Development Associate, the World Bank affiliate that makes loans at low concessionary rates repayable over 50 years.

However there is a different attitude towards the middle-income countries that are in debt.

Both Japan and France are keen to set up a special fund to help these countries; others, including Britain and West Germany, are against this. Mr Lawson suggested these countries should do more to cut back their budget deficits and provide an attractive climate for private investment.

Countries must adopt the policies laid down by the IMF that are necessary to restore economic health. If they do not co-operate, loans should be withheld.

Mr Lawson implied criticism of yesterday's news that the World Bank, which follows different criteria, has agreed four loans totalling \$1250m to Argentina.

The World Bank is obviously satisfied with the promises made by Argentina. Mr Lawson clearly

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WEST END FINAL

from Broad Street Associates  **Evening Standard**

Falklands souvenir handed in

A HEAVY machine-gun used against the British in the Falklands has been handed in to startled police—"it looks like a cannon," said one officer—as part of the nationwide firearms amnesty.

A man dumped the four-foot-long Czech-made weapon on the inquiry desk at Newquay police station in Cornwall. It had been used by the Argentinians and sneaked back to Britain as a souvenir after being captured.

Argentina and the UN

A leading member of Argentina's ruling Radical Party, Mr Federico Storani, has extolled the election of his country's foreign minister, Mr Dante Caputo, to the presidency of the UN General Assembly last week as part of the "process of opening Argentina to the exterior after the isolation in which we had been submerged by the last military government." He added that the appointment would "dilute the possibility of an attempt to destabilise (Argentinian) democracy." These are reasonable and worthy expectations.

Mr Caputo's candidacy for the UN job was supported heavily by so-called Third World and non-aligned countries. As might be expected, his victory was particularly unpopular with the British Government, which lobbied strenuously for Dame Nita Barrow of Barbados, who gathered sixty-odd votes as against Mr Caputo's ninety-odd. A British spokesman commented on the result by expressing the hope that Mr Caputo would stand down temporarily when the still unresolved Falklands-Malvinas dispute was debated by the General Assembly in November.

Most of the responsibility for the failure to put Anglo-Argentinian relations to rights belongs to the British Prime Minister. Six years after the end of the South Atlantic war, Mrs Thatcher refuses to moderate her inflexible attitude sufficiently to enable realistic negotiations between the two countries to proceed. She remains adamant that sovereignty over the islands shall not be discussed, even though the military junta which started the war has been and is being punished by the civilian government of President Raul Alfonsin, the courageous social democrat who was chosen to clean up the humiliating mess left by the generals' years of misrule.

Mr Caputo's UN elevation is seen by many in Argentina as an enhancement of his country's international reputation, which comes at an especially useful time for Mr Alfonsin and his ruling party: they face an election next year, and need all the help, fortuitous and otherwise, which is available. There have been some disturbing signs of neo-Peronism exerting itself, in one form or another, in recent months. This disreputable populism would be a poor substitute for the Alfonsin administration: the latter deserves to be strengthened in the interest of Latin America as a whole.

Mr Alfonsin deserved credit for steadying his country at a time of crisis. His government, however, is not beyond criticism. It has refused, for example, to ratify international agreements on nuclear non-proliferation, on the ground that these discriminate against developing nations with a nuclear capability. The United States and its six main allies, at a meeting in Rome earlier this month, classified Argentina's work to develop a medium-range nuclear missile as a "project of concern."

A general election which deepened Mr Alfonsin's authority would help to insulate him against undesirable compromises and threats to his decision-making. Since he came to power in 1983 he has had to carry out a prolonged balancing act, often a discouraging as well as a dangerous exercise. With his foreign minister as President of the General Assembly he has an added incentive to ensure that Argentina understands and lives up to its international obligations. This has been the most tangibly successful year the UN has known for a long time. Mr Caputo comes to his new job on a high tide of hope.

Argentina wins \$1.25bn in loans from World Bank

ARGENTINA and the World Bank yesterday announced they had reached agreement on \$1.25bn (£748m) in new loans for the country.

The loans, which have still to be approved by the World Bank board, were announced in Berlin by Mr Barber Conable, President of the bank, and Mr Juan Sourrouille, the Argentine Economy Minister.

Mr Conable will recommend approval to the bank's board of two sector adjustment loans of \$700m, to be disbursed by the middle of next year.

He announced agreement in principle of two investment loans totalling \$550m for low-cost housing and power projects.

Mr Conable was anxious yesterday to play down suggestions from some quarters that the agreement marked a shift in the relationship between the bank and the International Monetary Fund.

The World Bank accord has been announced before an economic programme has been agreed with the fund, and it places macroeconomic conditions on Argentina similar to those that would be expected on a fund agreement.

Argentina, for example, has agreed to aim for a consolidated public sector deficit of 2.4 per cent of gross domestic product next year, compared with that of 4.6 per cent in 1988.

Bank officials argue that these conditions are necessary or the sector reform programmes will not work.

The conditions are bound to bring the charge that the US Administration has pushed the World Bank into taking an unprecedented leading role in the financing, while the IMF remains reticent to lend its money.

There will also be worries among some Western countries that the World Bank accord risks weakening IMF conditionality.

Mr Sourrouille said he

expected negotiations with the IMF to be concluded in 10 to 15 days.

Argentina, in arrears to commercial banks by more than \$1bn, has not yet indicated its private financing needs to the commercial banks.

However, he said the country could not pay all the interest due to the bank and at one point suggested only half would be payable.

The reform loans, which reward Argentina for the overhaul of its inefficient and regulation-ridden trade and financial sectors, provide for an initial disbursement in October of \$150m under the trade reform loan, of the first \$200m under the banking sector loan and the remaining \$150m of the trade loan in January, with the final \$200m disbursed by the middle of next year.

The US and the countries of the Bank for International Settlements, except for the UK, have arranged a \$500m bridging loan for Argentina.

This bridging loan should become available once World Bank board approval is given to the loans early next month.

In spite of the agreement, however, bank creditors are likely to remain cautious about making new loans in view of next May's presidential election.

World Bank reveals \$1.25bn loan aid plan for Argentina

The World Bank has put forward a controversial \$1.25 billion (£747 million) programme to ease Argentina's balance of payments problem (Bailey Morris writes).

The arrangement, which could become a test case, marks the first time that the Bank had taken the lead role, ahead of the International Monetary Fund, in negotiating a substantive loan programme tied to economic reforms designed to curb Argentina's 1,000 per cent inflation rate.

Even before the announcement of the programme, which must be approved by the Bank's executive board, the Chancellor, Mr Nigel Lawson, had expressed his concern over what he saw as a weakening of the conditions imposed on debtor nations which had failed to make the economic reforms necessary for new loans.

"I am increasingly con-

cerned by the tendency of IMF programmes to get weaker and weaker for various reasons. It is not in the long-term interests of anyone," Mr Lawson said.

Also announced was a programme of unspecified relief money for Jamaica and an agreement through the Paris Club on a programme of concessions for the poorest debtor nations in sub-Saharan Africa.

Mr Lawson reaffirmed his strong support of the existing debt strategy of Western countries, which has come under increasing attack in recent months.

But he advocated a tough response to countries which failed to live up to their agreements.

He said arrears at the IMF had risen tenfold, from \$250 million in 1984 to \$2.5 billion at the end of 1987. He said that arrears of this magnitude were damaging to everyone.

Nations which did not fulfil their agreements should be dealt with firmly by both institutions, Mr Lawson added.

The programme unveiled yesterday would involve the fast disbursement of \$700 million in balance of payments loans, and \$550 million in specific, longer-term investment loans. The disbursements would be linked to the implementation of policy measures negotiated as part of the macro economic programme, Bank officials said.

● Japan yesterday unveiled a new scheme to put its huge trade surplus to work in helping debt-ridden countries of the Third World (Reuter reports).

Under the plan, the Export-Import Bank of Japan will extend loans together with the IMF to help middle-income debtors, such as Brazil and Mexico, put their economies back on track.

World Bank surprises with \$1.25bn Argentine package

IN AN unprecedented break with past practice, the World Bank has agreed a \$1.25bn package of new loans for Argentina without first waiting for agreement to be reached with the International Monetary Fund on an economic adjustment programme.

Barber Conable, president of the World Bank, and Juan Sourrouille, Argentine economy minister, announced the deal yesterday in Berlin. Both stressed that while it was aimed at tackling the country's economic problems the package was also directed at reviving growth in the Argentine economy.

The timing of the deal, which still has to be ratified by the World Bank board in October, caused surprise among bankers and officials because it comes at a time when Argentina has been having difficulty reaching an agreement with the IMF.

This has given rise to suspicions that the US has been putting pressure on the World Bank to agree a package in order to help the Argentine government in next year's presidential elections and preserve the country's fledgling democracy.

The package includes two sectoral adjustment loans totalling \$700m aimed at promoting reforms in the financial and trade sectors and \$550m of investment loans for low-cost housing and power development.

The agreement with the World Bank and disbursement of the structural loans is tied to agreed macroeconomic stabilisation measures. However, one European official suggested that the package could encounter criticism on the World Bank board if the conditions were thought to be too lax.

Nigel Lawson, the Chancellor,

refused to comment on the Argentine package yesterday beyond saying: "We shall form a view when we have studied it and judge it on its merits."

However, the Chancellor said he was concerned about "the tendency of IMF programmes to get weaker and weaker".

Traditionally the World Bank has waited until the IMF has agreed adjustment measures with debtor countries before going ahead with its longer-term lending programmes. In addition, an IMF programme has usually been the trigger for commercial banks to resume lending.

Mr Conable insisted yesterday that the World Bank had kept in close touch with the IMF and that the fund's managing director, Michel Camdessus, had kept kept closely informed. "I do not believe we have violated any sacred principles," Mr Conable added.

Mr Sourrouille said yesterday that Argentina was still negotiating a new agreement with the IMF which it hoped to finalise soon.

One explanation being put forward in some quarters yesterday to explain the fact that the World Bank had gone ahead before the IMF was that it would be much easier politically for Argentina to present an agreement with the World Bank to the electorate than a deal with the highly unpopular IMF.

There is uncertainty how commercial banks will react to the latest development. Argentina's arrears of interest owed to the banks has now topped \$1bn and the country is expected to ask for fresh bank loans of about \$2bn.

However, one banker said yesterday: "Without an IMF agreement the banks will reach agreement on a new package."

**Falklands call-up
for Peat Marwick**

THE marketing consultancy wing of accountants Peat Marwick McLintock have been called in to handle a challenging assignment—finding outlets for yarn and knitwear produced from Falklands sheep by Falklands Mill.

The Mill was set up after the Falklands war by Richard and Grizelda Cockwell at Fox Bay Village, a hamlet only accessible by light aircraft or ship.

Please don't rescue the customers

A SINGULAR message goes out from the world's bankers in Berlin to Michel Camdessus, managing director of the International Monetary Fund. It is: "Please, do not rescue our customers."

At the same time Nigel Lawson has been directing a whole stream of messages at Mr Camdessus. They are, if anything, less polite.

Ideas of grand schemes for helping out the world's debtors hang over these IMF and World Bank meetings like clouds waiting to burst. The French have one, the Japanese have one, Mr Camdessus seems to be in sympathy with them and may have one himself.

They will find no friend in the Chancellor. "Our main argument," he has been saying, "is with those who say we must have some great global scheme which involves the taxpayer taking risks off the backs of the banks. We're wholly opposed to that."

So are the banks. They think that the idea is a chimera but what worries them is that their customers may start to believe in it.

"There can't be a catholic solution," says John Melbourn, who runs National Westminster's International Banking, "when debtors vary right through from North Korea to Mexico. The question is, how do you reward the good guys?"

The good guys are the governments who have made sustained efforts, often in the face of hardship and political difficulty, to pull their countries' economies round. The banks fear that the good guys will try less hard (or find it harder to try) if they think that an easier option may be coming along—and the not-so-good guys will not try at all.

The two trillion-dollar debtor countries, Mexico and Brazil (there are three if you count the United States) this time find themselves ranked among the good guys. Mexico exports are rocketing and Brazil's trade surplus this year will be almost as big as our deficit.

Its debt has fallen by \$8.5 billion in 18 months and looks set to fall faster. If the two countries keep up the pace, their credit will be able to stand on its own feet again.

They must find it galling to see the World Bank rushing to the rescue of Argentina, with a new package of

CHRISTOPHER FILDES

credit. What scares the World Bank (and every other creditor of Argentina) is that the election next year may bring in the Peronists who would, beyond question, be bad guys.

The Bank is doing its bit for the Alfonsin government knowing that, as the history of Argentina shows, there is always something worse around the corner.

Bankers complain that the IMF and World Bank blur what should be the rewards of virtue—while at the same time reducing their own exposure. The fund and bank are both

'I do hope Nigel Lawson does not find himself needing the IMF'

now taking in more money than they put out. It reminds John Melbourn of the rubber stamp his bank uses on cheques: "Words and figures differ."

The banks cannot impose good behaviour on their foreign customers or write changes of policy into their loan agreements. Only the international agencies can do that, and Nigel Lawson took another swipe at the way they are doing it.

"I'm increasingly concerned" he said, "at the tendency of IMF programmes to get weaker and weaker, for various reasons. That is not even in the interest of the countries concerned."

He went on to tell his ministerial colleagues that the IMF did not need the new capital ("quotas") it is asking for. The IMF is going for a 100 p.c. increase and though the question will not be settled at these meetings, the British view is that a quarter of that would be plenty.

To round matters off, Mr Lawson picked a fight with the IMF's economists, though he might say they had picked a fight with him. They, in the guarded language of their World

Economic Outlook were less than reverent about his tax cuts.

An earlier draft was even less reverent but the Chancellor, it appears, saw it and his explosion destroyed it. In Berlin he has been content to say that the IMF has a Neo-Keynesian fine-tuning approach to fiscal policy which is rather old-fashioned. Translated, this meant that his tax cuts were here to stay.

It is all good trenchant stuff but it sends a superstitious shiver through us veterans of earlier IMF meetings, when the British would stand outside the managing director's door, preparing to say: "Please," and even "Pretty Please". True, "pretty please" is not in our Chancellor's vocabulary but I do hope for everyone's sake that he does not come to find himself needing the IMF.

He is delighted to have brought off his own plan of debt relief, for the poor countries of Africa south of the Sahara. This was the plum he had put into the Berlin pudding, to be proudly "and predictably" pulled out again by the ministers of the Group of Seven large industrial countries.

The Germans, who had resisted it to the last, gave way—anxious hosts, wanting to make their party a success.

The plan could cover as many as 34 countries, with debts of \$62 billion, the bulk of them owed to Western governments. The creditor countries may opt to cut interest rates (the British preference) or write some debt off (the French) or allow a quarter of a century to pay (the Americans).

Will this prospect of debts forgiven encourage the bad guys? Its deviser says no, each country's case will still be treated separately, there is every difference between debt owed to governments and debt owed to banks and in any event the Sudans of this world (unlike the Argentinas) could not, even with angelic management, get their books straight.

For all that, the most difficult distinction for the creditors—banks, governments, the World Bank, the IMF—to draw is still the line between the Can't Pays and the Won't Pays.

Bankers dodge the eggs to mix debt ingredients

BERLIN, rent-a-mob capital of Europe, is the less-than-welcoming venue chosen for this year's annual meetings of the International Monetary Fund and World Bank.

Every German with a grievance has come here to throw eggs or worse at those who by virtue of their slick suits and glamorous wives are held responsible for the world's ills.

Luckily, the concrete bunker-style conference centre built by the Berliners for events like these is egg proof.

On the inside, it is business as usual for the finance ministers and central bank governors from the 151 IMF member countries who have gathered here to talk shop and launch new initiatives.

The third world debts problem is high on the agenda. It always is. As interest piles up on interest, the debt overhang gets bigger and bigger.

It has now reached a spectacular \$1,218 billion, with \$500 billion of that owed by just 15 major debtors, mostly in Latin America.

No one really expects to get repaid. But the banks like to pretend they will, keeping debtors on their toes and collecting as much interest as they can while the going is good.

Michel Camdessus, managing director of the IMF, is suspected of "going native" with his talk of radical solutions. Bankers are hostile. They dislike having to pay for someone else's noble instincts and are preparing to resist schemes for an across the board write-down of debts.

They have an unexpected champion in the Chancellor. Although Mr Lawson is the chief architect of the debt relief scheme for the poorest of the poor in Africa which was finalised here over the weekend, he does not believe the principle of debt write-downs should be extended to relatively rich countries like Argentina and Venezuela.

They are capable of looking after themselves, he claims. And as they owe most of their money to banks, not governments, they should try to sort out their mess privately.

Curiously, Mr Lawson feels the IMF should be tougher with debtor nations instead of allowing them to get away with

ECONOMIC VIEW

By Anne Segall

increasingly wishy-washy adjustment programmes. Yet when it comes to the problem of managing the British economy, he is adamant that the IMF is talking twaddle.

The IMF suggestion that Britain should consider some fiscal tightening to take the steam out of the economy has been dismissed as neo-Keynesian nonsense.

Mr Lawson is sticking firmly to the view that higher interest rates are the right response to Britain's overheating problems and that fiscal fine tuning is not. He puts forward three powerful arguments to defend his handling of the economy, claiming:

"Tax policy should be set in a medium-term framework because the experience of the

Curiously, Mr Lawson feels the IMF should get tougher with the debtor nations

1960s and 1970s shows that fine tuning does more harm than good..."

"Britain's present balance of payments problems reflect private sector overspending rather than excessive borrowing by the state and are thus very different from those of the past...."

"Much of the money being spent abroad is on capital equipment which will ultimately improve British industry's ability to satisfy domestic demand."

These arguments are brilliant but flawed. The IMF does not dispute the fact that the British government under Mrs Thatcher has conducted itself in an exemplary way, building up a substantial financial surplus after years of deficit under Labour.

A government in surplus is a government which is adding to the savings of the nation and therefore cannot be blamed for the surge in imports associated with excess spending.

Nevertheless, Mr Lawson, in

his position as Chancellor, is responsible for ensuring that the balance between spending and saving is appropriate for the economy as a whole. If the private sector will not save enough, he must either force a change of behaviour or save on its behalf. And that means raising taxes.

IMF economists are not finetuners. But they believe that Mr Lawson's "let's suck it and see" approach is extremely risky. For it is hard to detect an upsurge in inflation in its early stages. Yet, once inflationary forces are allowed to take root, only violent remedies will work.

So the IMF plea for early action is in effect a plea against the prospect of a recession a year or two from now.

Mr Lawson has become a passionate advocate of stable exchange rates, arguing that businessmen need to know where they are to prosper. He thus blames the deteriorating current account entirely on the spendthrift habits of the British consumer, ignoring the possibility that Britain may be in structural deficit.

But a close look at how Britain has performed relative to other countries is revealing, suggesting that Britain has somehow become the fall guy for international efforts to close the American trade gap.

According to figures from the Organisation of Economic Co-operation and Development, Britain's was earning £184m a month net in America in the final quarter of last year. By the first quarter of this year, however, the position had been reversed, with Britain in deficit to America by \$48m. And the gap has since grown to \$70m a month.

By contrast, Germany has got off relatively lightly. Its massive surplus with America has shrunk, it is true, but at £600m a month, down from £800m a month at the end of last year, remains substantial.

In addition, Germany seems to be building up a massive surplus with Britain to compensate for its American losses. In the first half of the year, Germany's surplus with Britain reached £3.8 billion, up from £2.9 billion in the same period a year ago. Britain has become Germany's best market in Europe. Must we really tie ourselves to the Deutschemark?

World Bank Sets Package Of Loans for Argentina

Reuters

BERLIN — Argentina won a breakthrough in its bid for more money for its debt-laden economy with a \$1.25 billion World Bank package announced here on Sunday.

The World Bank president, Barber B. Conable Jr., said he would recommend that the bank board approve two loans worth \$700 million. He also said the World Bank approved in principle two more loans worth \$550 million.

The widely heralded agreement signals important progress on a package to assist with the economic problems of Argentina, a prominent Third World debtor.

In return, Argentina had agreed to reforms to strengthen its finances, cut inflation and streamline its public enterprises, Mr. Conable said before the joint annual meeting of the World Bank and the International Monetary Fund in West Berlin.

The two loans comprise \$400 million to help reform the banking sector and \$300 million for trade and industry reform.

The loans approved in principle would be for low-cost housing and power development in Argentina.

Argentina's economy minister, Juan Sourrouille, said the announcement would trigger a \$500 million bridge loan from the Bank for International Settlements that was agreed to in principle in early August.

Shahid Husain, World Bank vice president for Latin America, said he expected Argentina to agree soon with the IMF on a loan that officials have said could total 1.2 billion special drawing rights (\$1.55 billion).

He also said that financing talks with commercial banks would begin soon. Securing enough external finance to implement Argentina's economic reforms was a key issue, he said.

Latin America Has a Brief Respite

By Mac Margolis

RIO DE JANEIRO — When statisticians at the Brazilian Central Bank finished tallying the numbers for trade for the month of August, the results arched eyebrows all over this South American nation.

Just in August, Brazil reported a \$2.087 billion trade surplus, a record figure during a record-breaking year. The feat was managed through exports of \$3.46 billion, more than Peru exported in all of 1987 and nearly equal to the yearly gross national product of Bolivia.

According to the Central Bank calculations, if the nation's foreign commerce keeps its current pace, by the end of the year Brazil will log a \$19 billion trade surplus, the world's third largest, just behind Japan and West Germany.

But Brazil, with a diversified economy and an export portfolio ranging from frozen orange juice to battle tanks, stands out as the glaring exception in Latin America.

In a continent crippled by debt and starved of fresh capital, the revenue earned by exports is like lifeblood. Yet, for most countries in Central America, South America and the Caribbean, an age-old handicap is still there.

The region's exports are overwhelmingly primary goods, such as petroleum, sugar, cocoa, wheat, tin and bauxite, whose prices oscillate according to the vagaries of the weather, the intrusion of new materials born of technological discovery and the capricious appetites of the industrial economies.

All told, the recent months have been kind to most of the developing world, according to financial analysts. The International Monetary Fund, in its recent World Economic Outlook, reported better than expected growth — 3.5 percent to 4 percent as opposed to earlier projections of 2.7 percent — in the seven richest countries, where most Latin American products are sold.

The IMF also noted a 30 percent increase, from May 1987 to May 1988, in the dollar prices of basic commodities, such as copper, tin, wheat, pulp for paper and fishmeal.

Furthermore, oil, the biggest import item in much of the region, fell precipitously. These countries are expected to run an accumulated trade surplus of \$22.7 billion this year, or twice that of 1987, according to projections by the United Nations Economic Commission on Latin America and the Caribbean.

The recent windfall for Latin America is due in large part to a fragile, and at best temporary, advantage — the surprising recovery of metals and the U.S. drought that ravaged crops of soybeans, cotton, wheat and corn.

In April, ECLA concluded that, while Latin America boosted exports 32 percent between 1980 and 1987, the net value of those goods declined by one percent.

"The recovery is not likely to last for very long," predicted an ECLA economist, Hector Assael, in Santiago. "Basic goods' prices will probably remain low through 1990."

Even Brazil's spectacular trade surplus is largely due to ample portions of good luck — a 22-percent rise in prices of exports.

"We have one of the most closed economies in the world," said Marcos Vinicius Pratini, president of the Brazilian Exporters' Association, at a meeting of businessmen in Rio this

month. "We are going to pay dearly for this policy. Our clients are going to ask, 'What kind of store is this, that only wants to sell and buys nothing?'"

In an August study by the General Agreement on Tariffs and Trade, the international accord that mediates world trade, between 1982 and 1987 the 15 most indebted countries imported \$315 billion less than in the previous period. Two thirds of the cut in imports was an austerity squeeze imposed by the burden of debt payments.

In recent weeks, U.S. trade officials have summoned dozens of foreign businessmen to Washington to answer charges of dumping, tariff walls and inadequate patent protection.

To some, the worst threat is the new U.S. Trade Law, which was recently signed by President Ronald Reagan. It authorizes commerce officials to respond to trade practices deemed

"We are the orphans in this process," said Mr. Ricupero.

Despite a bold but embryonic free trade pact between Brazil and Argentina, trade within Latin America is low and declining.

At the beginning of the decade, 17 percent of the total \$90 billion Latin trade was intra-regional; this year, however, it is expected to drop to 12 percent, the United Nations reported.

Latin America lacks a tradition of economic cooperation.

"Every country in Latin America was the potential enemy of every other. There's a long tradition in Latin America of breaking trade accords and treaties," said Benedicto Moreira, a former Brazilian Central Bank authority.

Inwardness was fueled by a decade-old model of development based on the substitution of

The recent windfall is due in large part to a fragile, and at best temporary, advantage — the surprising recovery of metals and the U.S. drought.

unfair under a more muscular version of Section 301 of the U.S. Trade Act. The Brazilians have called this "Super 301" and are predicting a backlash of U.S. protectionism.

Latin America also faces new trade blocs in the developed world. The United States and Canada have signed a new trade agreement, and Japan and the Pacific Rim countries have agreed to increase cooperation.

More important, perhaps, are the plans of the 12 European Community countries to pare tariffs and remove virtually all internal trade barriers from 1992.

Latins fear that such trading blocs could leave the relatively weaker developing countries out in the cold.

"We don't know yet what this is going to mean, but certainly there is a risk of greater closure," said Rubens Ricupero, Brazil's representative to GATT. "Each individual European country will surely lose some competitive advantage, the community as a whole will have to compensate by restricting outside competition or asking for reciprocity in foreign markets."

Professor Jeffrey Sachs of Harvard University, a counselor to many Latin governments on debt and inflation, disagrees. "I'm optimistic; 1992 is going to revitalize the European market, facilitating takeovers, easing labor restrictions and increasing investment opportunities and capital flow. In all, it's going to make a more vigorous Europe, which means a bigger market, and that will be very good for everyone," he said.

The only region still lacking an integrated trade agreement is Latin America.

imports with locally produced goods. The import substitution helped some countries, like Brazil, to grow and diversify their economies. However, it created economic greenhouses, which spawned fragile and uncompetitive businesses in most countries.

Many Latin governments are now beginning to encourage investment, sell off bankrupt public enterprises and seek technology to renovate antiquated industries. Creditors say the remedy is to raze the trade walls and let in foreign capital. But many economists worry that total openness would cause distortions by gutting infant industry in many countries.

"The open trade argument is one-third ideological, one-third appropriate, and one-third a power grab by creditors who want unilateral concessions from debtors," says Professor Sachs, a Harvard economist. "An outward orientation can be compatible with protection of important national industry, and Japan is the key example. Japan, the pre-eminent example of growth in this century, had an important element of protection in its most productive growth period."

The trick for many Latin American countries, staggering under debt obligations and at the same time rushing to catch up in world trade, will likely be to find that delicate balance — nurturing national companies without suffocating the economy.

MAC MARGOLIS is a Rio de Janeiro-based correspondent for Newsweek and a contributor to The Times of London.

World Bank in Argentina debt initiative

THE WORLD Bank yesterday took the initiative for the first time in a major Latin American debt rescue when it agreed \$1.25 billion of loans for Argentina.

The International Monetary Fund, which has taken the lead in all the main debt negotiations in the past, has still not concluded its negotiations with Argentina. This is bound to raise questions over the World Bank move among Argentina's creditors.

The Chancellor, Mr Nigel Lawson, said yesterday he had not seen the new deal but he voiced concern at the tendency for the conditions on IMF programmes to get "weaker and weaker." The absence of an IMF programme in the latest package is regarded with suspicion by Britain.

The World Bank has gone ahead on the basis of a "letter of development policy" from Argentina signed by economics minister, Mr Juan Sourrouille.

World Bank executive director for Latin America, Mr Syed Husain, denied there was any weakening of economic conditions set for Argentina.

The package still has to be approved by the World Bank board, which will clear the way for a \$500 million bridging loan from the US Treasury and from member central banks of the Bank for International Settlements, excluding Britain.

World Bank President, Mr Barber Conable, said he was convinced a new economic programme announced by the government last month was a step in the right direction.

Press Cuttings

from Broad Street Associates

THE WALL STREET JOURNAL **26 SEP 1988**
EUROPE

Argentina announced economic reforms supported by a \$1.25 billion World Bank loan, bypassing the IMF. The move came amid a clash between IMF Director Michel Camdessus and the U.S. over debt strategy.

Argentina Gets Loan Accord, Bypasses IMF

By PETER TRUPELL

Staff Reporter of THE WALL STREET JOURNAL

WEST BERLIN - Amid a furious behind-the-scenes quarrel between the U.S. and International Monetary Fund Director Michel Camdessus, Argentina bypassed the IMF and announced economic reforms supported by a \$1.25 billion World Bank loan.

For the World Bank to take such a prominent role without Argentina first agreeing on an economic program with the IMF is unusual, if not unprecedented. But the World Bank effectively is stepping into the breach left by a recalcitrant IMF. Ironically, in an apparent attempt to challenge the U.S.-dominated international debt strategy, Mr. Camdessus—who usually takes a soft line toward heavily indebted countries—seems to have put the squabble with the U.S. before Argentina's interests.

Although the IMF now is discussing an economic program with Argentina, this summer it unexpectedly delayed such talks for two months during a time the country desperately needed international assistance to help launch its August anti-inflation and austerity program, the so-called Primavera Plan, according to Argentine and U.S. officials.

The new economic measures announced yesterday at a joint Argentine-World Bank news conference here by Economy Minister Juan V. Sourrouille and World Bank President Barber B. Conable are designed to bolster the Primavera Plan by improving tax administration and collection, further overhauling public-sector finances, removing quantitative restrictions on imports, reducing tariffs and simplifying export procedures.

Underlying this situation are substantial differences between the IMF's managing director and the U.S. government over the handling of the international debt problem, and, it seems, an attempt by Mr. Camdessus this summer to force the issue in the case of Argentina.



Michel Camdessus

Series of Disputes

The clash over Argentina is just the latest in a series of disputes between Mr. Camdessus's IMF and the Reagan administration. Earlier this month, a top IMF official, speaking anonymously, told reporters in Washington that the U.S.-dominated process for economic-policy coordination and for managing exchange rates should be changed in ways that would enhance the role of the IMF. The official suggested anchoring exchange rates to a composite currency unit maintained by the IMF and including the IMF board in the now-secret discussions on economic policy held by the seven biggest industrial powers.

Mr. Camdessus has at times spoken warmly about debt relief and been critical of the U.S.-dominated management of the debt crisis. He also has allowed the IMF in its World Economic Outlook this year to openly contradict U.S. government economic expectations about continued reduction of the trade deficit, and he generally has sought more independence from his major shareholders. IMF officials also have spoken much more warmly than the U.S. government of debt plans that would involve refinancing Third World bank loans with government-backed bonds.

At a news conference last Thursday, Mr. Camdessus said progress in handling the international debt problem "hadn't been extraordinarily brilliant" in the past year. Through a spokesman, Mr. Camdessus declined to be interviewed for this article.

All of these statements out of the IMF have left the U.S. Treasury seething at Mr. Camdessus. While there hasn't been any public criticism, Treasury officials privately accuse him of trying to build up the role of the IMF at the expense of its major shareholders. One reason the administration opposed a recent Japanese debt plan is that it involved a major role for the IMF, and U.S. officials feared Mr. Camdessus might use that role to expand

Argentina Bypasses IMF to Obtain Loan Accord Backed by World Bank

Continued From Page 9

the debt relief in ways the U.S. considers dangerous.

Meanwhile, IMF officials privately ascribe their organization's recent unwillingness to help Argentina to the country's failure to reach previously agreed-on economic targets, and emphasize that they now are talking with the Argentine government in Buenos Aires about a new program.

"I don't know why the fund has been so critical," said Argentine central bank president Jose Luis Machinea. The breakdown in relations between Argentina and the IMF ostensibly was triggered by the country missing a quarterly target for its government fiscal deficit, Mr. Machinea said, even though it met several other targets.

But despite the lack of IMF support, Argentina got its August economic plan started, with the promise of a \$500 million bridge loan from the U.S. and other industrialized countries. That loan, which should be disbursed soon, had to be bridged to the planned World Bank loan program because of the IMF's sudden recalcitrance toward Argentina, World Bank officials said.

"The Primavera Plan is doing quite well in spite of the fund," Mr. Machinea said, pointing out that inflation, measured by an average of the consumer and wholesale price indexes has fallen to about 6% or 7% a month in September from more than 20% a month in August. A further improvement is expected for October.

The World Bank-backed program should now substantially boost the country's economic overhaul by further opening up the economy and improving government revenues, Mr. Sourrouille said.

The \$1.25 billion World Bank loan is divided into four main parts: \$400 million to help finance structural overhaul in the financial sector; \$300 million to liberalize trade; \$300 million for low-cost housing; and \$250 million in credits to improve the power sector. Disbursement of slices of each part of the loan will depend on satisfactory reviews of progress of the overhaul program, said Shahid Husain, World Bank vice president for Latin America.

The World Bank began discussions with Argentina in early August, Mr. Husain said. The World Bank and Argentine officials felt the Primavera Plan needed "broadening and deepening," he added. "We found the tax base was shrinking; how... can you have economic stabilization when the tax base is shrinking?" Mr. Husain asked.

Such problems should be addressed by the new reforms. In his letter, Mr. Sourrouille outlined detailed proposals for improving and boosting tax collection. There will be technical assistance from Spain and Italy to help with tax administration, according to the World Bank.

Partly by raising revenue, the government is determined to reduce the public-sector deficit to 2.4% of gross domestic product in 1989 from 4.6% in 1988, Mr. Sourrouille said.

To finance the overall Argentine public-sector deficit of 2.4% of GDP for 1989, Argentina plans to borrow abroad the equivalent of 1.4% of GDP, Mr. Sourrouille said.

Argentina is projecting a \$3 billion trade surplus this year, up from a \$700 million trade surplus in 1987. But despite this rise caused by an improvement in agricultural export prices, Argentina has been adversely affected by increases in international interest rates. For that reason the country is projecting a current-account deficit of \$2.5 billion next year, compared with a projected current-account deficit of \$2.2 billion in 1988. Mr. Machinea said.

As well as negotiating further credits with the IMF, Argentina will start talks with its commercial bank creditors in the first two weeks of October to try to work out a financing agreement for 1988 and 1989 and to clear the country's estimated \$1 billion of overdue interest payments to foreign banks, Argentine officials said.

Although they declined to name a figure, Argentine officials probably will ask their bank creditors for between \$3 billion and \$3.5 billion to help finance interest payments for 1988 and 1989. This would represent about half the interest the country will owe to banks during that period. Argentina, Latin America's third largest debtor, has \$54 billion of foreign debt, of which about \$40 billion is bank debt.

Press Cuttings

from Broad Street Associates THE  TIMES

24 SEP 1988

Play repeated

The BBC is to repeat *Tumble-down*, the television play based on the experiences of a soldier wounded in the Falklands war which caused controversy over its view of the Army's attitude to casualties.

Fiat denies missile aid to Egypt and Argentina

ITALY'S biggest company, Fiat, yesterday angrily denied allegations in a new book that a Fiat subsidiary had sold secret technology to Buenos Aires for an Argentine-Egyptian ballistic missile project which could alter the balance of power in the Middle East and threaten the security of the Falkland Islands.

The United States and its allies are engaged in a frantic effort to stop the missile project, code-named Condor-2 by Argentina and Bader 2000 by Egypt. The missile, financed with Iraqi money, is thought to be a two-stage rocket with a payload of 770lb. Its range of up to 600 miles would enable it to hit the Falklands from Argentina, and would bring every major Middle East nation under an Egyptian-Iraqi missile umbrella.

The prospect of the Iraqi dictator, Saddam Hussein, laying his hands on a launch-vehicle of this kind has intensified the super-powers' desire to stem the influx into the Middle East of missile systems capable of carrying chemical or nuclear warheads.

Western officials have told *The Independent* that a car bomb exploded recently in Cairo outside houses inhabited by technicians working on the test programme. They said Mossad, the Israeli intelligence service, had decided to take lethal steps to prevent the success of the project.

"We believe some of the technicians have got the message and left. Others are being heavily protected by the Egyptian Mukhabarat [Intelligence]," said a source familiar with the affair.

Some of the technicians were

From Michael Sheridan in Rome

believed to be Italian nationals. A book to be published in Britain on Monday claims that a Fiat subsidiary, SNIA-BPD, sold technology for guidance and propulsion systems to Argentina between 1984 and 1986.

It says the US government protested formally to Italy and removed Fiat temporarily from a list of foreign companies permitted to receive sensitive US technology.

Involvement in the project by the West German company, Messerschmitt-Bölkow-Blohm, was revealed late last year. A Fiat spokesman in Turin yesterday "categorically denied" the allegation. "SNIA and Messerschmitt were involved with a project in

the late 1970s to advise Argentina on a rocket for a weather satellite with a range of only 70 kilometres [42 miles]," he said.

"But the project never even got beyond the planning stage. We absolutely deny having anything to do with the Condor project," he said. Asked whether SNIA had sold any sensitive technology to Argentina, the spokesman said that that was a matter of interpretation.

He said US officials were now "thoroughly satisfied" with SNIA's handling of classified technology. The book, *Agnelli and the Network of Italian Power*, is written by Alan Friedman, an American journalist who once worked for the Pentagon and now

heads the Milan bureau of *The Financial Times*. Its title refers to the chairman of Fiat, Giovanni Agnelli.

In Washington, a State Department spokesman said the administration "was trying to play this one low-key" and would not make any specific comment without seeing detailed allegations.

The book carries a reproduction of what is said to be a confidential US embassy cable from Rome to Washington, detailing the Italian government's response to US complaints about SNIA. "The government of Italy believes only a small part of SNIA-BPD's activities was not strictly in line with the Missile Technology Control Régime (MTCR) and that these activities have already been eliminated," it reads in part.

The MTCR is a seven-nation

agreement between the US, Britain, Italy, West Germany, France, Canada and Japan intended to halt the spread of nuclear-capable ballistic weapons.

It was formalised in April 1987, after the alleged SNIA sales took place. But signatories, including Italy, are said by diplomats to have observed the accord on a *de facto* basis before then. A meeting of the seven nations in Rome on 8 and 9 September gave priority to blocking the Argentine-Egyptian missile development.

On Monday, according to the State Department spokesman, the US and the Soviet Union are to hold talks in Washington on the spread of ballistic missiles. It is expected that the concerns of the MTCR nations will be shared with the Soviet negotiator, Viktor Karpov, at that session.

Fiat denies Argentine missile deal

FIAT, Italy's biggest company, denied allegations that a subsidiary sold secret technology to Buenos Aires for an Argentine-Egyptian ballistic missile project which could alter the balance of power in the Middle East and threaten the security of the Falklands **Page 26**

Lawson's debt plan in trouble

Christopher Huhne
Peter Rodgers in West Berlin

THE Chancellor of the Exchequer's initiative to help the poorest debtor countries in sub-Saharan Africa was in trouble last night as senior German officials continued to block any substantial measure of relief.

A failure to agree the package in time for a formal announcement during the annual meeting here of the International Monetary Fund and the World Bank will be embarrassing for Mr Lawson and for the host, German Chancellor Helmut Kohl, who is due to address the delegates on Tuesday.

The Germans are under strong pressure to agree debt forgiveness for the poorest debtors from a wide range of opinion.

Monetary officials said yesterday that the political pressure on the Germans to concede was so intense that there may be a change of heart at the top.

The Paris club debt negotiations on Africa were being handled for Germany by Mr Hans Tietmeyer, the finance ministry state secretary who survived an assassination attempt this week from the Red Army Faction.

Mr Tietmeyer's hard line was echoed yesterday by his political superior, finance minister Mr Gerhard Stoltenberg.

Mr Lawson's initiative, which has evolved since he first advocated it more than 18 months ago, provides creditor countries with a so-called "menu" of options whereby they can cancel official debts of

the poorest, cut interest rates below market levels or stretch our repayments into the next century.

Wide divisions also emerged on the scale of the projected increase in the resources which IMF should have available to lend. On this issue Mr Lawson has thrown his hand in with the Germans, asking for a low rise.

The United States is against any increase unless the IMF takes action to recoup its \$3.1 billion of arrears in money owed to it. The top end of the likely range is set by the Group of 24 developing countries, whose representatives yesterday called for a doubling of the current resources of \$115 billion.

Underlying the calls for general schemes to relieve the debt crisis is mounting concern about the negotiations over Argentina's debt. For the first time, the World Bank is taking the lead in trying to agree a rescheduling of the third largest debtors loans.

The leading negotiators from Argentina and Washington are here this week, together with the main bankers who have lent to Argentina.

The Argentinian talks are said to be the toughest yet, even though they closely follow the final signing of an innovative \$82 billion debt rescheduling with Brazil and the earlier pioneering agreement with Mexico.

The Group of Seven leading finance ministers are nevertheless expected today to reaffirm their commitment to co-operation on international exchange rate stability.



Mystery over Fatima and soldier lover

FATIMA WHITBREAD'S family and friends were astonished last night by the Olympic star's revelation that she had an affair with a soldier killed in the Falklands.

They are puzzled by the British javelin thrower's claim because they say she has never once mentioned the romance to them.

Fatima, who has already shocked her family and friends by revealing in her autobiography that she was raped at 11 by her mother's lover, refuses to name the young soldier.

Nor does she say which regiment he was in, or how and where he was killed.

She just says that "Steve"—the name she invented for him—was one of many male fans who wrote asking for a photograph of her in a bikini.

Destroyed

According to Fatima's autobiography, currently being serialised in a national newspaper, the lovers were parted for ever when she flew to Cyprus to train, and the Falklands War erupted.

The mystery deepens with Fatima's claim that she destroyed all letters from the man she says was the love of her life. And she says she has no photographs either.

In Cyprus yesterday, Fatima's long-term friend, Savos Christopher said: "I knew she was writing her book and was very excited about it.

"But if there was a great love of her life, who was a soldier, it's news to me.

"I never heard her speak about a boy called Steve, or anyone else for that matter."

Savos, with whom Fatima always stayed when she was in Cyprus, said they were working in his Gym when the Falklands War broke out.

But she never told him she had a boyfriend in the Army.

"Fatima is a girl who usually keeps her thoughts private," Savos added.

"I cannot remember her saying anything so bad as losing a boyfriend in a war."

But Savos stressed: "Fatima wouldn't lie about something like that to make money."

He said Fatima's



Fatima: Reluctant to comment

By DANIEL McGRORY

passion in life was athletics. During their training sessions, she was singleminded about her fitness—not boys.

Some of Fatima's family have not been so charitable in their views of her book.

They stressed the incentives for her to be "economical with the truth" to persuade a national newspaper to pay a lot of money to serialise the book, and to boost sales.

Fatima's most shocking revelation was that she was raped at 11 by Hussan Ozturk, her mother's lover.

Mr Ozturk is said to have dismissed the allegation as "hurtful and ridiculous."

In Seoul yesterday, Fatima stayed in her hotel room, rather than discuss her autobiography.

When Expressman Paul Thompson knocked on the door of the 14th floor room, Fatima's stepmother said she was shocked to hear that the book was being serialised.

"I knew nothing about this," she said. "The book wasn't meant to be coming out until October."

Fatima complained that she was being disturbed in her training routine. But many people feel she has only herself to blame, since she chose to open her private life to public scrutiny knowing the Olympics would help book sales.

‘It's the first we've heard of him’

Decision on US import curbs postponed by Gatt council

By William Dullforce in Geneva

THE EUROPEAN Community yesterday lost a skirmish in its ongoing trade battle with the US when the council of the General Agreement on Tariffs and Trade postponed a decision on its complaint against some long-standing US import curbs.

US restrictions on imports of sugar, dairy products, peanuts and cotton contravened the terms of the waiver from Gatt rules for agricultural products, the EC claimed.

The US successfully argued that the EC had not made clear the basis of its complaint and the Gatt council put off until its next meeting the EC Commission's request for investigation by a disputes panel.

Brussels' charge is a tit-for-tat riposte to the US complaint, now under Gatt examination, that EC subsidies are seriously damaging US soybean exports.

This US attack on a similarly long-established Community regime helped to heighten the tension surrounding the talks on the reform of farm trade in Gatt's Uruguay Round.

Several countries, including

Australia, Brazil and Argentina, backed the EC contention that the US import controls were a "cynical" exploitation of the 1955 waiver, which had been intended as a purely temporary measure.

However, the EC blended into its attack on the waiver a complaint against a "headnote" written into the US tariff schedule, which Washington cites as the basis for its import controls on sugar.

Australia won council backing for its request for an investigation into the increasingly restrictive US sugar import quotas, which, it claimed, had cut annual imports from 6m (short) tons to 1.3m tons over the 10 years to 1987.

The EC suffered a further disappointment in yesterday's Gatt council over its request for clearance to take retaliatory action against the US for the US Congress's failure to amend its Superfund Act.

A Gatt disputes panel has condemned the two-tier levy on petroleum imposed under the Act, to help finance a \$9bn haz-

ardous-waste clean-up programme, for discriminating against imported oil.

Brussels estimates that the Community has suffered damage of \$7.5m and wants to withdraw trade concessions equivalent to that value from the US. The Gatt secretariat advised the council that the damage estimates were correct on the basis applied by the Community but that other bases were possible.

This advice met the interests of other countries, such as Kuwait and Nigeria, which have been hurt by Washington's levy but do not have the EC's ability to take retaliatory trade action.

When the US offered to negotiate a compensatory package for submission to Congress with the countries harmed, the council postponed a decision on the EC request.

South Korea accepted investigation of a New Zealand complaint against its beef import controls. Gatt dispute panels have already been agreed for similar charges

Argentina may let private funds into public sector

By Gary Mead in Buenos Aires

THE Argentine Government has announced its intention to introduce a bill to allow private capital into state-owned enterprises.

Mr Horacio Losoviz, head of the Public Works Board, said the draft law will be presented to Congress next week.

Motives for a change have been highlighted recently by negotiations to sell 40 per cent of two state-owned enterprises to foreign companies. Scandinavian Airlines Systems (SAS) recently agreed to buy part of Aerolíneas Argentinas, and the Spanish telephone company

Telefónica proposes to take a similar stake in Entel, the telecommunications body.

Under current Argentine law, both deals – and similar ones planned for railways, shipping and other entities – require congressional approval.

Such approval has not been given yet for the SAS purchase because the Peronist opposition majority in the Senate adamantly opposes it, being also likely to fight the new bill. The Peronists question the principle of selling nationalised assets to foreign interests.

Argentina missile 'not your worry'

THE Argentine Foreign Minister suggested yesterday that Britain and its allies should be more concerned about nuclear disarmament than his country's Condor II ballistic missile project.

At his first press conference since his landslide election as President of the United Nations General Assembly, Dante Caputo was asked about fears that the production of medium-range ballistic missiles is proliferating among developing countries.

Seven industrialised countries, Britain, The United States, France, West Germany, Italy, Canada and Japan, are working to halt the development of the medium-range Condor, built with Iraqi and Egyptian assistance and believed to be a two-stage rocket with a range of 4,200 to 6,200 miles and a payload of 770lbs.

The United States and the Soviet Union share the concern that ballistic missiles capable of delivering nuclear warheads are being developed at such a rate that there is a risk of escalating conflicts in the Middle East and other

From Leonard Doyle
in New York

regions.

Mr Caputo was asked what role, if any, the UN General Assembly should play in halting the proliferation of medium-range missiles among developing countries like Argentina, Egypt and Iraq. He said that "the main problem which should concern the international community is how to stop the powerful from making war, rather than worry about the intentions which the less powerful might harbour."

Mr Caputo, who is a man of great political ambition, was also asked whether he would play a role in a debate over the Falkland Islands, which by now is a fixture of the General Assembly agenda. Quoting General de Gaulle, Mr Caputo said, "You must leave all options open until the end." He has already said that he will not preside over that debate but will appoint a vice-president to do the job.

The IMF: neither the world's dictator nor its scapegoat

Sarah Hogg sets the scene for this year's gathering of world money merchants

The International Monetary Fund's expedition to West Berlin is, ironically, a gesture to precisely those kind of critics whose violence threatens to immure it in Washington in future. The IMF (together with its sibling, the World Bank) has held one annual meeting in three on foreign soil, in an effort to demonstrate that it is not the poodle of the US Treasury — as well as to provide others of its 151 member nations with a nice little earner. Now, however, Nigel Lawson is not the only participant — albeit the frankest — to be saying that the IMF would do better to stay put.

The IMF's last three trips were to Belgrade, Toronto and Seoul, a list that itself demonstrates the difficulty of touching base with its diverse membership. And it is, nowadays, no small task to house this vast financial fair, the largest international gathering Berlin has seen since the Second World War. In its combination of size, power, wealth and awkwardness, the annual encampment of finance ministers, central and commercial bankers, and attendant advisers, officials and journalists, is unique. International lending may be in short supply today, but international banking's chattering classes are coming to Berlin in record numbers.

In Belgrade, the government barely finished the airport in time, and an overstretched member of the conference staff managed to kill himself. Toronto was a distinction without

a difference from Washington. Seoul used the occasion as a dummy run for the Olympics. For all the efforts and efficiency of the West Germans, Berlin has sounded a sour and even a violent note. Once the Thai government — to which a lucrative 1991 visit is promised — has had its turn, this travelling circus may fold its tents for good.

This would be a pity, because the travelling instinct is a proper one. It is, indeed, argued that the IMF (or the World Bank) should move house altogether, out of the shadow of the two institutions' largest contributor. That argument is misguided: absence would not make the heart of the US administration, still less the US Congress, grow fonder. The periodic pleas that the World Bank has to make for an increase in capital, or (as now) that the IMF makes for an increase in subscriptions, require doorstep lobbying in Washington.

But it does no harm for the IMF to be subject, occasionally, to the non-violent end of the spectrum of criticism it has been receiving in the run-up to this European meeting. To these critics, IMF "conditionality" — loans made on condition sometimes quite austere economic policies are adopted — is simply an institutional device by which America and its allies grind the faces of the world's dispossessed. That is, at least, a

change from the stream of US complaint that an increasingly lax IMF throws good American money after bad, has allowed its arrears to build up to intolerable levels, and is allowing the Brazilians to run rings round it.

In a topsy-turvy way, exposure to the opposite variety of prejudiced attack may even enhance the IMF's position. For Michel Camdessus, the IMF's French managing director, is very much the acceptable face of the rich world's relations with the poor. It is not only that Mr Camdessus is a genuinely nice man, who — as one seasoned observer put it — does not look like a natural predator. He is proving, in Berlin, to be a man who can make even bishops accept that it is not unreasonable to require governments to mend their economic policies if they are to be given help to balance their external accounts. At the same time, he is not a man to gloss over the inherent problem, that a big-spending third-world government under pressure from the IMF and its bankers may decide to balance its books not by buying fewer tanks but by burdening the lives of the near-starving.

Mr Camdessus has shown a nice judgement in balancing the interests of powerful lenders and vocal borrowers among his membership, and a personal success for him in Berlin would be to the IMF's advantage. It sorely needs one. In Seoul,

three years ago, the US treasury secretary, James Baker, thrust the World Bank to the fore, to spearhead his plan for the resolution of the international debt problem. Not, of course, that the plan succeeded in doing more than keeping the problem ticking over just below the level of a crisis, with occasional eruptions in Brazil, Mexico and Argentina; nevertheless, the IMF was condemned by implication for having done too little to help its clients back on to a growth track. Now growth strategies, medium-term help, new windows through which assistance may be thrust at the poorest countries — even debt forgiveness — all trip off Mr Camdessus's eager tongue.

Yet there are, and always will be, severe limits to the IMF's role, and it would be as dangerous to expect too much from the IMF as to condemn it for doing too little. In its post-war youth, the IMF's role as a lender, naturally complemented its function as manager of the world's fixed exchange-rate system, which might be disturbed by balance of payments deficits among its members. Assistance was designed to cover these strictly temporary difficulties; financial support for long-term development was the distinct function of the World Bank.

There are dangers for the IMF in allowing the distinction to become blurred. A "medium-term" relationship with a gov-

ernment means an awful lot of responsibility for its economic policy-making. The World Bank, which has been shifted into some of the same policy-making territory via the Baker plan, must be aware of the same danger.

Both institutions may have learnt from earlier mistakes. The IMF's conditions may be set with greater subtlety, the World Bank may be thinking twice about its contribution to the growth of overweight state sectors in the third world (and incidentally becoming more ecologically careful). Inevitably, however, other mistakes will be made; and the fewer that have been imposed in countries by outside agents, the better. Mr Camdessus is right to see that the IMF should not be the world's dictator — nor, as he says, its scapegoat.

There is, however, one area where he clearly hopes to establish more authority, and that is in the IMF's now-antique role of world monetary authority. Here again, it does not do to be naively ambitious. An appetite for exchange-rate stability has certainly grown keener in the world, however often its advocates are blown off course. But there is little sign that the owners of the world's major currencies are ready to allow Mr Camdessus to "anchor" the system, as he puts it. It is, nevertheless, good to see Mr Camdessus's readiness to risk his dignity playing with ideas. For if there are severe limits on the IMF's powers, there need be none on its inventiveness.

Fishing News 23. 9. 88

Falkland licence fees set for '89

LICENCE fees for the Falkland Islands fishing zone have now been set for the first season of 1989 and applications must be made before October 17.

The licences have been divided into three main categories as follows: type A licences are available to trawlers only and for finfish only; type B licences are valid for squid in the northern area (*Illex* squid); and type C licences are for squid in the southern area (*Loligo*).

A finfish licence can be applied for in combination with a squid licence or by itself. Finfish licences will be allocated on a monthly basis but squid licences are allocated for the whole season.

Type A licences cost £6,270 a month or £1.1 x gross tonnage plus £3,300, whichever is the least. The season for these licences is from January 1 to June 30 and will be subject to certain closed areas.

Further restrictions in the finfish season include a minimum codend mesh size of 90mm, topside chafers are not permitted, strengthening bags will only be permitted when the mesh size of the bag is twice the mesh size of the codend, codend liners are prohibited, round straps and lifting straps cannot be used.

Type B licences, which are valid from March 15 to June 30, are more expensive for jiggers than for trawlers. Jiggers must pay £171,380 for their licences (or £1.832 x GT x the number of jigging machines plus £83,240).

Type B licences for trawlers and combina-

tion vessels cost £99,562 (or £6.075 x GT plus £83,160).

Type C licences are for trawlers only and are valid for *Loligo* squid in the southern area. Licence fees in this category are £103,250 (or £6.3 x GT plus £86,240). These licences will run from February 1 to June 30.

Alan Johnson of Witte Boyd UK, which operated *Lord Shackleton* in the Falklands this year as well as a number of joint ventures with Far Eastern companies, said he expected his company would continue operations in the fishery next year.

"We expect to still have a substantial presence with our Far Eastern ventures and *Lord Shackleton* will also carry on," he said.

Commenting on the new licence fees, he said they seemed to be about the same for jiggers fishing *Illex* squid but fishing time is shorter. The *Illex* fishery starts on March 15, compared to the beginning of March this year, so boats lose 15 days fishing with no reduction in the licence fee.

He said that the fee this year does not reflect the market situation for *Illex*, which has been very poor this year. "We all expected some reduction in the fees as a result of the drop in market prices."

Licence fees for the *Loligo* squid fishery should please those in joint venture operations as there is now no separate fee for the joint venture. For the British ships, however, owners are facing an increase of about 20 per cent, said Mr. Johnson.

Falklands a key issue with Caputo

By DAVID WALLEN, Diplomatic Correspondent

THE NEW president of the UN General Assembly is a tough Argentine nationalist unwilling to ease relations with Britain until the issue of sovereignty of the Falklands has been resolved.

Mr Dante Caputo, Argentina's Foreign Minister, was elected into the position on Tuesday night by 25 votes, a wider margin than Britain's ambassador to the United Nations, Sir Crispin Tickell, and other UK diplomats present had expected.

But, despite his hard line on the Falklands, he is also known as a very personable and fair man who, whatever his country's rows with Britain, will not let them stand in the way of controlling the General Assembly in an unbiased way.

Yesterday Mr Caputo (47), a close friend and ally of Argentina's President Alfonsin, indicated he would stand down

from the chair of the General Assembly during the next Falklands debate at the beginning of November.

There is a "considerable degree of private respect between Britain's UN team and Mr Caputo. Sir Crispin and he got on well informally during Argentina's two years on the Security Council.

The feeling in New York is that having a Foreign Minister as President of the General Assembly will enable Argentina to build up a broader set of alliances and links with other countries and further remove the isolation brought about by the military regime which ended in 1983.

While that will mean its position on the Falklands will get a greater airing, there are those who feel Mr Caputo's new prominence could help build more

bridges with Britain than destroy them.

Although he is a nationalist Mr Caputo, like President Alfonsin himself, opposed the invasion of the Falklands by the military regime in 1982. Only two weeks ago he told an international audience: "Concerning the resolution of the Malvinas (Falklands) we can only follow one route and that is one of peace."

The Labour Foreign Affairs spokesman, Mr George Foulkes, who met Mr Caputo in Buenos Aires two years ago, commented: "I think he will be scrupulously fair when he is in the chair but when he is out of it he will use his influence very much in favour of Argentina. He is certainly more volatile than President Alfonsin. I honestly do feel it could bring prospects of better relations now.

"The UN has always been the forum where progress has been made over the Falklands and this could help."

He held no political office before his appointment to the Foreign Ministry on President Alfonsin's election in 1983. Since then he has been trying to build up Argentina's position abroad. As an avowed Left-winger he has tried to distance his country from the influence of Washington, while still retaining the confidence of the US administration.

Mr Caputo made clear his desire to win the Presidency last year and a special ambassador, Mr William McGough, an Argentinian of Scottish and Irish antecedents, was even brought into New York to help with the lobbying. But the size of his victory over the rival candidate from Barbados has surprised many observers.

Struggling to forge an Argentine debt deal

Stephen Fidler reports on the prospects of another success for 'crisis management'

THE history of the Third World debt problem is one of crisis management. As one crisis is "managed", so another moves into view.

The "case by case" approach to the crisis appears for now to have accommodated Brazil, as the signing of its new financing package begins tomorrow. That this should have been possible one year after relations between Brazil and its creditors sank to an all-time low is a tribute to the flexibility of this approach.

Argentina is offering this year's apparently intractable debt problem. In arrears to its commercial bank creditors by more than \$1bn on its medium- and long-term debt, Mr Raul Alfonsin's Government is looking for new financing from banks and other creditors. It expects loans from the World Bank totalling \$750m in return for reform of the financial and trade sectors of the economy and is in talks with the International Monetary Fund over a loan of perhaps \$1.2bn.

As is customary, the country will not get an IMF loan until it puts into place an IMF-agreed economic programme.

Complicating the picture is the presidential election next May in which the incumbent Radical Party is being challenged by a Peronist candidate of the old populist school, Mr Carlos Menem. He has promised a five-year halt to debt-ser-

ving if he wins power.

The presidential election and the perception of the fragility of the political process in Argentina adds a complication to this crisis that was not present in the case of Brazil. While Brazil's \$121bn debt offers a greater threat to the international banking system than Argentina's \$56bn, there is more of a political dimension to the Argentine problem. The IMF, World Bank, and the financial leaders of the West do not want to be seen as having jeopardised the democratic experiment in Argentina. This is felt especially keenly in the US, where the Administration has taken a lead in trying to resolve the crisis.

But simply to hand money over to Argentina would bring an array of other problems with important consequences for the overall approach to the debt crisis.

Problem number one centres on the concept of "conditionality" - that to be eligible for IMF credits a country must agree to abide by certain economic conditions. Several countries represented on the IMF executive board - Britain, Japan and West Germany in particular - were extremely worried by the looseness of the IMF conditions on the Brazilian deal.

By general agreement, Brazil achieved the loosest IMF accord of any major debtor.

Furthermore, in the Argen-



Carlos Menem: threat to debt-servicing

tine case, there is simply no guarantee that any economic plan can be extended past April. Last month, the Government announced a series of economic measures designed to satisfy the IMF.

Yet, if accepted by the IMF, the measures, known as the Primavera (spring) plan would devalue still further the IMF *imprimatur*. The fact that the country is out of compliance with its 1987 IMF programme, that the measures themselves - even if carried through - would probably be inadequate to curb the budget deficit to the IMF's satisfaction, and that some of the promised measures are not due for introduction until one month before the

election - all encourage scepticism about the plan.

The second problem concerns the willingness of banks to lend new money to Argentina. Why should they "push good money after bad", when the favourite in May's election is promising a freeze on debt-servicing? Yet, commercial banks have been part of every finance package since the crisis began.

Even if the politicians manage to cobble together a finance package, there are few incentives for banks to join. The likelihood has always been that, if there was a bank package for Argentina, it would have to contain a clause allowing banks to avoid putting in new money by allowing interest capitalisation. As arrears build up, this is *de facto* what is happening. But bankers say it will not be long before they start pulling short-term credit lines to the country, if they are not paid interest soon.

What has happened so far has also illustrated another problem: a difference in approach between the World Bank and the IMF. One central banker said: "The World Bank has had its foot on the accelerator while the IMF has been pressing on the brake."

The picture is not all gloom. The US drought (which has raised the price of Argentine grain and soya bean exports) and some revival in exports of manufactured goods are help-

ing the trade position, and foreign exchange reserves are believed to be close to \$3bn.

The US has managed to persuade other industrialised countries to join a \$500m bridging loan for Argentina - which, because of the improvement in reserves, has more of a symbolic than practical significance. Despite some countries' misgivings, this looks as if it will be entirely tied to World Bank rather than IMF financings.

The IMF and commercial bank financings appear to be running on a different tack, however. There are those who believe that the best case would be for the situation to continue unresolved in the hope that the trade position remains strong and there can be a more realistic look at the programme after May. Whatever the case, Mr Alfonsin has powerful friends in the US Administration and in a personal relationship with Mr Michel Camdessus, managing director of the IMF.

That no one wants the engineering of the demise of democracy in Argentina on their conscience is Mr Alfonsin's most powerful weapon. It is the best reason for believing that some deal will be forged - or perhaps more accurately, fudged - to keep up appearances. Whether this will be enough to help the Radical Party next May is another question.

Tragic lover I will never forget



Young men of my age often wrote to me requesting glamour shots

He wrote and asked for this pin-up picture. We fell in love and dreamed of the future. Then came the Falklands . . .

by **FATIMA WHITBREAD**

ON April 2, 1982, Argentinian invaders overwhelmed a garrison of 84 Royal Marines. The Falklands War began, and the man I loved went out to fight it.

I had known him for nearly two years — since I was 19 — seeing him only from time to time because I kept having to train, and he went wherever the Army sent him. But I had begun to allow myself to think that we had a future together.

Ours was a light-hearted relationship, but one full of tenderness and joy. Steve — that is not his real name, but I will call him that — meant a great deal to me, even though the way we met was inauspicious.

Like many young soldiers who had seen my picture in the newspapers, Steve wrote to me in the summer of 1980, after the Moscow Olympics, where I had been a flop.

What helped soothe my disappointment was the letters. Children wrote, and men who preferred football and rugby. They all said they would be rooting for me whenever I threw the javelin, adding that I should keep it up, for Britain. I hadn't realised before that other people cared.

Young men of my age wrote too, often requesting a glamour shot. I sent Steve the one of me in a bikini going into the sea. He wrote back thanking me just before I left for China and Japan to attend the Eight Nations Competition.

Three weeks later, when I returned, there were two letters from him waiting, telling me how pleased he was to be writing to me. I remember chuckling when he described all the ways the Army has of keeping fit.

For a few months we wrote to each other, just casual letters, but I liked the sound of him. One morning, the telephone rang and it was Steve. He wondered how I was — and if sometime he might come and see me.

'Yes. Why not?'

'Well,' and he hesitated. 'How about today? I'm in Kent. I could be there in little more than an hour.'

I gave him some instructions to direct him on his way.

At about 1.0 in the afternoon, Mum and I were going over some training instructions she had written out for me, when I saw a broad-shouldered young man with wavy, chestnut hair and a cute, pert nose approaching the front door. Smiling at me through the picture window, Steve knocked on the porch door.

Even before he handed me a box of chocolates and gave me a peck on the cheek I liked the look of him. I liked the way he absent-mindedly fingered the cuff of his pale blue shirt when he was asking questions about me. I liked the way he smiled at me over his mug of tea. I liked being with him.

At 3pm, though, I had to go training. 'If you don't go now, Steve,' I looked at my watch, 'you will be overstaying your welcome.' I was going running. Steve offered to drive me there and back.

One Tree Hill is very steep and slippery, and especially when damp, as it was, is impossible to run up without spikes.

On the last run Steve decided to race me to the top. He was getting into position when I said, suddenly, 'Go!', and sped up the hill. He had to chase me up the steep slope, which would have been a killer if he hadn't been fit. But there was no way I would let him get by.

In a big burst of effort to beat me at the last, Steve pounded forward, but his feet slipped out from under him. I heard a plop and then a laugh.

Craning my neck, I saw him sliding, on his way back down. He looked so funny I couldn't stop laughing, and I saw that he was embarrassed and amused at the same time.

It may have been then that we fell in love. Yes, I think it was then. Laughter and love were what our relationship was about. But a week later, Steve told me he was going to Kenya.

'Thanks for giving me the elbow. Nice knowing you,' I said tartly, upset that there were to be no more wonderful evenings.

'Don't be so silly, Fatima.' He reached across the table and took both my hands in his. 'I will just be away for a while. I have to go. This isn't the end of us. We've only just begun.'

MY HEART began to fill with happiness. I had become attached so quickly. Months later, when we met again, almost the first words Steve said were: 'Is there anyone else?'

'There's no one else.'

'Then,' his voice went all shy, 'would you be my lady?'

'Yes,' I said, feeling shy too. 'I'll be your lady.'

Again we made a day of it. Like me, Steve was always hungry, and as the meal was ending, he handed me a Carpenters' Greatest Hits cassette. Very softly, he began to sing to me the tune he regarded as the most apt: 'We've Only Just Begun. You could have used my smile as a torch, it was so bright.'

Driving out to the family caravan in the Essex countryside on the first of our many visits, both of us were in high spirits. Steve and I sang along with the Carpenters' tape on the cassette player. The caravan site was quiet and peaceful and there was no one there except us. I had Mum's permission to go there with Steve, but my father, who wouldn't have approved, was none the wiser.

In Steve's company I felt pleasure and joy. He had made me come alive. He told me he loved me, and I loved him very much.

I went off to Cyprus for spring training, and the Falklands flare-up was soon in all the papers. Everyone thought it would blow over. Instead, the shooting war started. When I came home from Cyprus I was looking forward to seeing him, but two days before we were to meet, he sent a letter saying his leave was cancelled — his regiment was going to the Falklands.

It was a complete shock. To comfort me, he said: 'It won't be for long. At the most, a few months.'

Then, by telephone, he asked me to see him off. 'If you don't want to go, I'll understand,' he said, 'because it will be an awkward journey and you won't be able to tell which one is me.'

'Of course I'll come, Steve,' I said. 'I want to.'

Mum accompanied me because I needed moral support. Leaving in the early hours of the morning, we arrived in Southampton before 6am. I still hoped there would be a moment to give him a quick cuddle and a kiss.

The noise of the harbour was incredible — loud martial music, marching soldiers' feet, so many people crying. The soldiers marched past and on to the ships, regiment by regiment.

We could pick out Steve's regiment, but not him. I didn't see him at all, but I just kept waving in case he spotted me. When the ship pulled away I felt empty and afraid.

I examined the papers carefully every day and listened to the war news on television and radio. If I heard any of 'our' records, I just cried. I prayed to God to keep him safe.

One morning when I opened the newspaper I was shocked to see his name printed there. I had never expected to read it in the list of the dead, just a name, a statistic.

You can imagine how hard that was to come to terms with. He was such an alive person, and he meant the world to me. I was devastated.

I still sometimes ask myself why he had to be one of the 237 British fighting men who died in the Falklands. Why him? Why us?

All I had left were the letters he had sent me. I would take them out of the drawer to re-read and gaze at the snapshots I had, one of him and a few of us together, taken in a photo booth. My thoughts would turn to what might have been.

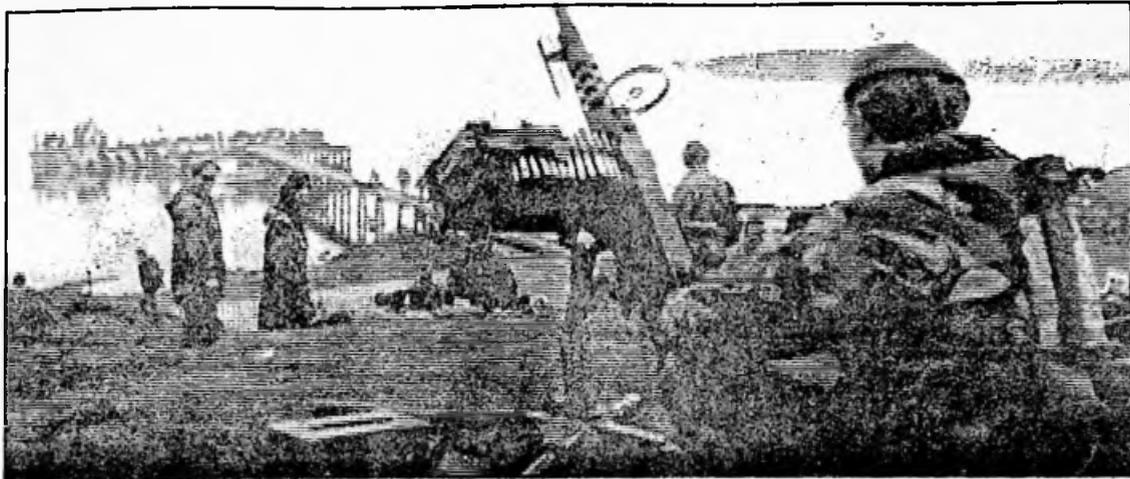
But I knew I had to live in the present, and stop reopening the wound. I had to get on with my life. And I couldn't do it if I kept reading his words and looking at his face.

Four years after his death I made the decision to stop, and I did it the only way I could.

I ripped them all up; the letters, the photographs. You can't keep reading the same letter, and looking at someone's face, when fate has decreed it isn't to be.

I know if Steve had lived, my life would have been quite different. I might have had children by now and never have become world champion. Or, with his encouragement, I might have had both.

More than six years have gone by since he was wrenched away. That's a long time. I've learned to live with the fact that it is a part of



When Steve's regiment left for the Falklands, I listened to the war news and prayed to God to keep him safe. But one morning I opened a newspaper ...

How sport turned out to be my salvation

my life that will always mean something to me, but which is over.

But I lost a little something of myself when I lost him. I have not given his real name to spare his family, whose grief would be rekindled. I never knew them when he was alive and I don't feel I have the right to force myself upon them now that he is gone.

But I loved their son. He was joyful, exuberant, sensitive, my dearest friend, a loving, caring man. I'm sure they know that.

I still mourn his death. As I sit here, a woman of 27, who has seen much, done much, felt much, I feel that deep in my heart there is a place that has been touched and never will be touched again. Of course I have dated other men, even really cared about one of them, but I often think of Steve and our times together.

I knew I would miss him, and I do.

WHAT saved me from becoming a rebel without a cause was sport. In my last year at junior school we had to throw a cricket ball, and I out-threw every boy in the school. My status at school rose rapidly.

I was disadvantaged in every way except one: Sport. I always felt happy kicking a ball around. PE was my best subject by far. When I threw a ball, or kicked it, it went close to where I aimed. It was almost effortless. (Of course, in those days I wasn't trying to throw anything well over 250 feet.)

Auntie Rae — the helper at the children's home in whom I confided — said I was a bit of a tomboy, but she didn't see anything wrong in it, and I certainly didn't. Running and jumping and throwing made my body feel good.

Pleased

It was an entirely new experience to be better than everyone at something — no wonder I began to get hooked. Fortunately, the school encouraged sport. If it had not believed in competition on the athletics field, I dare not think what might have become of me.

I was a star of the school netball team, which was of a high calibre. There were so many good players in the team that I was pleased when the other team members voted me their captain. I won my first sporting medal that year when we won the District Schools Championship.

I will never forget the thrill I felt when they handed me the medal in front of the whole school. It was just a tiny little thing, not much bigger than a 2p piece.

It wasn't precious metal, but it was my first. A precious medal, precious to me. I had no idea it was the first of a long line.

When the final bell rang, I rushed out of the school building and hurried to Auntie Rae's, running most of the way. When she opened the door, I threw myself into her arms. 'I got the medal,' I exclaimed. 'Look.'

If anyone was prouder than I, it was Auntie Rae. When I proffered my little medal as though it were the most spectacular of the Crown Jewels, Auntie Rae looked with rapt attention and hugged me again. It was a jubilant moment.

Treasure

Then I surprised both Auntie Rae and myself. I gave my medal to her, and she has it to this day.

At first, she wouldn't take it, but when I insisted, she said she would treasure it. Over the years, she has offered to give it back to me many times, but I get great pleasure from knowing that it is there.

The adulation I received as the star and captain of the netball team made me feel I was wanted at last. No wonder sport was getting under my skin. I was finding my true self in sport.

For the first time in my life, I had a place in the world.

Caputo UN post

THE foreign minister of Argentina, Dante Caputo, is the new president of the 43rd United Nations General Assembly, despite Britain lobbying vigorously against him.

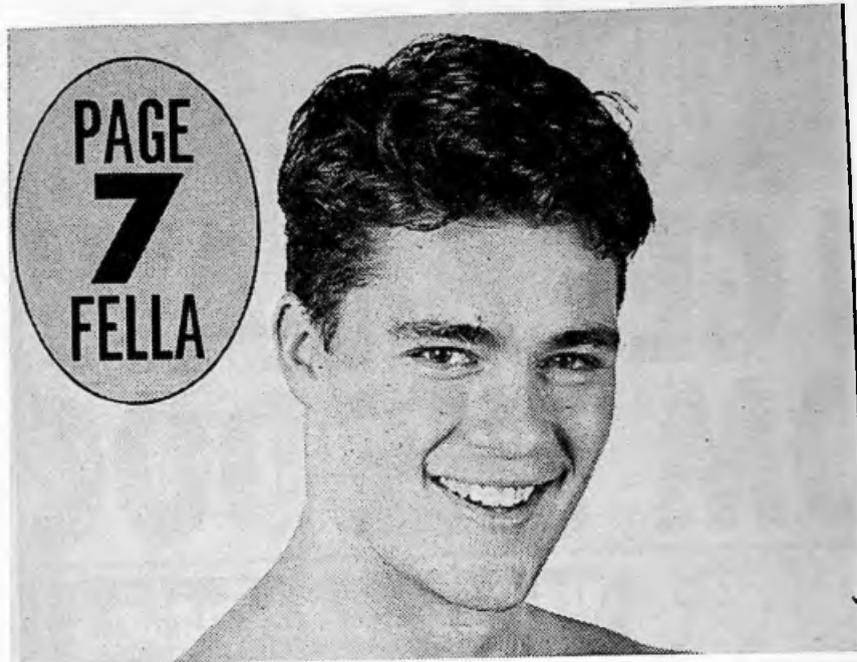
Two ferries chartered by BCIF

BRITISH Channel Island Ferries is chartering two large new ferries for its Jersey and Guernsey service whose mainland base is being switched from Portsmouth and Weymouth to Poole early next year.

The first ship, to be introduced before Easter, 1989, is the 8,987 tons gross *Scirocco* which is being chartered from British shipowner Cenargo.

This vessel, which found fame as the Falklands troop carrier *Keren*, can carry 1,400 passengers, 300 cars and 40 freight vehicles.

BCIF said negotiations for a second ship, also a combination ferry, were under way and it was expected to introduce her before the May Bank Holiday.



★ **CHEEKY** Rupert Wynne-James is just the kind of guy to give a girl a really good bear-hug.

★ The 23-year-old Londoner is mad about Prince Charles's favourite sport, polo.

★ He was working for a polo club in Argentina when the 1982 Falklands War broke out but managed to escape home. And after a spell as a

Rupert's bare cheek!

tennis coach at Wimbledon, Rupert made the perfect match in a telly advert with decathlon star Daley Thompson.

Picture: STEVE LEWIS

Argentina sees UN job as return to fold

Jeremy Morgan in
Buenos Aires

ARGENTINA believes its return to international respectability is now complete with the election of the Foreign Minister, Mr Dante Caputo, as president of the United Nations General Assembly.

The vote for Mr Caputo is seen as a sign that Argentina has finally won back its rightful place at centre stage on the international scene after a decade of overseas disapproval prompted by the military regime's brutal rule.

Even so, the UN's choice of a foreign minister from a member country, Argentina, that has a serious unresolved conflict with another, Britain, raised some eyebrows in diplomatic circles here.

As compliments showered down on Mr Caputo, those doubts found no voice in Argentina yesterday. Mr Federico Storani, a leading member of the ruling Radical Party who heads the Foreign Affairs Committee in the lower house of Congress, said the UN triumph

crowned "the process of opening Argentina to the exterior after the isolation in which we had been submerged by the last military government."

At the same time, he added, it would "dilute the possibility of an attempt to destabilise democracy in Argentina."

The government evidently hopes Argentina's new international status will bolster its declining image before general elections next year. Mr Storani claimed that the victory at the UN marked "recognition of the independent foreign policy initiated in 1983," when President Raul Alfonsin's elected government took over from the armed forces.

The claim to have wrought big changes in foreign policy is highly questionable. There was one big break with the past when Argentina ended a century-old dispute with Chile on three tiny islands in the Beagle Channel in 1985. But even that was partly inherited from the military, who called in the Vatican to mediate when they almost went to war with Chile in 1978.

In the three years since peace was signed with Chile, there

have been few signs of imagination and innovation in Mr Caputo's conduct of foreign policy.

Argentina still refuses to ratify international nuclear non-proliferation agreements, saying they discriminate against developing nuclear nations, but reliable sources say the real reason is fear of a nationalist lobby bent on an "independent" nuclear programme totally outside international supervision or control.

Instead, an active nuclear export drive promoted out of Mr Caputo's foreign ministry, led Argentina into a controversial nuclear cooperation deal with Iran while it was still at war with Iraq last year.

The UN job is unlikely to be the crowning success of a career that began when President Alfonsin plucked Mr Caputo, an unknown academic, from total obscurity and made him foreign minister in December 1983.

Mr Caputo, who will be 45 in November, has ambitions to become Argentina's president some time this century. Before then, however, he will have to overcome awkward personality traits that mean he is not universally popular with the electorate. Educated at universities in Buenos Aires and Paris, where he took political sciences, Mr Caputo evidently sees himself as the government's resident intellectual.

But his twirly moustache has made him the lampoon of many jokes that are not least founded in widespread irritation at his habit of talking down to people in long, rambling television speeches where he tends to explain quite simple foreign policy issues in the most incomprehensible and patronising manner possible.

Press Cuttings

from Broad Street Associates

THE GUARDIAN

22 SEP 1988



Mr Dante Caputo . . his choice for a top UN job caused some raised diplomatic eyebrows

Falkland family reunion

THE last person Debbie Neil expected to see when she was posted 8,000 miles from her Westcountry home was her brother.

But when Debbie, who is serving in the WRAF, landed on the Falkland Islands, there to meet her was her younger brother Mark.

Mark is a leading stoker on HMS Danae which is now returning to Plymouth after a tour of duty in the southern Atlantic.

The pair from Ivybridge near Plymouth even had time to enjoy a party on the Leander Class frigate before they were parted once again.

Debbie is spending a few months on the island teaching communications and calculations at the education centre at Mount Pleasant. At the end of the year she will be returning to take up another posting at RAF Valley in Anglesey.

UN post

ARGENTINIAN foreign minister Dante Caputo was yesterday elected president of the United Nations General Assembly.

Press Cuttings

from Broad Street Associates **YORKSHIRE POST**

21 SEP 1988

THE Argentine foreign minister, Mr. Dante Caputo, was elected president of the United Nations General Assembly, defeating the UN representative of Barbados, Dame Nita Barrow.

Internationalist and Falklands hardliner

MR DANTE Caputo can justifiably claim to be Argentina's leading citizen of the world.

With a French wife and years of study in the US and France, regular visits to Third World countries and an internationalist perspective, he is one of President Raul Alfonsin's closest advisers.

He is also known to be a hard-liner on the Falklands question, refusing to consider further official trade and diplomatic relations until the issue of sovereignty is well and truly on the table.

At 45 years old, Mr Caputo is at a crucial turning point in his political career. That career started in 1966, when he spent a year studying international relations in the US after graduating in political science in Argentina.

His avowedly left-wing attitudes undoubtedly matured in hectic 1968, when he lived in the epicentre of student agitation and revolutionary thought - studying sociology at the Sorbonne, where he gained a doctorate.

Before his current position as Foreign Minister he held no political office. But his position as aide to Mr Alfonsin, the Radical Party presidential candidate in 1983, ensured him a senior post in the new Government. When President Alfonsin took office in December 1983 it was perhaps inevitable that Mr Caputo's background would launch him into the world of high diplomacy.

His time as Foreign Minister has been occupied with placing Argentina on the diplomatic map, building closer links with the Non-Aligned Movement and to some extent distancing his country from its former intense political and economic dependency on the US. At the same time he has managed to retain the confidence of Washington.

Perhaps the best indication

Gary Mead profiles Dante Caputo of Argentina, the new UN General Assembly president

of his closeness to President Alfonsin is that Mr Caputo is the only original government minister to survive almost five years.

Loyal and unthreatening, Mr Caputo has retained Mr Alfonsin's confidence, despite being politically much to the left of the President. Indeed, Mr Caputo's position as a member of the Radical Party is something of an anomaly; his natural home is with a socialist party rather than the historically conservative Radicals.

Mr Caputo made known his interest in the UN General Assembly presidency last year, and throughout 1988 has worked hard at obtaining enough votes from the 159 member states. Though voting took place in secret, the alignment is rather obvious; Latin America, Spain, France, Italy will all have been strong supporters, but so too will a large number of African states, large delegations from which have paid visits to Buenos Aires in recent months.

His position as President of the General Assembly of the United Nations will give him the platform for which he has clearly yearned, to express internationalist sentiments which, in fact, most Argentines care little for.

At the same time it is unusual for such a prominent post to be held by the Foreign Minister of a country which is still engaged in a state of hostilities with one of the UN's leading member states - Britain. Time will show to what extent Mr Caputo will use his position to strengthen Argentina's claims to possess the Falklands.

UN chooses Argentine

Argentine Foreign Minister Dante Caputo beat Dame Nita Barrow of Barbados in a United Nations vote for president of its General Assembly. Profile, Page 3

Argentina wins secret ballot for key UN post

By Our United Nations Correspondent

ARGENTINA'S Foreign Minister, Mr Dante Caputo, yesterday was elected president of the United Nations General Assembly, defeating Dame Nita Barrow of Barbados, who had Britain's support.

Mr Caputo is a close adviser of President Alfonsín and has helped to orchestrate Argentina's diplomatic moves over the Falkland Islands since Argentina's attempt to seize the islands in 1982 was foiled by British troops.

He won comfortably in a secret ballot, defeating Dame Nita by 91 votes to 66.

Under the system of rotation among regional groups at the UN, it was the turn of the Latin American and Caribbean group to have the presidency of the General Assembly. Generally, the groups manage to agree on a single nominee but Mr Caputo and Dame Nita remained in contention until the end.

The Barbados delegate felt

that she had a right to the office since no Caribbean state had ever held it and she would have become only the third woman president.

Argentina made a determined effort on Mr Caputo's behalf and was confident of success weeks ago, although Dame Nita believed until the end that she had a chance.

Mr Caputo takes over from Mr Peter Florin, the East German deputy Foreign Minister.

The presidency is prestigious in the UN scheme of things but carries little political clout. Nevertheless, Mr Caputo's victory will not be viewed with favour by the British Government because it is a clear reflection of the UN mood in the Falklands dispute.

That question is again on the agenda of the General Assembly and is expected to be debated next month or in early November. The session that began yesterday will continue for three months.

Lawyers meet in Argentina

More than 150 lawyers will be the largest British contingent to set foot in Argentina since the Falklands War. They will join 2,000 others from 75 countries for the twenty-second conference of the International Bar Association, which opens in Buenos Aires on Sunday.

It is the first time that the conference, the biggest international forum of lawyers, has been held in South America; and the move is a deliberate gesture of support for the stated democratic ideals of the

government of President Raul Alfonsin.

Human rights will be on the agenda and the Argentines are expected to take the chance to put their case for rights of sovereignty to some of the world's top lawyers. That topic will also be the subject of a speech by Dr José Ruda, President of the International Court of Justice at The Hague.

But debates will cover a huge range of topics from access to justice — on which Lord McCluskey, Judge of the Court of Session, Scotland, is

giving a keynote address — to maritime and transport law, aeronautical law, banking, transnational claims, environmental law, insurance, labour law, computers, product liability, tourism and travel.

In a session on Aids and the law Mr Nicholas Kearns, senior counsel in general practice in Dublin, will urge the association to adopt international guidelines for dealing with Aids in the workplace as between 3 million and 10 million deaths are expected by the end of the century.

Caputo wins top UN post

**Diplomatic coup
for Argentina**

From James Bone, New York

Argentina scored a big diplomatic success at the United Nations last night when Señor Dante Caputo, its Foreign Minister, was elected chairman of the General Assembly as a new session began in buoyant mood.

His victory will boost Argentina's image on the world stage, possibly increasing pressure on Britain to negotiate over the sovereignty of the Falkland Islands. Señor Caputo won an unexpectedly clear victory — 91 votes to 66 — for the presidency of the 159-state General Assembly over his rival, Dame Ruth Nita Barrow, the representative from Barbados.

The contest — which took place because the Latin American Caribbean group of states whose turn it was to fill the post could not agree on a single candidate — had echoes of the diplomatic confrontation over the Falklands War. Argentina's Latin American backers were pitted against the English-speaking Caribbean states.

Finally, after extensive lobbying, it appears that the 50 African votes swung the balance in the secret ballot in Argentina's favour. France is believed to have persuaded many of its allies in Franco-phone Africa to back Señor

Caputo. Although Britain deliberately played down its support for Barbados, there was apparently a backlash among Third World states against Dame Nita for being too closely identified with the British.

Speaking after his victory, Señor Caputo said the result reflected the improved image of his country under the civilian administration of President Raul Alfonsín.

Last night's vote will increase pressure on Britain to enter talks with Buenos Aires on all aspects of the Falklands issue, including sovereignty. But Señor Caputo's election will have little effect on the result of the annual UN vote effectively calling on Britain to negotiate on sovereignty, which Britain already loses overwhelmingly.

Señor Caputo said last night he would not chair the annual General Assembly debate on the Falklands which is due before this session ends in early December.

Opening the session in the most optimistic atmosphere for years, Señor Caputo pledged to work to reduce East-West tension, to ease regional confrontations and particularly to correct "the unfair North-South relationship".

Argentine elected

Argentina's Foreign Minister, Dante Caputo, was elected president of the United Nations General Assembly last night, defeating Dame Nita Barrow of Barbados by 91 votes to 66..... Page 8

Argentinian wins

By Our United Nations
Correspondent

Argentina won a major diplomatic victory in New York last night when its Foreign Minister, Senor Dante Caputo, was elected president of the UN General Assembly despite British opposition. Senor Caputo beat Dame Nita Barrow, of Barbados, by 91 votes to 66.

Argentine missile raises US and British fears

Mark Tran in Washington

THE Reagan Administration is stepping up pressure on Argentina to halt development of a medium-range missile capable of carrying nuclear warheads.

Argentina's Condor II missile, developed with Egyptian and Iraqi help, was singled out by the US and its allies including Britain at a Rome meeting earlier this month. "Our position is every bit as strong as that of the US because of the proliferation of missiles and of course because of the Falklands," said one British diplomat.

The seven-country meeting consisting of the US, Japan, West Germany, Britain, France, Italy and Canada, designated the Condor II missile as a leading "project of concern" in missile development, with a special priority in efforts at export control and diplomatic persuasion by the group. "But there is a gulf between agreeing in Rome and actually stopping

the supplies," noted one official. The group was created in April 1987 to try to create a "Missile Technology Control Regime."

The Condor II has long been a source of contention between the US and Argentina, but it has assumed added significance with the growing spread of missile technology to the developing world. The US is particularly worried at the introduction of missiles to the Middle East, with China's recent sales of Silkworm anti-ship missiles to Iran and its CSS2 missile to Saudi Arabia. US officials assume that if Argentina develops the Condor II, it would become available to Iraq and Egypt.

Still, the Reagan Administration shows little inclination to flex its muscles in an area that could really hurt Argentina — debt negotiations. Argentina is in the final stages of negotiation on a massive debt rescheduling plan, which could be wrapped up this week.

Argentina has been working on its Condor II missile since at

least 1984, with technical assistance from Egypt and money from Iraq. It is believed to be a two-stage rocket with a range of 4,200 to 6,200 miles and a payload of about 770 pounds. The missile, still in the development stage, appears to have run into difficulties.

The US will bring up Argentina's missile in special talks with the Soviet Union in the first of a series of special US-Soviet talks on ballistic missile proliferation to be held in Washington next Monday.

● The Reagan Administration has decided not to scrap the 1972 anti-ballistic missile treaty over the Soviet radar station at Krasnoyarsk, which it still considers to be a serious violation of the agreement limiting missile defences.

The decision represented a victory for Secretary of State, Mr George Shultz, said senior officials on Monday. Mr Shultz argued against a formal finding, which Defence Secretary Frank Carlucci wanted, that the installation represented a "material breach" of the treaty.

Argentine wins UN presidency vote

ARGENTINA'S position on the world stage received a considerable boost yesterday when its Foreign Minister, Dante Caputo, was elected President of the UN General Assembly by a comfortable 25-vote majority.

One of the first ambassadors to congratulate him was the French delegate, Pierre-Louis Blanc, who rushed to shake Mr Caputo's hand. The clearly disappointed British Ambassador, Sir Crispin Tickell, left after the vote, saying, "We wish him well."

The vote represented a sharp reversal for British interests, however. The future of the Falkland Islands continues to be a major theme in Buenos Aires foreign policy and Mr Caputo will be well placed to further his country's interests in New York.

Mr Caputo is a polished 45-year-old diplomat with an impressive academic background. He studied political science at Fletcher College in Boston and at the Sorbonne before returning to Argentina in 1979. He has been Foreign Minister since 1983 and is very close to President Raúl Alfonsín.

"We won with 25 votes, which shows the recognition by the international community of Argentine foreign policy," his spokes-

From Leonard Doyle
in New York

man, Ambassador William McGough, said after the vote.

Ninety-one countries voted for Mr Caputo against 66 for Dame Nita Barrow of Barbados, although it was in theory the turn of a Caribbean country to lead the General Assembly over the coming year. Because the balloting was secret it was difficult to determine with certainty which countries voted for Argentina. But an Argentine official said that, aside from the expected Latin American, East bloc and many Asian votes, a majority of European Community countries had voted for Argentina.

Ricardo Lagorio said that "West Germany, Italy, Spain, Belgium and Luxembourg had all committed themselves" to voting for Argentina.

The fact that many African countries clearly voted for Argentina instead of Dame Nita was seen as a bitter blow by Barbados because of its strong position on apartheid. Argentina recently declared the South African consul *persona non grata* and ejected other South Africans from the country.

Transport cover curbs on increase

RESTRICTIVE legislation limiting a free market in world insurance is on the increase in several parts of the world, says a newly-released report.

IUMI's powerful Freedom of Insurance Committee says it now has 64 countries on its "watchlist" of nations currently practising some form of restriction on free insurance in the transport insurance market.

In the past year, the committee has collected evidence which suggests that other coun-

tries may also be practising some form of restriction.

Maritime nations with restrictions of various types listed by IUMI include France, Brazil, Egypt and Argentina.

The report notes that the French transport insurance market has made great efforts to remove the barriers to free competition and a new law will be introduced later this year which will mean the country has no artificial barriers to free market insurance.

IUMI believes that restrictive measures have been practised in several forms. The most common forbid sellers from insuring exports abroad and forbid buyers from insuring imports abroad.

But in many emerging nations, it is also forbidden for a seller to export on a Free on Board basis; nor are buyers allowed to import on a Cost Insurance Freight (cif) basis.

IUMI's Freedom of Insurance committee also notes that overseas insurers sometimes face special taxes and extra

charges as well as currency restrictions.

The report, presented to the conference yesterday, says the committee is now evaluating information it has about El Salvador, Gambia, Liberia, Mauritius, Mozambique, Morocco, the Philippines, Thailand and Zimbabwe for possible restrictive legislation.

The report stresses that the watchlist is not exhaustive and it notes that much lobbying still has to be done in order to promote the principle of freedom in transport insurance services.

U.S. Nonperforming Loans May Rise on Argentine Debt

By a WALL STREET JOURNAL Staff Reporter

NEW YORK — Standard & Poor's Corp. said nonperforming loans of U.S. commercial banks could rise 10% to 15% in the third quarter because a large portion of Argentina's commercial bank debt is expected to become delinquent.

But S&P said its ratings on bank debt won't be affected, because the agency factored the likelihood of the Argentine delinquency into its general downgrading of bank debt in February.

S&P estimated that at least \$2 billion in Argentine loans, or about 30% of Argentine loans by big city banks, could be on nonperforming status by Sept. 30. That would raise the banks' average nonperforming loans to 7.3% from 6.3% as of June 30.

Argentina owes the seven largest U.S. banks \$6.3 billion. Manufacturers Hanover Corp. has the greatest exposure — \$1.5 billion — followed by Citicorp with \$1.4 billion.

S&P said that Argentina's foreign-exchange reserves remain very low and that political pressure for debt relief is rising. The agency said the only bright spot is the nation's greater grain exports and higher grain prices.

But S&P said a tentative renegotiation of \$63 billion in Brazilian loans will more than offset the missed interest payments from Argentina. Negotiators expect to wrap up the renegotiated debt agreement for Brazil soon, allowing banks to take into income Brazil's recent interest payments by year end.

Britain rebuffed as UN elects Dante Caputo

Jane Rosen in New York

THE 43rd UN General Assembly convened yesterday and, in a setback for Britain, overwhelmingly elected the Foreign Minister of Argentina, Mr Dante Caputo, as its president.

Mr Caputo defeated his rival, Dame Ruth Nita Barrow, who represents Barbados, 91 votes to 66. Although the ballot was secret, the size of Mr Caputo's vote showed that many West Europeans, Asians and Africans had joined Latin America and the Soviet bloc to support him.

Normally there is no contest over the presidency. Each geographical region has its turn at the post and when a region chooses its nominee he is automatically approved by the Assembly.

This year, however, although Barbados was expected to be the Latin American-Caribbean group's nominee, the Argentinian made an attempt to push out Barbados. As a result, the General Assembly had to choose between the two.

British diplomats shrugged off the Argentine victory, pointing out that Britain had avoided taking sides. Still, there was no question but that Britain had been eager for Barbados to win and that it had made its wishes known to all its friends and allies. The fact that Mr Caputo was supported by nearly two thirds of the UN's members was a blow to British diplomatic efforts.

Sources close to London said they expected Mr Caputo to take a low-key approach to the Falklands. "The Argentines are as interested as Britain is in pursuing the indirect contacts the two countries have been having," a diplomat said, "and Mr Caputo isn't likely to jeopardise them."

In any case, his job is to preside over the assembly's debates, to welcome the official visitors to the Assembly and to attend diplomatic parties by the score.

Brazil debt signing this week

By John Barham
in Sao Paulo

BRAZIL will formally resume membership of the international financial community on Thursday when Mr Mailson da Nobrega, its Finance Minister, signs a \$5.2bn debt package in New York.

But agreement with the banks does not signal the end of Brazil's economic problems. As a Sao Paulo-based US banker said: "This gets Brazil back in the good graces of the big banks in time for the International Monetary Fund annual general meeting, but they will soon start having problems with Brazil." He said the agreement may start coming apart by the end of the year as the economy worsened.

The second tranche of the record \$5.2bn loan is tied to conditions established by the IMF and World Bank co-financing projects.

The IMF agreed to relatively liberal economic targets for Brazil. It accepted a 4 per cent public spending deficit and a 600 per cent inflation rate for this year. Both those targets now seem unattainable. Prices are likely to increase by more than 24 per cent this month, pushing the 12-month rate to 600 per cent.

● Mr Barber Conable, president of the World Bank, says it is preparing to extend Argentina \$700m in fresh loans, probably to be disbursed in October, writes Gary Mead in Buenos Aires. Mr Conable visited Argentina at the weekend and said the World Bank backed recent economic plans.

● The Venezuelan Government will soon ask international banks for a new restructuring of its \$25bn in public sector foreign debt, according to press reports published in the capital, writes Joseph Mann in Caracas. Officials are also studying financing options, including new loans from commercial banks, aimed at offsetting a large balance of payments gap projected for this year.

Caputo's signal

■ It is not entirely unusual for the President of the United Nations General Assembly to continue as his country's Foreign Minister. When Gaston Thorn held the job in 1975, he was not only Foreign Minister of Luxembourg but Prime Minister as well. Humayan Rashed Choudhury combined the post with being Foreign Minister of Bangladesh two years ago, and Amintore Fanfani did it for Italy in 1965.

Nevertheless, there is something slightly odd about Dante Caputo being in the running. Caputo is the Foreign Minister of Argentina and the election for the UN Presidency takes place in New York today. The contest is between Caputo and Dame Nita Barrow of Barbados. She is the elder sister of the late Barbadian Prime Minister and has a string of diplomatic accomplishments to her credit, including membership of the now defunct Commonwealth Eminent Persons Group on Southern Africa. Caputo, however, is the favourite.

The oddity is that he is one of President Alfonsin's closest advisers on Argentine domestic as well as foreign policy. A sociology graduate of the Sorbonne, and of international relations at Tufts and Harvard, he is one of his country's leading intellectuals, if slightly *circa* Paris 1968. It was he who was paving the way for constitutional reform until the plans began to stumble. At the age of 45, he clearly has a future. The questions are: where and what?

Since Alfonsin's Radical Party may well be defeated by the Peronists in the Presidential election next May, Caputo seems to be looking around. The Presidency of the General Assembly runs for a year: he could probably continue to hold it *ad hominem* even if he lost his job at home. He has been seeking third

world support by inviting a large number of African delegations to Buenos Aires and last month expelled the South African consul. According to the Caputo camp yesterday, he expects to win at least 96 of the potential 159 votes. Others say that the result will be closer.

The Presidency of the General Assembly is unpaid, but includes lots of perks, invitations, foreign travel and decorations. It can be a very important job, and probably will be in the coming session.

West tries to halt Argentine missile

From Christopher Thomas
Washington

The United States and its main industrial allies, including Britain, are trying to persuade Argentina to halt the development of a medium-range missile being built with technical help from Egypt and funds from Iraq.

A senior Argentine source in Washington confirmed that Egypt was involved in development of the Condor 2, but insisted that it was only for peaceful purposes.

Representatives of the US, Britain, France, West Germany, Italy, Canada and Japan met in Rome on September 8-9 and are understood to have decided to give special attention to persuading Argentina to stop development of the Condor. The seven nations decided in April, 1987, to work against the spread of

missiles capable of delivering nuclear weapons.

State Department officials said the Argentine missile, along with the proliferation of other weapons being developed or sold in the Third World, would be discussed at special US-Soviet talks in Washington next week.

There is concern that the involvement of Iraq and Egypt could mean that the missile will be exported to other Middle East countries once it is fully developed, but an Argentine source insisted this was not so.

Curbs sought on Argentine missile plan

**By Hugh Davies
in Washington**

BRITAIN, the United States and other allies are attempting to find a means of curbing Argentina's development of its Condor II missile.

According to intelligence exchanged between London and Washington, Egyptian technicians are working in Buenos Aires on the missile, with finance from Iraq. It is feared that the completed Condor might be exported to the Middle East.

The missile is thought to be a two-stage rocket capable of carrying a payload of 760 lbs, with a range of up to 6,200 miles.

It is reported to have been discussed at a meeting in Rome of officials from Britain, United States, France, West Germany, Italy, Canada and Japan, but the Foreign Office denied this.

Cross-party links 'only answer to new Thatcher term'

Owen sets PR as party's main target

Leader's speech

Martin Linton

DR David Owen gave his small, embattled party a new mission in life yesterday — to put proportional representation and the balance of power back on the political agenda.

With the Social and Liberal Democrats apparently moving away from the idea, the SDP was now the only party to be totally and absolutely committed to PR, he told his party conference in Torquay.

At the same time many leading figures in the Labour Party — Robin Cook, Bryan Gould and Roy Hattersley — were saying out loud that Labour could not get a majority at the next election, short of a miracle.

And, ironically, there was starting to be a move towards PR in the Labour Party at the very moment when the Liberals seemed to be moving against it.

He had been derided for saying the SDP's best hope was to hold the balance of power in a hung parliament. But cross-party cooperation was now the only alternative to a fourth term for Mrs Thatcher. "Balanced parliaments are here again," he said.

The SDP had been created deliberately and consciously as a fourth party with its own policy but ready to undertake pacts, negotiations, alliances and coalitions and to work with like-minded people.

He pointed out that it was not the SDP that had broken the Alliance and they were perfectly prepared to go on working with the Social and Liberal Democrats.

Some people wanted him to attack those who had left the

SDP but he was not going to do that and it would be "ridiculous nonsense" to pretend he had no like-minded friends in the new merged party.

However it was clear now, he told the delegates, that "the SLD ain't going to talk to us. We're going to have to fight them — sad, but that's the reality, for the present at least."

The SDP should make its central objective the reform of the voting system which not only distorts British democracy with its "scandalous misrepresentation of the British people" but now also distorts the balance of political feeling within the European Parliament.

The SDP should campaign for a referendum on the voting system and ask people whether they really wanted a situation where Mrs Thatcher can rule forever with a minority of the vote.

There was a majority on the NHS, the British nuclear deterrent, the market economy and free education and it was fed up with an autocratic hectoring government, he said.

Why couldn't that majority be assembled? "It's because of the voting system. It's unjust. It's unfair. No longer can this country be said to be the cradle of democracy. It has a distorted, unrepresentative democracy," he said.

"Some people have said the party needs a mission. If you want a great issue, absolutely on all fours with the Great Reform Act, with the emancipation of women, I give it to you. Fair voting, proportional representation. That's the task for the SDP.

"You will be reviled, but ask yourselves one thing: Is our case just? Is it fair? If it is, the British people will eventually ensure that justice and fairness prevail."

Whatever happened, the SDP would remain because it was a

party bound together by beliefs and principles. "We are social democrats and we intend to remain social democrats. Quite simply, the SDP is the only party we could be a member of. End of story."

If it was true that the Conservative Party dominated the political scene, "it's not because they are good, it's because the Labour Party is awful and quite frankly after the urge to merge the centre is in a mess".

He scoffed at the new merged party, variously known, he said, as the SLD, the Democrats, the Salads or the Slids. His diet sheet told him that when all else failed "you can eat salads for breakfast".

But he saved the most devastating passage of his speech, a full 52 minutes delivered without notes, for an attack on Mrs Thatcher, the most forthright he has made for years.

She was the most partisan and the most party political prime minister Britain had ever seen. She still saw issues entirely in terms of "Are they one of us?" "Will it get us votes?" or "Will it be good for our people?"

She had used the power of office to entrench the Government in a way that was a "disgrace". Taxpayers' money had been used to advertise Tory policies in a way that flouted every convention on the impartiality of the Civil Service.

He derided the kind of society that she had fostered as "an upstairs, downstairs society, a Victorian society where everything looked prime and proper on the surface and was sordid and secretive underneath the carpet". The Victorian era had produced the poor law, prostitution and crime as well as great institutions and public investment.

He was particularly scathing on Mrs Thatcher's record on apartheid. "South Africa is the



"The skies should be more representative — so we'll ask those two to share out their feathers!"

challenge to our generation. It remains one of the most offensive moral regimes in the world and for Britain to be seen to be the friend of the South African government is repugnant."

He identified three core issues for the his party — security, democracy and prosperity — and said that he had not chosen either the issues or their order because they spelt SDP. They were core issues be-

cause no party could defeat Mrs Thatcher unless it was "unflinching in the defence of security...unequivocal in upholding democratic rights and...unfettered in championing the social market economy".

If the Labour Party still want to get rid of Britain's nuclear deterrent at the next election they would deserve to lose a fourth successive election.

Labour was so often brushed

aside because it was impossible to challenge the Government effectively unless one could see both the strengths and the weaknesses of the Prime Minister, he said.

The SDP was the only party that had refused to be pushed into "opposition for the sake of it" and had held firm with the Government on issues such as the Falklands, the miners' strike and cruise missiles.

UN poll recalls Falklands split

From James Bone
New York

The 43rd General Assembly of the United Nations will open in New York today with a diplomatic confrontation similar to that provoked by the Falkland Islands War.

At stake is the presidency of the 159-state assembly, which is set for a Latin American or Caribbean nation.

Argentina's Foreign Minister, Señor Dante Caputo, is challenging Barbados's representative at the UN, Dame Ruth Nita Barrow.

The clash pits Argentina's Latin American backers against Britain and members of the Commonwealth and the Anglophone states of the

Caribbean — just as did the Falklands conflict.

Señor Caputo claims support from about 90 of the 159 member states, including the Soviet bloc, most of Asia and all of Europe except Britain and Portugal. His supporters seem to be trying to curry favour with Argentina for economic reasons.

Also at issue is the right of small states not to be forced on to the sidelines of diplomacy by larger nations.

The Latin American and Caribbean nations have had 10 chances to provide a president of the General Assembly since the UN was founded, but the post has always gone to Latin America.

The last time the group

nominated a General Assembly president, in 1983, Panama forced out the Bahamas.

Dame Nita, who is black and a former member of the Commonwealth's Eminent Persons Group on South Africa, claims the support of black Africa.

But Argentina has been wooing Africa — Señor Caputo toured the continent this summer — and France is also said to be lobbying hard among its Francophone African allies for an Argentine victory.

Señor Caputo is likely to win, but British officials say that this will have little impact on the existing pressure at the UN for Britain to negotiate over the sovereignty of the Falkland Islands.

Falklands turn down £400,000 for islands

By GARRAN PATTERSON
Property Correspondent

AMERICAN property speculators bid up to £400,000 for a dozen islands in the Falklands — ten times the asking price.

But the sellers are determined that the 9,000 acres will go to a native Falklander for the original £40,000.

The sale notice brought 250 offers from all over the world in the first month. The bulk of them came from Britain and the United States, followed by France and Germany.

'We could have sold for ten times the asking price,' said Mr Brian McGreal, managing director of the Falkland Islands Company, the owners.

The islands are believed to be rich in oil and mineral deposits, but there will be no bonanza for the buyer.

Rights

'Oil and mineral rights revert to the Falkland Islands government when we sell the property,' said Mr McGreal.

The company, a subsidiary of the Coalite group, wanted the property to go to someone born and bred on the islands.

The prospective new owner is believed to be a family man with local farming experience.

He will live in a three-bedroom farmhouse and needs to like his own company — the neighbours are 30 miles away and the capital, Stanley, is nearly three times that distance.

Whitehall Watch: Peter Hennessy looks at
the case for amending outdated practices

Time to overhaul machinery of policy-making

AS THE Presidential election approaches its climax, Washington is like a company town waiting for the appointment of a new chairman and chief executive to its dominant employer.

Its small army of government experts are on a definite "high"; new incumbents in the White House, unlike fresh arrivals in No 10, have the capacity to change the bureaucracy and its staff almost from top to bottom.

As part of its bicentennial celebrations, Georgetown University, a few miles upriver from Capitol Hill, organised an international gathering this month to ponder such matters at a conference on "The Executive Establishment and Executive Leadership", the brainchild of its Martin Professor of Philosophy and Politics, Father Colin Campbell SJ.

For at least two of those attending — myself and the man from our embassy in Washington — it was an occasion of some pleasure because the most experienced American present, General Brent Scowcroft, argued unequivocally that in such matters, the British do things best.

General Scowcroft, the former National Security Adviser to President Ford (and widely tipped for the same post if George Bush wins), is the kind of cool, soldier-thinker-administrator rarely found in Washington or London. The nearest British

equivalent to him is General Sir Ian Jacob, military secretary to the Cabinet during the Second World War and during Churchill's peacetime administration, the mind behind the creation of the Ministry of Defence in 1946 and its absorption of the Services ministries in 1964.

At Georgetown, General Scowcroft said: "We tend to think that the British have organised these things better than we have. The whole National Security Agency

[the US equivalent of GCHQ] and organisation of the Department of Defense and the National Security Agency owe so much to the British."

What the General had in mind especially was the continuity the permanent structures and career officials afford a new prime minister, and the familiarity with colleagues over a long period of time that the Shadow Cabinet system provides.

"The President is elected and only has the dimmest idea of what his job is," General Scowcroft explained. He has to select his National Security Adviser without knowing what his own job is. Richard Nixon did not know Henry Kissinger. The British system avoids all of that."

Listening to this was akin to watching Britain win a gold for foreign affairs at a bureaucratic Olympics. But the picture is not quite so simple or so gilded as the General implied.

The Americans probably have too rich and too diverse a variety of foreign, defence and intelligence policy inputs. Washington, with its plethora of agencies and

**'Yesterday's
nostrums
perpetuated
as part of a
genetic code'**

departments, is excessively competitive and deregulated.

Whitehall, by contrast, is too much the prisoner of orthodoxy in procedure, and conventional wisdom in thought. Our foreign, defence and intelligence communities are dominated by those who sign up for life and automatically carry yesterday's nostrums and practices from one generation to the next as part of their professional genetic code.

Mrs Thatcher treats traditional institutions rather as St George handled dragons. But even she has had a limited impact, despite the Foreign Office being impaled on the prong of her lance since the Falklands crisis of 1982.

Since then she has had her own shadow FO in No 10 in the shape first of Sir Anthony Parsons and more latterly Sir Percy Cradock (both former grade one ambassadors whose methods of conducting business won her approval). Sir Anthony and Sir Percy have been her eyes and ears at the weekly meetings of the Joint Intelligence Committee.

No prime minister has tried anything comparable since Neville Chamberlain installed the arch-appeaser, Sir Horace Wilson, in Downing Street (although no insulting comparison is intended here with Sir Anthony and Sir Percy).

As is her wont, Mrs Thatcher declared her intentions *en clair* at the outset, announcing in 1979 that "I know nothing about diplomacy, but I just know and believe that I want certain things for Britain." Those officials dealing with Europe, for example, are reminded of this virtually week-in, week-out.

As so often with the Prime Minister, radical intentions have not been seriously reflected in innovations in method or structure.

If Mrs Thatcher was really irritated by the caution and conventional thinking of the foreign and defence policy establishment, she could have done something about it quite easily, at small cost to the public purse and without the friction of Washington's perpetual, ritualised turf-fights.

The way to do it is to find a halfway-house between the British and American systems by bringing a small dose of experienced new blood, a mixture of outsiders and insiders, into the existing Overseas and Defence Secretariat of the Cabinet Office.

The OD Secretariat services Cabinet and its committees, and its Assessments Staff feeds the JIC and those ministers who receive its intelligence product.

The basics of the British system were put together to handle the threat of the Kaiser, and his High Seas Fleet, with the creation of the Committee of Imperial Defence in 1904.

The last occasion on which the machinery of foreign and defence policy-making was seriously reviewed was in 1918 by the Haldane Committee.

The time has come to have another look if we are truly to deserve the continuing plaudits of the likes of General Scowcroft.

World Bank taking more money from poor nations than giving

By Michael Prest
Resources Correspondent

DEVELOPING countries paid more to the World Bank than they received from it for the first time last year, and problems caused by the Bank's organisational upheaval remain to be resolved, the world's biggest aid agency admits in its *Annual Report 1988*, published today.

The revelation that the Third World transferred money to the Bank comes soon after a similar confession by its sister body, the International Monetary Fund. The IMF annual report last week said that during the three years to April there was a net flow of \$9bn (£5.3bn) from developing countries into the Fund.

Net transfers in the year to 30 June 1988 from current borrowers to the Bank amounted to \$1.9bn, despite the Bank's disbursements reaching a record \$11.6bn, against \$11.4bn in 1987. Commitments to lend were \$14.8bn, up \$600m from the previous year and also the highest recorded. Of the total net transfer, \$1.23bn was paid by 17 highly indebted middle-income countries, including Brazil and Mexico.

Peter Riddleberger, a Bank spokesman, said that the net transfer was caused by the depreciation of the dollar (which meant borrowers had to find more dollars to repay their loans), repayments by old borrowers such as Japan and Korea, and an absence of fast-disbursing loans to some bigger borrowers such as Brazil, Nigeria and Yugoslavia.

The picture was also slightly distorted by the exceptional repayment by Romania of all its debts of several hundred billion dollars to put its relationship with the Bank into abeyance.

But Mr Riddleberger did not rule out net transfers occurring again. He said: "It's part of a general concern of ours that there is any transfer. It's not in the best interests of those countries which are trying to adjust their policies. No one's happy about it round here."

The report warned that further reorganisation may be necessary to resolve problems thrown up by the upheaval instituted two years ago by the Bank's new president, Barber Conable. The report said: "While much has been achieved, some transitional problems remain, and some further organisational adjustments may be necessary. Working relationships between some units have not yet been developed to their full potential."

One problem is the intergration of the country teams, which are now the primary unit of Bank activity. Technical and country management were previously separate. A test of the new structure is the long drawn-out negotiations with Argentina over \$750m of balance of payments support in return for policy reform. Mr Conable visited Buenos Aires last week to participate in the negotiations.

According to the report, the upheaval resulted in the regular staff falling by 320. The number of higher-level staff declined by 287 during the year to 3,556. The report said: "Momentum was restored to its major work programmes after an initial slowdown caused by the staff-selection process."

The pattern of lending changed. Of total commitments, 43 per cent — the highest percentage ever — was to highly indebted middle-income countries.

A plum from the Berlin pudding

RELIEF for the poorest countries of all, now contending with natural disaster on top of hopeless debt, is the good news awaited from Berlin.

There, as the week goes on, will come the world's finance ministers and bankers, with a huge and heterogeneous supporting cast, all flocking in for the annual meetings of the International Monetary Fund and World Bank.

This time last year, when the meetings were in Washington, Nigel Lawson advanced his plan for the debtors of Africa south of the Sahara—countries with most of their debts owed to Western governments and international agencies. Sheer arithmetic, the spectacle of interest compounding up, faster than the countries' earnings could possibly grow, argued the case for relief.

These countries should (Mr Lawson said) have government aid loans turned into grants, they should have more time to pay on other official loans (export credit, mostly), and interest rates should be cut to levels which they had some chance of meeting.

The French would have liked it better if it were called *l'initiative française*, the Germans did not like subsidised interest rates one bit, it has all taken time. With luck the working arrangements will be agreed this week—in time to be pulled out, like a succulent plum, by the finance ministers of the seven richest countries when they meet at the weekend.

Their meeting (or, in the language of Imfspeak, the Group of Seven or G7) could use a plum. It certainly will not get one from the Americans. Nicholas Brady, Secretary of the Treasury, will be attending his first IMF and, if Michael Dukakis wins in November, his last. Any dramatic initiatives from or to the Americans must wait until then.

Instead, the G7 can be expected to look at where it was a year ago and pat itself collectively and mutually on the back. The world economy (it will say) has done better than seemed likely then—let alone a few weeks later, when the stock markets collapsed. The United States deficit, the Germans and Japanese surpluses, are not so desperately far out of kilter as they were.

Even the common will to manage exchange rates—so proudly put on show in Washington, and then so thoroughly demolished by the markets—has, they will say, been stuck together again.

The cracks have shown from time to time, notably in the summer, when the markets supposed (wrongly, as it happened) that the

Japanese were going back on their part of the bargain. A G7 bulletin which said so would be better, as more credible, than one like last year's which pretended that all was for the best in the best of all possible worlds.

The Panglosses on the G7 can expect a touch of realism from Michel Camdessus, the IMF's managing director. Mr Camdessus finds himself in a position of financial strength which he cannot welcome. More money is flowing back into his Fund than is being lent out.

That is not the idea, when there are plenty of countries which could use loans as a part of the IMF's prescription for them. Some of the neediest are cut off from help because they are behind with repaying their previous loans.

The borrowers' textbook says that you must not stand up the IMF, whoever has to wait, because, if the IMF will not lend to you, nobody else will. Now, though, the Fund, and the World Bank, have borrowers who are seriously in arrears. The Bank has provided \$421m against them in its accounts, out today.

Peru may be a Won't-Pay, cocking a snook at the Fund and Bank, but the rest are Can't-Pays, and a question for Berlin is what to do about them. One suggestion is that they should agree to go through the programme of reform which is the other half of the IMF's medicine, and then be allowed to draw on the kitty (marked ESAF, for Extended Structural Adjustment Facility) which Mr Camdessus had filled up, last year.

Among the big borrowers, or, as they are pleasingly called, the middle-income debtors, Argentina has sunk to the bottom of the class again. Where two or three worried bankers stand in the corner of an IMF week party, drinking a little too fast, Argentina is what they will be worrying about. The World Bank's president, Barber Conable, flew to Buenos Aires at the weekend for talks with President Alfonsín, which is seen as a gesture of reassurance—but Mr Conable cannot guarantee that Mr Alfonsín will win next year's election.

The IMF will be sounding out its member countries for an increase in capital, starting at 100 p.c. (always open high) but unlikely to get it. The Japanese would like to increase their share, to reflect their financial power. They might usefully start, others say, by improving their inept contribution to the Fund's policy-making meetings.

Decisions, anyway, must wait until next year, because the World Bank has had a capital increase, and Congress has not yet voted the US share, and will not be encouraged to do so if it is at once asked for more.

So the Bank's traumas continue.

Its accounts show some \$200m of reorganisation costs—mainly, paying people to go away. Now, in Berlin, it will apparently be the target of hordes of demonstrators, who complain that its projects are bad for the environment.

Berlin, so bankers tell me, has an active branch of Rentamob, staffed by those who have chosen the alternative to conscription—which is to enrol at the Free University of Berlin and stay there to the age of 28.

We expect an exciting time. I hope that some of the excitement percolates to where it is most needed.

FALKLANDS

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17 SEP 1988

AVOIDING AIR CHAOS

WITH congestion in the skies of Europe set to worsen into the 1990s, the tourist board for the Falklands Islands is keen to point out that there are no such problems in the South Atlantic holiday destination.

A few million albatross, upland geese and the odd RAF Phantom are the only competitors for air space with the three Islander aircraft of the Falkland Islands Government Air Service.

LET this Gargantuan wallow in correspondence serve as a warning to all aspiring authors: being a literary genius is hard on matrimony, the pocket and the liver. And there's all that difficult writing that should be done.

Lawrence Durrell, according to the editor, likes to say he found *Tropic of Capricorn*, Henry Miller's first autobiographical erotic extravaganza, discarded in a public lavatory in Corfu in 1935.

He wrote Miller an ardent fan letter, saying "*Tropic* turns the corner into a new life which has regained its bowels... I salute *Tropic* as the copy-book for my generation." Durrell was then 23 and Miller 43. The American, who was living a life of Bohemian ecstasy and desperation in Paris at the time, was naturally delighted by Durrell's delight. "I particularly prize your letter", Miller replied, "because it's the kind of letter I would have written myself had I not been the author of the book."

Thus began a prodigious exchange of affectionate, jocular and earnest shop-talk and confessional gossip, which continued until Miller dictated his farewell only a few weeks before his death, in 1980, at the age of 88. About 220,000 of the million words they wrote to each other are printed here, selected by Ian S. MacNiven, of the State University of New York, who feels justly that they have "all the candour of an eavesdropped conversation between intimates."

Although they met seldom, the two writers' long friendship became so close and mutually supportive (they kept telling each other that they were this century's supreme geniuses) that they were able occasionally to criticise each other's work severely without giving offence.

On one occasion Durrell's reaction to Miller's scatology was so impatiently unfavourable that he cabled: "SEXUS DISGRACEFULLY BAD WILL RUIN REPUTATION UNLESS WITHDRAWN [AND] REVISED." In that novel, Durrell pointed out in an indignant letter, mysticism was lost in a "shower of lavatory filth."

They both experienced financial difficulties before Durrell's big success with *The Alexandria*

Strike-free days, letters galore

PATRICK SKENE
CATLING

THE DURRELL-MILLER LETTERS, 1935-80
edited by Ian S. MacNiven. Faber, 528pp, £17.50

Quartet and Miller's benefit from the relaxation of censorship in Britain and the United States, yet they always had the expensive habit of marrying their favourite women (Miller 5, Durrell 4) and the drink flowed copiously until the medical caution of old age.

Alienation from social orthodoxy is a theme that runs throughout the correspondence. Durrell, half Celtic, born in India, declared himself a Mediterranean man, repeatedly repudiating his semi-Englishness, though he served HMG as a

teacher and public-relations spokesman during the war and for several years afterwards, in Greece, Egypt, Cyprus, Rhodes, Argentina and Yugoslavia.

Sometimes Durrell's voluntary exile moved him to make silly pronouncements in his letters, such as: "Everyone loathes his own country and countrymen if he is any sort of artist."

After his precarious middle years in Paris, Miller, described by Bertrand Mathieu as "Orpheus in Brooklyn", found anti-Americanism more comfortable in California. With a

series of obsequious companions in his cliff-top isolation at Big Sur, he shared Durrell's admiration of Gauguin and D. H. Lawrence and a rather vague, half-baked version of Zen Buddhism. "I'm nuts about China", Miller wrote.

Neither Miller nor Durrell was handicapped by humility. In praise of his own scabrous early novel, *The Black Book*, Durrell wrote: "It's a good little chronicle of the english [sic] death... I think it's a book Huxley could have written if he were a mixture of Lawrence and Shakespeare." There is no hint that he was joking.

Durrell wrote contemptuously of Osbert Sitwell and Cyril Connolly, dismissed Orwell as "a nice chap, but ignorant" and described his publisher, T. S. Eliot, as a "funny patient crazy rectangular man", but was always grateful for the niceness of Faber, who publish Durrell to this day.

When the letter-writers got up full steam, as they often did, their fluency and eloquence were wonderful. They obviously tried to make the letters good enough for eventual publication — and they succeeded.



Durrell and Miller: no need to write today

Conable visits Alfonsín for new loan talks

By Gary Mead in Buenos Aires and **Stephen Fidler** in London

MR Barber Conable, World Bank president, has arrived in Argentina to meet President Raul Alfonsín and discuss new loans that Argentine officials suggest will be up to \$1bn.

The visit signals World Bank support for economic measures at the start of August, as well as backing for Mr Alfonsín's handling of the Argentine economy, say Argentine sources.

Argentine officials say the World Bank loans will be tied to three areas: banking sector reforms, changes in the rules on industrial imports, and housing. These loans could be approved by the World Bank board as soon as next month.

However, talks with the IMF on a stand-by credit are moving much more slowly and there are doubts as to whether commercial banks will wish to make new loans for the country before the presidential election next May.

Mr Jean Sourrouille, Economy Minister, was in the US this week to discuss Argentine debt problems.

OBITUARIES

Sir John Biggs-Davison

SIR JOHN BIGGS-DAVISON, who has died aged 70, was a Conservative MP whose robustly Right-wing views kept him in constant conflict with his party leadership for the 33 years he was in the Commons.

He was that rare bird, a Roman Catholic Ulster Loyalist; in recent years the Troubles in Northern Ireland had increasingly occupied his attention. His enthusiastic support for Mrs Thatcher's succession — after he had strongly opposed Edward Heath's suspension of Stormont and introduction of direct rule — made Biggs-Davison a natural choice as an adviser on Northern Ireland policy.

In 1976 he became Airey Neave's deputy Front Bench spokesman on Northern Ireland, but two years later he voted against the continuation of Rhodesian sanctions in defiance of the party whip ordering abstention.

It was a characteristic gesture — for Biggs-Davison would never dream of tempering his deeply-felt convictions — which removed him from the one post of real influence that he ever held. Mrs Thatcher did not offer him even a minor post when she formed her first administration the next year.

The truth was that Biggs-Davison's incalculability and prickly independence did not make him an easy colleague even for those sympathetic to his views. Nor did he ever seem to aspire to office.

But that same independence of mind ensured he would never allow his religious convictions to interfere with his judgment on Ireland. He criticised the Pope for condemning British internment of IRA suspects, pointing out that he had not objected when the Dublin Government had done the same.

He was equally critical of the often ambivalent attitude of the Irish Catholic hierarchy towards the IRA, compared with their readiness to pronounce on alleged wrong-doings by the British security forces. But he also campaigned on behalf of the Maguire family and those convicted of the IRA's Guildford pub bombing, believing them to be innocent.

While Biggs-Davison's argument that the only solution to the Ulster problem was for the whole of Ireland to be integrated once more into the United Kingdom might have had validity as a theory, as a practical proposition it

displayed that lack of a sense of reality which so often obscured his judgment. The same was true of his 1950s dream of an expanding Commonwealth, embracing European and other nations under British leadership, as a third force in world politics.

He was often described as an Imperialist survivor, and his views tended to reflect a romantic vision of the White Man's Burden — one that had taken him into the Indian Civil Service as a young man.

The son of a major in the Royal Garrison Artillery — and the grandson of the noted Presbyterian scholar and Liberal Home Ruler, Dr S. C. Wright, who wrote a pamphlet claiming to prove that the Pope was Anti-Christ — John Alec Biggs-Davison was born in 1918. He was educated at Clifton and Magdalen College, Oxford, where he dabbled in Marxism.

On the outbreak of the 1939-45 War he joined the Royal Marines and served with the Free French in the ill-fated Dakar expedition of 1940. In 1942 he entered the Indian Civil Service and the following year he was appointed forward liaison officer in Cox's Bazar.

He served in Pindi Gheb, was political assistant and commandant of the Border Military Police and subsequently deputy commissioner of Dera Ghazi Khan on the Baluchistan Frontier during the transfer of power to Pakistan.

One of his visitors there was the Vicereine, Lady Mountbatten, who presented him with a crested silver cigarette case — the only souvenir of his service there that he did not include in the historically valuable collection of diaries, letters and reports which he presented to the India Office Library.

He stayed on with the Pakistan Administrative Service for a year after the end of the Raj and had a deep love of the country and its people. He founded the Pakistan Society in London and presented them with both the Union and Pakistan flags — the latter hastily made by a local tailor — that had been lowered and raised at his post, Fort Munro, on Independence Day, 1947.

In the early 1950s Biggs-Davison worked in the Conservative Research Department and as secretary of the British Conservative delegation to the Council of Europe. Having stood unsuccessfully for Coventry South in the 1951 General Election he entered the Commons in 1955 as MP for Chigwell, Essex (later

Epping Forest), a constituency which embraced part of the old Woodford seat of Sir Winston Churchill, whose roseate view of Britain's past glories Biggs-Davison passionately shared.

Indeed, he cited Churchill's stand in the 1930s against appeasement when explaining his first act of rebellion against the Conservative party in 1957. He resigned the whip to sit as an Independent Conservative in protest against what he called "capitulation to Nasser" over Suez.

But after an ultimatum from his constituency association he returned to the fold in time for the 1959 election. Nonetheless throughout the 1960s he was a bitter opponent of the Conservative party's African policies — notably the break-up of the Central African Federation and the refusal to grant Rhodesia independence.

Suez had made Biggs-Davison strongly critical of America and in his book *The Uncertain Ally* (1957) he attacked the way "dollar colonialism" was undermining Britain and the Commonwealth. He saw the Middle East being parcelled out "between Russian Marxists and American moralisers".

He was equally hostile to the United Nations, charging it with undermining white rule in Africa, and he opposed the ban on arms sales to South Africa. He denied the charge of supporting racialism, arguing for the maintenance of white rule on economic and strategic grounds against Soviet aggression.

Likewise he defended those East End dockers who marched in support of Enoch Powell's "river of blood" speech, pointing out that they were expressing alarm at Britain's decline and voicing a need for Churchillian-style leadership.

With the 5th Marquess of Salisbury he was a founding member of the Right-wing Monday Club, ready to fight a rear-guard action against the decolonisation of Africa following Macmillan's "wind of change" speech. Under his chairmanship it took the lead in calling for Edward Heath's resignation after the 1974 defeat, calling for a return to Conservative principles "to revive the party and save the nation from a Marxist catastrophe".

Biggs-Davison's brush swept broad. He denounced fluoridation of water as "a form of mass medication with no place in the British way of life" and described Kenneth Tynan's nude



revue *Oh Calcutta!* as "an insult to human dignity and a disgrace to London".

He campaigned for the return of European monarchies and was outraged when Independent Television ceased playing the National Anthem at the end of each night's viewing. He condemned "glib opinion-formers, pink in politics and permissive in morals, who abused the power of the mass media to smear and sneer at treasured institutions".

Manifestations of the permissive society, such as homosexual and divorce law reform, the abolition of stage censorship and legalisation of abortion he found "deeply offensive to the religious and moral convictions of many".

As a Catholic he was naturally opposed to abortion law reform but the House of Commons was particularly moved when, speaking as the father of a handicapped child, he declared "it would have been utterly repugnant to my wife or myself that the child should not have been born".

Biggs-Davison was a prolific journalist, writer of letters to newspapers and Commons questioner. Most of his books were polemical but he also wrote a biography of George Wyndham (1951) and *Tory Lives* (1952).

Until his final illness he remained remarkably fit in the best traditions of the crack Indian Civil Service — riding, playing tennis and walking. He won the gold medal in the 1963 London-Brighton Pacesetters Walk; and in 1980 took part in the Parliamentary Parachute Jump.

He was knighted in 1981. In 1948 he married Pamela Mary Hodder-Williams, who survives him with their two sons and four daughters.

Caution over Falklands link

URUGUAY is taking a cautious line over diplomatically sensitive plans to establish a shipping line between Montevideo and the disputed Falkland Islands.

The republic has denied that it is under pressure from Argentina to veto the service.

Government sources have indicated that a request for official permission for the service would not be favourably received — but there appears to be no obligation on the operators to seek official blessing.

A consortium of businesses from the UK, Japan, France, Taiwan, South Korea and Spain is having the 498 tons gross roll-on, roll-off ferry *Indiana I* refitted in Hull.

It wants to employ the 1973-built vessel, bought from Italian interests, mainly as a supply

By James Brewer,
Shipping Reporter

ship for the \$800 million a year fishing industry around the Falklands.

It would be the first mainland dedicated shipping service with the islands since the 1982 war between Britain and Argentina. There is also talk that the vessel would make calls at the southern Chile port of Punta Arenas.

J. Marr (Shipping) Ltd of Hull has been contracted to manage the vessel which will have British crew but sail under the Bahamian flag.

Sales and booking agents will be Stanley Services, an associate company of Hogg Robinson, one of the shareholders. Other shareholders are J. D. Robertson, a Scottish oil company, and Stanley Fuels, a Falklands-based company.

In addition to assisting the fishing industry, the *Indiana I* will have accommodation for 12 passengers and will transport general freight to the islands.

The UK Foreign Office view is that the line is essentially a commercial matter, and officials welcome the resumption of links with the mainland.

Argentina is suspicious that the move is related to a British campaign against its international standing.

Stanley Services has not put a firm starting date on the service, but it hopes to go ahead in early November and is said to have already appointed an agent in Uruguay.

Shipping industry sources in Montevideo generally welcome the prospect of the new venture. The port has developed substantial business as a service base for South Atlantic vessels.

Fishing News 16.9.88

Fisherman lost off Falklands

A PORTUGUESE fisherman was lost overboard the vessel *Vila do Conde* while working grounds to the south-west of Beauchene Island in the South Atlantic.

The vessel had entangled fishing gear around her propeller when the incident happened and the rescue services were alerted by the patrol ship *Falklands Right*.

Falklands Right intercepted a VHF radio conversation between *Hill Cove* and *Pict* at around 9.20 on September 7. She contacted the master of *Pict* for confirmation that a man was overboard from the Portuguese ship and a helicopter was launched.

The patrol ship hauled in her gear and steamed towards *Vila do Conde*, arriving around 15.00. By this time the rescue helicopter had reached the limits of its endurance and returned to its base.

Falklands Right and the Por-

tuguese vessel continued to search for the missing fisherman but abandoned their efforts as dusk fell.

The helicopter search was initiated at Fishops, as is the agreed practice between the fisheries department and the services. The department said there was no delay in assisting the Portuguese ship due to language difficulties and added that many other fishing boats, including Spanish and Polish trawlers, helped in the search.

● There are currently three main groups of fishing activity around Falkland waters. The largest group, of mainly Polish and Japanese vessels, is fishing for blue whiting south of Cape Meredith where good catches are reported.

The other groups are in the Beauchene Island area, where catches are poor, and in the extreme north-west of the zone where good catches of hake are reported.

Argentine 'coup' claim

By Gary Mead in Buenos Aires

THE PERONIST candidate for the Argentine presidency, Mr Carlos Menem, has accused the Radical Party government of preparing for a self-inflicted coup d'état.

In the wake of disturbances in Buenos Aires last week, he suggested the Government was considering such a possibility as a way of avoiding responsibility for the country's economic problems.

Mr Menem, who did not attend the rally last Friday to mark the 12th general strike under the present government, also accused the local and foreign press of biased reporting.

He blamed the riot on what he called the "disastrous economic situation", adding that press coverage of the event

was designed to damage his chances of being elected president in May 1989.

Mr Antonio Cafiero, Peronist governor of the province of Buenos Aires, who was narrowly beaten by Mr Menem for the party's nomination, has said he does not share Mr Menem's views on this matter.

A senior aide to President Alfonsín, Mr Carlos Becerra, has strongly denied Mr Menem's suggestions. He stated that Peronists are incapable of governing Argentina in a period of consolidation of democracy.

The government is investigating the riot. The Minister of the Interior, Mr Enrique Nosiglia blamed "organised" but as yet un-named groups.

"THE MERCURY"
HOBART
TASMANIA
16. 9. 88



Picture: LEIGH WINBURN

Hobart's Peter Alcock and Falkland's delegate Tony Blake. Who's got the whitest sand now then, eh?

THE Great Sand Debate is not a particularly well-known one and few would realise that because of it Australia's reputation has been on the line for the past 12 months.

It all began poolside at Terengganu in Malaysia, last year with a simple conversation between Falkland Islands' delegate, Mr Lewis Clifton, and the serjeant-at-arms of the Tasmanian House of Assembly, Mr Peter Alcock, at the last Commonwealth Parliamentary Association conference.

A challenge was set that the sand in the Falkland Islands was as white as that in Australia. To settle the debate mysterious packages have been slipped through customs and Tasmanian samples have been

**It's true! We have
the whitest sand**

clandestinely scooped into Vegemite jars.

The Commonwealth Parliamentary Association eighth Small Countries Conference, being held in Hobart this week, has presented the opportunity for the bet to be settled.

Yesterday, the day of judgment, the tables were cleared and the faces set.

Scoops of white grains were neatly piled on to the glass top of Mr Alcock's desk and the tension was tangible.

An international incident could have been about to occur.

But with a nod of his head, this year's Falkland Islands delegate, Mr Tony Blako (MLC) who risked his reputation for his colleague by carrying the package through customs, conceded defeat.

Clearly, the sand gathered from Binalong Bay, near St Helens on Tasmania's East Coast was the whitest.

But the chances of Mr Alcock collecting his bet (a glass of beer) are pretty slim, unless he takes a trip to London where Mr Clifton is now based.

World Bank Approves Loan Of \$1 Billion for Nigeria

AP-DOW JONES NEWS SERVICE

LAGOS—The World Bank approved a new \$1 billion loan for Nigeria, which is straining under \$26 billion in foreign debt.

World Bank Vice President Edward Jaycox, who was concluding a three-day visit, said it was hoped the money would help turn around the country's stagnant economy. He said the money would be delivered within the next year.

Mr. Jaycox praised Nigeria for implementing austerity measures and said they hadn't generated economic growth yet only because of weak prices for oil, Nigeria's main export.

The World Bank vice president for Africa urged other financial organizations to come to Nigeria's assistance.

Separately, World Bank President Barber Conable left Washington Thursday night for a quick trip to Argentina. Argentina's state-run news agency Telam said he was expected to announce the approval of \$1 billion in new loans.

Mr. Conable was to meet with President Raul Alfonsin and other officials on pending bank loans to Argentina. Agency sources said he was likely to return to Washington Friday.

Argentina's Economic Ministry has sought \$750 million in loans to help restructure the financial sector and re-orient trade policy. An additional \$250 million is to be used to finance housing construction, the financial daily *El Cronista Comercial* reported Thursday.

The World Bank had delayed loan approval because of questions about Argentina's economic policies.

Finance Officials Say Europe Is Leading Industrial Boom

By DAVID PEARSON

AP-Dow Jones News Service

PARIS—The industrialized economies, with Europe leading the way, are experiencing an unexpectedly strong investment-led boom and all evidence now suggests that inflation is under control.

But governments must keep a wary eye on price indicators and action by the U.S. and West German monetary authorities in recent weeks to head off inflationary expectations by raising interest rates underlines that prompt action is effective.

These upbeat observations emerged yesterday at two meetings of senior treasury and central-bank officials from the 11 biggest industrialized countries.

The gatherings took place at the Organization for Economic Cooperation and Development and the European headquarters of the International Monetary Fund and were designed to serve as a sounding board for top-level economic and monetary talks later in the month in Berlin.

Heartening Projections

One senior European monetary official said he was "very heartened" by the latest revised projections by the IMF and some other multilateral institutions.

The IMF now says real, or inflation-adjusted, growth in the industrialized world will be 3.8% this year, compared with the 2.8% it was forecasting only five months ago and a 2.6% estimate last October.

Analysts say experts at the major economic-forecasting bodies are now asking themselves why they failed to predict such buoyant growth.

"There is no doubt that the Europe is now in the midst of a strong boom, especially regarding investment," said Lamberto Dini, vice governor of the Bank of Italy and chairman of the so-called Group of 10 deputies.

Other good news is that the huge imbalances that have built up in some countries' balance-of-payments positions are starting to unwind, although some delegates at the Paris sessions expressed concern over the speed of the adjustment.

But evidence that external balances are starting to move in the right direction came with dramatic effect when the U.S. trade figures for July were released in mid-after-

noon. The figures show the smallest seasonally adjusted deficit since December 1984 with imports slowing and exports creeping higher.

"We are very positive about prospects for the world economy as a whole," commented Toyoo Gyohten, a senior Japanese Finance Ministry official. Mr. Gyohten, who chaired the OECD session, said governments must remain "vigilant" about the risk of rekindling inflation.

Officials present at yesterday's meetings noted that swift action by governments to stamp out inflationary expectations by tightening monetary policy had largely been successful in recent weeks by causing the gap between long- and short-term interest rates to narrow.

A Narrow Path

But it was generally agreed that monetary authorities will in the future have to tread a narrow path.

They must be careful to avoid choking off the investment that is driving their economies, but at the same time they must avoid a monetary stance that is too accommodative. This could push payments balances into the red due to imports rushing in to meet strong demand, participants said.

One European official said a source of concern that is expected to be raised by G-10 ministers in Berlin is the amount of unpaid bills that the IMF is holding from developing countries that have sought IMF financial assistance in the past.

"The industrial countries take a dim view of the arrears that are due to the IMF," asserted one participant, who suggested that the problem "will have to be solved" before the richer countries can consider seriously an increase in the IMF's lendable resources.

This view was echoed by a central banker who noted that the debt-service arrears are relatively small in nominal terms compared with the outstanding debt of the developing countries. But the fact that some countries have failed to fulfill their obligations "could put the lending capacity of the IMF in jeopardy," he stated.

Analysts said the criticism over the arrears appeared to be directed chiefly at Argentina, which is deadlocked with the IMF over its external debt payments.



Transfer Theatre's *Cut the Girls' Talk! This is War* is a bitter play about the women left at home during the Falklands War. It is a tightly-woven patchwork of soliloquies delivered by three wives and a mother (l to r, *Katie Buchanan, Helene Zumbrunn, Anya Karabin, Helen Lawrence*), their faces creasing and blotching as they recall their fear and loss. It is at once profoundly moving and startling. The women are caricatures, but there is nothing caricatured about their anguish or anger. Their isolation is cleverly conveyed by stylised actions; they stare straight ahead even when talking to each other; torches shone at their faces transform them into frightened soldiers. The tension slackens in a naturalistic final scene, but this is nonetheless a piercing piece. *Battersea Arts Centre (223-2223) to 18 Sept.* *Sabine Durrant*

Argentine minister in New York debt talks

By Stephen Fidler
and Gary Mead

THE Argentine Economy Minister, Mr Juan Sourrouille, was scheduled last night to discuss the country's deepening debt crisis with the chairmen of the main US banks at a meeting hosted by the New York Federal Reserve Bank.

Mr Sourrouille, expected to be accompanied by Mr Daniel Marx, a director of the central bank, was expected to explain the country's economic programme to the bankers.

The commercial bankers are expected to press hard for some interest payments from the country, in arrears dating back to April of more than \$1bn on its bank debt. The country has not released details of its foreign currency reserves, but bankers believe that an improvement in Argentina's trade position put them between \$2.5bn and \$3bn.

The Argentine delegation was in Washington yesterday, and will return there for talks today. The talks cover meetings with the IMF and World Bank over fresh funding, and with officials from the US Treasury and Federal Reserve.

Mr Sourrouille does not normally attend such meetings in person. His decision to go on this occasion is regarded in some quarters as an indication of the gravity of Argentina's current debt problems.

States 'should be allowed to go bankrupt'

By Stephen Fidler, Euromarkets Correspondent

SOVEREIGN states should be allowed to go bankrupt, the UN Centre on Transnational Corporations concludes in its report.

"If there is a lesson to be learned from the debt crisis, it is that the international community lacks a legal framework to deal with situations in which countries are unable to continue to service their debts," the report says.

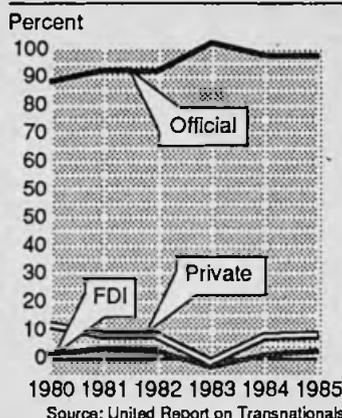
There is a need for sovereign borrowers to be able to negotiate a rewriting of contracts "when unforeseen developments make it impossible for them to honour their commitments."

This would allow for an orderly way to restructure debts, but completely overturn the bankers' maxim of the 1970s, as expressed most forcefully by Mr Walter Wriston, the former chairman of Citibank: "Countries don't go bust."

Such a framework could take in elements from national bankruptcy law, such as the Chapter 11 of US bankruptcy law, the report suggests.

In its assessment of the debt crisis, the report concludes

Financial inflows into developing countries



that commercial banks are sending a message to debtor countries that they are "no longer willing to go on extending involuntary credit to them into an indefinite future."

These moves "may well lead to an increasing number of unilateral defaults. The alternative to defaults would be an internationally negotiated programme of debt relief," the report states.

It dismisses the basic objec-

Stock market capitalisation and external debt levels, end 1986 (\$bn)

Country	Stock market capitalisation	External debt
Argentina	1.6	51.6
Brazil	44.0	110.3
Chile	2.7	21.5
Indonesia	0.5	42.0
Mexico	6.0	100.3
Nigeria	2.5	23.4
Philippines	2.0	28.3
Thailand	2.9	20.4

tions cited to debt relief, as either exaggerated or missing the point. Most highly-indebted countries have lost their creditworthiness anyway, and an internationally-agreed programme of debt relief would remove uncertainties and hasten the return of countries to the capital markets.

The question of moral hazard can be reduced by tying debt relief to effective adjustment measures, nor would the move be "contagious" in the sense that only countries with no prospect of early access to the capital markets would find debt relief attractive. Losses would result for banks but bankruptcies would be highly unlikely, and debt relief would

not, as is claimed, necessarily imply public money.

An international negotiated debt relief programme would have "advantages over the disorderly defaults that are all too likely in the current world economic environment".

The report suggests debt relief would be preferable in the form of reduced principle rather than a reduction in interest rates, in part because it would facilitate the securitisation of debt.

The imbalance between foreign debt and foreign equity in developing countries needs to be redressed.

Foreign investment is unlikely to grow until the debt crisis is resolved, it concludes.

Eggar's way with erring envoys

The expulsion of the Cuban Ambassador reflects Britain's determination to curb lawbreaking by foreign diplomats. PHILIP JOHNSTON reports

THE IGNOMINIOUS departure last night of Dr Oscar Fernandez-Mell, the Cuban Ambassador in London, was the most striking example of a significant toughening over the past four years in Britain's response to the abuse of diplomatic privilege.

Since the murder in 1984 of WPC Yvonne Fletcher by an envoy at the Libyan People's Bureau, London's Diplomatic Corps has been left in no doubt that the Foreign Office will not tolerate flagrant breaches of immunity.

Nevertheless, the decision to order the Ambassador to accompany his gun-toting third secretary, Senor Medina Perez, on the flight to Havana will cause consternation throughout Kensington's embassy enclave.

While the perpetrator of the crime would be expected to be ordered home never to return, the expulsion of Fernandez-Mell introduces a new "the buck stops here" dimension to Foreign Office policy.

One official present at the

independent states, renegotiated

independent states, renegotiated

independent states, renegotiated

independent states, renegotiated



Eggar: cracking the whip

of the treaty would take years and agreement is unlikely ever to be reached.

Similarly, the suggestion that Britain should withdraw from the Convention and negotiate bi-lateral treaties with individual nations was also regarded as a non-starter in Whitehall.

There was concern, too, that Britain, whose global involvement is probably greater than any other comparable power, would suffer most if a tit-for-tat game of opening diplomatic bags or prosecuting envoys was joined.

One course of action was left open to the Foreign Office: to keep the present arrangements

while striking hard whenever diplomats blatantly misuse their privileges.

A more rigorous application of the existing system is now followed, as evinced by the Cuban Ambassador's fate, and any serious criminal act by an envoy is invariably followed by strong Foreign Office pressure for a waiver of diplomatic immunity, a request which is rarely successful.

Expulsion for "serious offences" — defined as those which would carry a custodial sentence of more than six months — now follows as a matter of course and efforts are made to ensure the villains are punished when they get home.

It has been Eggar's lot for the past three years to deal with crimes ranging from a mountain of unpaid parking fines in London to firearms offences, rape and even murder.

Pressure for changes in the law of diplomatic immunity intensified last year when the husband of an American diplomat allegedly escaped prosecution for a sex offence by sheltering behind the privilege.

The clamour began anew last week when the Vietnamese envoy Khang Than Nhan was

seen outside his embassy brandishing a gun. The firearm was handed over to Eggar at the Foreign Office by the Vietnamese Ambassador, Tran Van Hung, whom the Minister held "personally responsible" for the incident and who was fortunate to escape the punishment inflicted on his Cuban counterpart.

It is a measure of Eggar's frustration — and his self-confidence, which is considerable — that he showed no hesitation in taking what Labour has condemned as an "over the top" decision to expel the Ambassador while his superior, Foreign Secretary Sir Geoffrey Howe, was out of the country.

A 36-year-old former merchant banker, Eggar is one of the more unlikely figures in the Government to gain the "Rambo" and "macho" labels pinned on him yesterday by Labour's foreign affairs spokesman, George Foulkes.

Urbane and courteous, he at times appears more like a diplomat than a politician — and a series of highly flattering interventions during Prime Minister's Question Time no doubt contributed to his appointment

to the Foreign Office in September 1985.

He appears to be winning his battle to clean up the act of the foreign missions. After persistent complaints to embassies about the parking scandal, the number of unpaid fines has fallen from 100,000 in 1984 to 14,000 last year.

Several countries, most recently Jordan and Mexico, have agreed to limit or waive immunity in the cases of non-diplomat embassy staff wanted for questioning by the police.

Last year, 18 foreign diplomats were expelled from Britain after committing 43 serious offences — mainly drink-driving and shoplifting — bringing the number of envoys expelled since 1984 to more than 150.

While Eggar has been cracking the whip at home, Britain's diplomats abroad have been spared the reciprocal wrath of their host nation by the simple expedient of obeying the law.

One diplomat recently returned from Paris said: "We are under very strict instructions to pay our parking fines if we get them and if you don't you are for the high jump. We scrupulously obey the local laws. We are whiter than white."

Old friend's nip

ONE OF Lord Young's less happy memories of his trip Down Under when he returns to his office today will be the lump of dough in the eye he received from Mrs Thatcher's Falklands war ally Sir Robert Muldoon.

The former New Zealand Prime Minister denounced Young's referral of the Australasian bid by Goodman Fielder Wattie for Rank Hovis McDougal to the Monopolies Commission as a "black mark" on the Thatcher Government's "fine record" and an outbreak of colonial thinking. Young firmly

rebutted the allegations, saying Muldoon had clearly not read what he had said and was not the one to say what was the Thatcher Government's philosophy.

The criticism is not being taken very seriously in New Zealand, where Muldoon's reputation has sadly declined since he lost office. His greatest impact recently was a guest appearance as a "baddie" on a children's television programme.



Argentine labyrinth

LONG before the ulcerating Falklands conflict, perceptive readers of contemporary literature furtively consulted their atlases to find out exactly where Argentina was, since one of our century's greatest writers, Jorge Luis Borges, had been born there in 1899.

He sprang from no significant literary tradition. Graham Greene had revealed the splendour and underside of the Hispanic Americas to English-speaking readers. But while Greene's novels rest on one of the great literary traditions, Borges has for ancestry no nation but the entire world, and he is a poet, essayist and short-story writer.

There is a dash of Sephardic blood mingled with Borges's Spanish and English origins. From an anglophile father he inherited a desert island collection of improbable enthusiasms — Swift, Berkeley, Hume, Coleridge, Browning, Poe, Stevenson, Conrad, Kipling, Wells and Chesterton. Although near enough bi-lingual, Borges is endearingly modest: "My English reading may have had some impact on my style — at least, I try to write in simple words. But I respect the English language too much to attempt writing in it except now and then."

It was a happy chance that, after the onset of Borges's irreversible blindness, a successful young Bostonian author and translator, Norman Thomas di Giovanni, offered himself to Borges as amanuensis and translator. Their felicitous liaison, born of di Giovanni's perception of the older man's genius, began in Buenos Aires in 1968 and continued until Borges's death in 1986.

It is not given to many to write their own obituaries, and

IN MEMORY OF BORGES

Ed. Norman Thomas di Giovanni

Constable, £6.95

the browser may be surprised to see that this new book *In Memory of Borges* bears Borges's own name with those of six other contributors on the cover. But this is the best kind of memorial volume: Constable has collaborated with the Anglo-Argentine Society to produce a collection

BOOK REVIEW

of the first five annual Jorge Luis Borges Lectures. The first is by Borges himself, the second by Graham Greene. Borges (1983) and Greene (1984) gave anti-lectures — that is, they simply answered random questions from their audiences.

"I have never lectured in my life," says Greene, "and I have also tried to avoid hearing lectures." The result, here, is a cool, warm and quite admirable article. The kindly searchlight moves from Borges across Latin America and back to Greene. We are reminded of Borges's story "The Other" in *The Book of Sand*. Out walking, one wintry morning, Borges sits on a bench by the river. A younger man joins him and engages him in conversation. It is his younger self.

The five lectures are framed by a charmingly involved foreword by Viscount Montgomery

of Alamein and di Giovanni's splendid essay on his years with Borges; there is also a translation of a short and mighty prose poem, *Juan López and John Ward*, written by Borges in June 1982. Mario Vargas Llosa (1987 lecture) has contributed a passionate but objective tribute to Borges's encyclopaedic literary experience.

"Few European writers have assimilated the legacy of the West as completely and thoroughly... Who among Borges's contemporaries handled with equal ease Scandinavian myths, Anglo-Saxon poetry, German philosophy, Spain's Golden Age literature, the English poets, Dante, Homer, and the myths and legends of the Far and Middle East, which Europe translated and gave the world? But this did not make a European of Borges."

Vargas Llosa also explores the originality of Borges's Spanish. Even if you are limited to kitchen Spanish this lecture is absorbing for the light it throws on literary techniques in general, and Borges's mastery in particular.

It would be intriguing to know how this series of lectures was built up, and who had the foresight to illuminate Borges and his country further than before for many of us. The lectures will continue, and other collections will doubtless appear. Even if Norman Thomas di Giovanni has added not one cubit to Borges's stature (who could?), no praise is enough for his bringing the great lion to the English-speaking world with such clarity and so authentic a love for his subject.

**Malcolm
Williamson**

Press Cuttings

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EUROPE

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Argentina's new economic plan is cutting inflation, building foreign-exchange reserves and prompting capital inflows, statistics show. The nation is expected to soon get approval on a \$500 million bridge loan.

Argentine Plan For Economy Yields Benefits

By PETER TRUELL

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — Argentina's new economic plan is reducing inflation, building the country's foreign-exchange reserves and prompting capital inflows, according to the latest statistics from the heavily indebted nation.

Argentina also should soon receive final approvals on a \$500 million loan from the U.S. and other industrialized countries, to meet its needs until it receives World Bank loans expected next month, bankers and Argentine government sources said.

Argentina's cost-of-living index shows inflation for September of about 8% or 9%, far below August's 27.6%, government sources said. The indicated drop in the rate would reduce projected annual inflation to about 130%, down from more than 1,500% in August.

Meanwhile, the country's foreign-exchange reserves, boosted by trade surpluses, now total more than \$2 billion, up from around \$500 million in February, bankers and economists in New York estimated.

Argentine Economics Minister Juan V. Sourrouille is visiting the U.S. this week to brief chairmen of the country's biggest banks on the progress of the economic program unveiled last month, the so-called Primavera Plan. He also will meet with World Bank and International Monetary Fund officials in Washington.

Bankers, who are waiting for about \$900 million in overdue interest payments, are increasingly impatient with Argentina. They would like the country to use some of its reserves to make bank debt interest payments, which at the moment are only current to mid-April. Argentina has to pay annual debt service of about \$5 billion on its estimated \$54 billion foreign debt.

Argentina is reluctant to make interest payments because it wants to ensure the success of the new economic plan with comfortably large reserves at the ready. It also wants to maintain as much negotiating leverage as possible with its bank creditors.

Argentina's economic program effectively devalued the country's currency by 30%, mainly by allowing most importers and exporters to use the free-market exchange rate instead of a controlled, government-administered rate. And industrial leaders agreed to limit price increases to a total of 5% until Sept. 30 and conceded that price restraints would continue after that.

In coming talks with the banks, Argen-

Argentina's New Economic Program Is Cutting Inflation, Figures Show

Continued From Page 11

tine debt negotiators need to arrange a big new loan but are loath to agree to a debt restructuring as favorable to banks as that recently arranged by Brazil. That plan gave bankers great freedom to swap, sell or use their debt in various new ways. And while reserves recently have been boosted by Argentina's exports of meat and grain from its annual harvest in March, there are many leaner months ahead for the country's coffers.

Meanwhile, big U.S. banks increasingly are having to put more of their Argentine

loans on a non-accrual basis. This means that banks may only account for interest payments as they are actually received, while non-accrued payments result in a charge against earnings. U.S. banks are obliged to classify a loan as non-accruing, or non-performing, once an interest payment on that credit is more than 90 days past due.

Some bankers apparently have lost patience with their Argentine loans. Bankers and loan traders said Canada's Toronto-Dominion Bank recently sold about \$80 million of its medium-term and long-term Argentine loans.

William Brock, executive vice president for credit at Toronto-Dominion, declined to comment on the reported sale of Argentine loans, but he said that so far this year his bank has sold \$700 million Canadian (US\$565 million) of its loans to heavily indebted countries for cash.

In the small but growing market for heavily indebted countries' loans, some analysts think prices for Argentine debt have hit bottom. "Argentina looks cheap right now at around 22 or 23 cents for the dollar" of foreign debt, said Stephen Dizard, head of Third World loan trading at Salomon Brothers Inc.

Bridging loan to Buenos Aires likely to go ahead

By Simon Holberton in Basle and Stephen Fidler in London

A PROPOSED \$500m (£295m) bridging loan to Argentina, being arranged by the US and other western governments, is likely to go ahead despite objections among some lenders to the financing.

Central bankers, in Basle for the monthly meeting of the board of Bank for International Settlements, said they had discussed the bridging loan but the misgivings expressed by some countries had been largely overridden by the concern of the US authorities

about political developments in Argentina.

The US was worried, they said, by the possibility that the Peronist opposition in Argentina might benefit at next May's presidential election from any delay.

The central banks of other industrialised nations, however, were concerned that granting the loan before the country had agreed an economic programme with the International Monetary Fund could undermine the Fund's

attempts to enforce its economic conditions.

Talks between the Argentine Government and the IMF have made almost no progress, and the Fund is understood to require more action from the Government to curb its budget deficit.

The US had envisaged that the bridging loan would be an interim measure that would be paid off by sectoral reform loans from the World Bank. However, one monetary official said yesterday that the World

Bank was "backpedalling" on its previous inclination to grant the loans and without the World Bank loans, the bridging finance cannot go ahead.

Argentine Economy Minister Mr Juan Sourrouille is expected to visit Washington this week for talks with officials from the US Treasury and Federal Reserve, the IMF and the World Bank over the country's deepening foreign payments crisis, and is expected to meet senior US commercial bankers.

Royal visitor for a special event

ON WEDNESDAY of next week, the Ancaster BLESMA Home in Crieff will celebrate the 25th anniversary of its opening with a special ceremony, attended by Her Royal Highness Princess Alice, the Duchess of Gloucester. It's a particularly notable occasion for residents and staff because not only is Princess Alice the patron of BLESMA—the British Limbless Ex-Service Men's Association—she also performed the home's opening ceremony in 1963 and has taken a keen interest in it since.

One of the board of management's original members, Mrs Jean Drummond Moray, a cousin of Princess Alice who was recently invited to become patron of the home after many years as a particularly active and dynamic president. She will be present on September 21, along with Major David Butter, the Lord Lieutenant of Perthshire, Baroness Jane Willoughby de Eresby, National Vice Patron of BLESMA and daughter of the late Earl of Ancaster, after whom the home was named, Sir Nicholas Fairbairn, MP for Perth and Kinross and Sir Austin Bunch, National President of BLESMA.

In 1963, Princess Alice met the single resident of the home as part of her tour of inspection but this time, she'll be able to chat to 16 permanent and 30 temporary residents, hailing from all over Britain.

When I spoke to chairman Dr David Martin, formerly the home's medical adviser, he told me, "We're tremendously pleased that Princess Alice has agreed to be with us to celebrate our silver jubilee and we're planning a day to remember, with around 300 people in attendance to mark the occasion and a marquee on the lawn!"

BLESMA has been in existence since 1932 after a group of ex-servicemen in the Glasgow area got together to form an association in the 20s which eventually achieved national status. The Ancaster home in Crieff is one of only two such residences in the whole of Britain—the other is in Blackpool—and it is built on ground gifted to BLESMA by the Earl and Countess of Ancaster.

BLESMA's overall aim is to look after those disabled ex-servicemen and women who may be left alone in later years when spouses die and families

can no longer cope with the special care needed. That doesn't only mean those from the First and Second World Wars, although Crieff has four veterans in their 90s.

Those injured in subsequent conflicts such as Korea, Aden, the Falklands and in Northern Ireland are also taken into account. Few are permanent residents but BLESMA runs a scheme whereby disabled ex-servicemen can go to Crieff to convalesce or for holidays with their wives and to that end, they've introduced double rooms with facilities en suite to ensure the maximum comfort.

As Dr Martin explained, "There are still over 8,000 service amputees of all ages in Britain and we also try to keep up the family connection by supporting the widows where the need arises. People may think that there are fewer and fewer calls on our assistance each year, but that just isn't the case."

Jim Buntin, secretary and treasurer of the Ancaster Home added, "Our maximum number of permanent residents came about 50 years after World War One and we expect the same thing to happen 50 years after World War Two. We all consider that nothing is too good for our residents. Our staff is second to none, too."

BLESMA's funding comes entirely from the efforts of local committees—there are 97 throughout Britain—or from charitable trusts and many people seem prepared to make particularly strenuous efforts to help this good cause. Jim Davidson, a BLESMA attendant from Auchterarder, raised £3,000 by taking part in the London Marathon and his next cash-conscious exploit involves organising a team race in London, made up of six members who'll be covering 80 miles between them. In addition, the Crieff-based Friends of BLESMA have raised tens of thousands of pounds over the past 25 years.

"We're all hoping that the celebration will be a really marvellous occasion for everyone involved and that Princess Alice will enjoy herself, Mrs Drummond Moray told me. "We've certainly got plenty to show her!"

Mob violence reminds Argentina of grim old times

Gary Mead reports on a general strike rally which degenerated into street battles with the police

BY Latin American standards last Friday's riots in Buenos Aires were tame stuff. One burnt-out car, 37 police and 76 civilians in hospital, a number of banks and shops with smashed windows, one .22 bullet through the knee of a trade unionist.

But in today's Argentina the sudden eruption of mob violence at a Peronist general strike rally is a grim reminder of just how fragile is the country's five-year-old democracy.

Foreign correspondents in Argentina have grown accustomed to such rallies, which generally evoke as many yawns as stories. There was no expectation that the 12th general strike would be any different from the previous 11. The usual pattern is for trade unionists and Peronist politicians to call for the Radicals to resign, for negotiations with the International Monetary Fund to cease, and to speak at length about "hunger, misery and justice." Surely riots, let alone tear gas and baton charges, were a thing of the past?

The rally was held in the Plaza de Mayo, possibly the world's most politically abused square - every politician uses it to exhort the masses in one direction or another. The CGT exploits the square's historic significance to the hilt, frequently describing it as Plaza de Peron. General Peron must be one of the few dead dictators still dominating half a country.

Huge pictures of General and Eva Peron swayed above the platform where Mr Saul Ubaldini, secretary general of the CGT, called on 15,000 people to drive out the IMF and government ministers. At the start, the only peculiarity was the absence of Mr Carlos Menem, the Peronist presidential candidate. Given his huge prestige with the rank-and-file of the party, his non-attendance showed a very un-Peronist reluctance to step into the limelight. With hindsight he must be happy he stayed away. He has since accused the Radicals of starting the fight.

Within an hour of starting his speech, Mr Ubaldini and other trade union leaders were driven off the podium by tear gas. In the nearby Avenida de Mayo, the riot was in full flood. By chance I found myself in the heart of the conflict.

An eye-witness suggested that activists in the Peronist Youth Movement and a leftist faction had started brawling. Within seconds we faced a barrage of bricks and other missiles being thrown at the two dozen police and national guardsmen stationed nearby. Their mistake had been to try to put out fires started by the mob and to intervene in the melee.

Buenos Aires is a potential rioter's paradise; pavements everywhere have been dug up, with rubble and duckboards lying everywhere to hand. The police neither hesitated nor panicked, though they were very jumpy. They responded to the bricks by shooting off smoke and tear gas canisters at close range and lobbed back bricks which had been thrown at them.

Their attempt to break up the riot was understandable, their behaviour towards some of those arrested was harsh. I saw one detainee, already in custody, being clubbed across the face, and other journalists witnessed similar unnecessary attacks.

But within minutes the political punch-up had swiftly degenerated into wanton destruction and looting. The London City cafe took a pasting because it was there, rather than for any Falklands-connected reason.

The mob retreated, re-grouped and launched fresh attacks until finally overwhelmed by gas and police reinforcements. The vast majority of peaceful marchers did their best to leave the scene as quickly as possible.

Within an hour the whole episode was over. The same will not be true of its political reverberations. By Saturday, most windows had been repaired; the once-strong sense of democratic stability will take longer to heal.

The Interior Minister, Mr Enrique Nosiglia, known to be close to President Alfonsín, said afterwards that his government will not "permit that such incidents, provoked by minority groups, impede the operation of the democratic system". He reminded the CGT and Peronist opponents that under this administration there have been 12 freely permitted general strikes.

Mr Ubaldini has a different view; he compared the police action to the worst seen in Chile under President Pinochet. That exaggeration is a useful flag to wave under the nose of an Argentine working class suffering unprecedented recession and rapidly declining living standards. The CGT has pinned the entire blame on the government.

The notion that minority groups were responsible for Friday's brief chaos holds little comfort for those concerned for Argentina's cradle democracy. Rumours sweep through the city, suggesting the Government initiated the unrest in order to dirty the image of Peronism. Another blames the Montoneros, Argentina's confused Peronist terrorists who still give the military sleepless nights, despite supposedly having been wiped out in the late 1970s.

Everyone will blame someone else, without searching for deeper reasons. For Argentina, sadly, that is quite like old times.

ARGENTINES stopped work yesterday for the second time in four days, as most state-employed workers obeyed the call for the 13th general strike since President Raúl Alfonsín took office in December 1983. Most private businesses worked normally but all state enterprises halted for 24 hours, Gary Mead writes.

The strike was called by the General Confederation of Labour (CGT) late on Friday evening, following riots in Buenos Aires at a rally marking the 12th strike.

The CGT and left-wing groups claim riot police started Friday's conflict. Opposition Peronist politicians suggested that elements supporting the Radical Party Government provoked the riots. Radical Party politicians denied both allegations.

The Peronist presidential candidate, Mr Carlos Menem, who did not attend last Friday's rally, backed yesterday's strike. But it received patchy support from other Peronist politicians and trade unionists.

The Minister of Labour, Mr Ideler Tonelli, backed last Friday's police action. He described yesterday's strike as "illegitimate" and "mistaken". However, he added that the Government had no intention of declaring such strikes illegal, since that would mean "giving in to confrontation".

Pair's fishy tale in the Falklands

By Patrick Hosking
Business Reporter

THE WARNING Mike Hoyle of Ernst & Whinney received at the start of his assignment was not typical of the greeting normally bestowed on a management consultant: "Don't pick up any grenades," he was told as he arrived in the Falkland Islands.

His colleague, Robin Eadie, was equally nonplussed when his accommodation was revealed as a Portakabin in the middle of a construction site. The two were there to undertake a study for the Falkland Islands Development Corporation into the islands' burgeoning fishing industry.

Just getting there was a rather different from the consultants' normal jet-setting experience. Eight hours, courtesy of the RAF, to Ascension Island and then eight hours to the Falklands.

Ernst & Whinney was called in to help FIDC determine how to structure its booming fishing interests and how to cope with the extra £13.5m a year the fishing was bringing to FIDC coffers.

The source of this annual windfall is squid, which is much prized in the Far Eastern and Mediterranean markets. In the aftermath of the Falklands War, the UK Government established a 150-mile



Squid is swelling the coffers of the Falklands Islands

fishing zone around the islands. Fishing was restricted to vessels awarded licences by the Falklands government. Its policy has been to award licences only to joint venture companies partly owned by Stanley Fisheries Ltd, a wholly owned subsidiary of FIDC.

The deals were favourable enough to attract joint venture partners from Britain, Spain, New Zealand and Taiwan, plus a local company. The joint venture premiums plus the licence fees have boosted the Falklands' coffers.

Total government income from taxes and other sources in 1985-86 was £6m. The following financial

year, when the fishing zone was established, income from fishing licences alone was £13.5m. The islands' GNP leapt from £9.9m to £30.7m in a single year.

However, according to Mr Hoyle, the fishing bonanza was creating tensions on the islands. First of all the islanders disagree on how the money should be spent. Second, there were conflicts of interest created by SFL's stakes in more than a dozen competing ventures. Third, the small SFL management team was overloaded by the rocketing growth of the industry. Ernst & Whinney was called in to mediate.

PETERBOROUGH

Some get away

FISHERMEN'S determination to find the right spot will be taken to new lengths in February when 10 anglers — each paying £2,400 — will board an RAF Tristar at Brize Norton to take off for a package holiday to the Falkland Islands.

The 17-hour journey will lead them to summer in West Falkland and, reputedly, some of the finest trout rivers in the world. Major Tony Valdés-Scott, whose company Sport Elite Tours is organising the two-week trip, tells me the Chartres and Warrah rivers should be "absolutely teeming with sea-trout".

The tourists, to be billeted with local landowners, are at least guaranteed a good night's sleep; all their fishing will be by daylight, which may be a welcome change from their experiences in Scotland. On their arrival at Mount Pleasant airport, Defence Ministry explosives experts will warn them against straying into minefields.

Penguin pick-up

A penguin is missing from the Pencynor Wildlife Park in West Glamorgan. Police believe it was stolen in a carrier bag.

Falklands airlift

A sick Russian seaman was airlifted to hospital by the RAF yesterday from a factory ship 600 miles off the Falkland Islands, the Ministry of Defence said. Viktor Goroshko, 46, first mate of the Mys Frunze, was flown by Sea King helicopter to Port Stanley, where he was treated for a suspected perforated stomach ulcer.

Call for curbs on Antarctic seal trade

By Charles Clover
Environment
Correspondent

MEASURES TO control the commercial killing of Antarctic seals and to revise a "dated" conservation treaty were called for by Britain yesterday at the opening of an international meeting in London.

However, Mr Timothy Eggar, Foreign Affairs Under-Secretary, disappointed conservationists by stopping short of calling for an outright ban on commercial sealing.

He was addressing delegates from 13 countries meeting to review the 16-year-old Convention for the Conservation of Antarctic Seals.

Mr Eggar said Britain wanted the convention strengthened to reflect a wider approach to conservation, in the hope that the canine distemper virus killing seals in the North Sea would not be repeated in Antarctica.

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Better get a debtor

AFTER the crash, where ought you to have invested your money? Brazil, or Argentina. Both stock markets, between October 23 last year and the middle of this year, outperformed Japan, let alone the dreary markets of New York and London.

It's a trick that London investors seem to have missed. The International Finance Corporation, the World Bank affiliate which works with the private sector in developing countries, has an Emerging Markets Growth Fund which has risen by 36 p.c. since its launch two years ago. City investment managers, as one man, turned it down, preferring the devil they knew—and have been suitably damned.

The IFC, by contrast, shows that virtue does not have to be its own reward. In its latest accounting year (to June 30), its net income almost doubled, to \$100m—including \$33m of capital gains.

It now has investments in 449 companies, in 78 developing countries, and last year approved a record 95 new investments totalling \$1.3 billion—with private-sector partners in these ventures putting in a further \$5.7 billion. It has gone into seaweed in Morocco, and spices in Togo, and merchant banking in Uruguay, and the Crocodile Project Tourist Company, which turns out to be a hotel on the Nile.

Different countries, different needs. The neediest are in Africa below the Sahara, where the IFC is putting resources of men and money behind small and middle-sized business. At the other extreme are equity stakes in the growing companies of Asia. Loan finance goes into strong companies in Latin America where the international banks have already lent their fill. Others, over-borrowed, have been reconstructed with new equity capital.

Others, again, should be strong enough to draw on the developed world's capital markets, with a helping hand. IFC has guaranteed the commercial paper borrowings of Turkish and Mexican companies. "Many of these companies could tap the major markets for stock, bonds, or floating-rate notes", says Sir William Ryrie, the old Treasury hand who now runs IFC. "They will need our introduction or underwriting." London investors, having missed one bus, will have the chance to catch the next.

£2m repayment on Falklands deal

THE Falklands Islands Office in London has asked us to point out that the British taxpayer may not lose £5 million as the result of the collapse of an island fisheries venture.

The Scotsman reported last week that the British Government had guaranteed a loan for that amount to help set up Seamount Ltd, which is being wound up with debts of about £9 million. The islands government has agreed to pay back £2 million of the loan, said a spokesman, who added that that would reduce the British taxpayers' share to about £3 million. Negotiations are continuing to establish where the rest of the money to cover the debts is to come from.

Argentine debt crisis deepens as IMF talks falter

By Gary Mead in Buenos Aires and Stephen Fidler

CRUCIAL TALKS between Argentina and the International Monetary Fund, central to efforts to stem the country's growing arrears on its foreign debts, are making almost no progress, deepening a crisis over the country's foreign payments position.

The IMF, which has a team in Buenos Aires, wants more action to cure a swelling government budget deficit, but no firm proposals have emerged on how this would be achieved. This makes the prospect of a quick agreement remote, in spite of statements to the contrary from Argentine government officials.

Separate meetings in New York between the Argentine Government and commercial banks have not yet yielded a firm request for new funds, any agreement over which would in any case depend on an IMF accord. In the meantime, arrears on Argentina's debt to the banks have topped \$1bn (£590m).

Against this background, Mr Juan Sourrouille, the Argentine Economy Minister, is to visit the US later this week to explain the Argentine position in talks with officials in Washington, and probably with commercial bankers in New York.

It is clear that the series of economic measures announced last month – the so-called Primavera (Spring) Plan – was insufficient to satisfy the IMF executive board.

Board members from at least four countries – West Germany, Japan, Switzerland and the UK – are understood to want more evidence that the administration of President Raul Alfonsin is intent on curing the long-term structural problems of the Argentine public sector. The Government has failed to comply with previous agreements with the IMF to curtail inflation and cure the budget deficit.

These difficulties are frustrating US government attempts to put together a bridging loan of \$500m with the help of other industrialised nations excluding the UK. This loan is likely to be discussed at the current monthly meeting in Basle of the Bank for International Settlements.

The US intention was that Argentina should pay off the bridge financing with financial and trade sector reform loans from the World Bank, on which progress was made in talks last month. However, some countries are believed to be anxious to see more progress with the IMF before going ahead.

The Government has been thought likely to request \$2bn from the commercial banks on top of a \$1.2bn standby credit from the IMF.

While Argentina's trade surplus has been swollen by the effect on grain prices of the US drought, foreign exchange reserves are thought to be at a critically low level, perhaps about \$1bn. Interest payments on its \$56bn of foreign debt are about \$5bn annually.

Official forecasts of this year's fiscal deficit put it at around 4.9 per cent of official gross domestic product of about \$80bn, but independent economists predict the actual figure could be between 6 per cent and 10 per cent. Inflation in the month of August reached 27 per cent.

Apart from attempting to control inflation, the Primavera Plan undertook exchange rate and tariff reform. An undertaking to cut public sector spending by \$500m compares with the figure of \$2bn that Mr Rodolfo Terragno, the Minister for Public Works, recently said the state wasted annually just by buying goods at above-market prices.

Argentine officials have suggested that failure to provide new loans will hand the main 1989 presidential election on a plate to the opposition

Peronist party, which has said it will declare a five-year cessation of interest payments if it gets into office.

Ironically, as the crisis over Argentina deepens, the external debt position of Brazil – the banks' main worry last year – is moving close to being normalised.

Brazil paid \$240m in interest to banks on Friday to bring it up to date until the end of August on interest payments. The signing of its new money and rescheduling package with commercial banks could now start before the annual meetings of the IMF and the World Bank in Berlin at the end of this month.

● Argentina will grind to a halt again today, with the 13th general strike under President Raul Alfonsin's Government. The 24-hour stoppage is in protest about events on Friday in Buenos Aires, when police used tear gas and batons to break up riots. Seventy-six civilians and 37 police were injured, none seriously. The General Confederation of Labour – which lacks united support from the Peronist opposition – has said it will continue to press the government to switch economic policy.

ALFONSÍN'S FAILURE

The Plaza de Mayo in Buenos Aires has been the scene of most of the big demonstrations in recent Argentine history. It was there that the mothers of the victims of the "dirty war" of the late 1970s gathered to make their protest; there that the crowd converged to cheer General Galtieri after the 1982 Falklands invasion.

The latest violent demonstration, held to coincide with an eight-hour general strike, was symptomatic of a very different sort of crisis. Argentina today is democratic and at peace (even if, formally speaking, not yet with Britain). The demonstration, led by the main unions and the Peronists who dominate them, was called to protest against the shortcomings of a peacetime society — inflation, a falling standard of living, and foreign debt. These Argentina has on a grand scale.

Inflation was over 27 per cent in August alone, up from 25 per cent in July. A new austerity programme, known as the Primavera Plan, was introduced last month and is expected to bring the inflation rate down. But it is only the latest of several such plans, which have caused discontent without fundamentally improving the situation.

President Alfonsín and his government can reasonably claim that they inherited a difficult economic situation when they took office in 1983, after seven years of military rule. They have, however, been unable to get on top of it, or force through the necessary decisions.

There have even been difficulties in getting this year's budget through Congress; and the failure to meet International Monetary Fund targets for cutting the budget deficit has led to the cancelling of a stand-by loan, making payments of interest on the country's large foreign debt even more difficult.

There is, fortunately, little sign of the

military deciding they should step in and sort things out — always a danger in Argentina. There have been two barracks uprisings in recent months, but both were primarily focused on the trials for the abuses of the 1970s, rather than the seizure of power. So, though Señor Alfonsín made some damaging concessions to settle the first of them, he can legitimately claim to be the man who restored democracy to Argentina.

Unless he can do more to put the economy right, however, he, or rather his Radical Party may well lose the presidential election due next May. The party's candidate, Señor Eduardo Angelos, is seen as an Alfonsín man, and Señor Carlos Menem, the Peronist candidate, is currently well ahead in the opinion polls. Much will depend on whether the middle class is sufficiently put out by the severe economic problems to overcome its traditional fear of Peronism.

No one can be cheered by the sight of Argentina struggling with an economic crisis on this scale so soon after its return to democracy. It is potentially a very rich country, and was once thought of as the "United States of South America". Until as recently as the aftermath of the Second World War it was one of the world's wealthier countries. Since then, as a result of mismanagement of one sort and another, it has gone far downhill.

For Britain, Argentina was long a closely associated and friendly country. In spite of the Falklands war a good deal of Anglophilia remains. But as long as the economic and political turbulence continues it is hard to see how any government will have the authority to make the hard decisions necessary for any Falklands settlement.

Fishing call

URUGUAY and Argentina should set up a joint fishing regulatory body because foreign fleets, operating around the Falkland Islands, were depleting the fishing wealth in the area, a Uruguay politician said. Luis Alberta Lacalle said fishing in the area increased from 700,000 tons a year to 1,700,000 tons in a short period.

Falklands factors

Betty Caplan

WHAT is there left to say about the Falklands War? Some have said a great deal, admittedly, but other voices have yet to be heard. Transfer Theatre has listened to the stories of wives, girlfriends and mothers of servicemen and devised a play at the Battersea Arts Centre called *Cut the Girls' Talk! This is War* which records the experiences of those left behind, those for whom the war has still not ended.

Four women who come from different classes and background, and have nothing in common except for the fact that their men served in the war, are gradually brought together in the course of the play. In the first half, their own identities are somewhat submerged as the four actresses give documentary-style accounts of battle based on the men's eyewitness reports.

Skilful use of lighting creates the atmosphere of tense anticipation on board ship as the hollow sounding commanding officer whips up support for an even hollow sounding cause. Silver cans act as building blocks for the £120 million shining Sheffield whose demise is graphically marked by a single kick which shatters the edifice.

The second half adumbrates the problems the women face

once the war had officially ended. Rita (Helene Zumbunn), whose son Gary has shrunk to a minor detail for the authorities, is informed of his death accidentally, in the market place. Poor boy, he'd fondly believed his regiment was like a family. Unceremoniously, his medal arrived in a jiffy bag, all in bits. Ann (Katie Buchanan), who has enterprisingly established a newspaper column for women in her position, discovers her initiative is not appreciated in the Scots Guards where her husband is a colonel. Susan (Helen Lawrence) turns her grief at the loss of her husband to good account by counselling others like Michelle (Anya Krabin) whose tale is the most moving of all. In many ways she's have been better off with husband Alan dead; instead, she has to mourn a man who is changed beyond recognition, who drinks himself to oblivion and rips doors off their hinges.

Although the first part is tighter and more assured than the second, the piece is acted with great conviction and crisply directed by Trevlyan Wright. The starkness of the subject is relieved by a good-humoured reminder of the banality of everyday life. Its simple presentation should make it accessible to those who may not have encountered these perspectives on the war. Lest we forget.

● *At the Battersea Arts Centre (01-223 2223) until Sunday.*

Argentina braced for strike

From Michael Llanos
Buenos Aires

Argentinian trade unions are preparing for the second general strike in four days after riot police and protesters clashed on Friday in the country's worst violence in more than six years.

Today's 24-hour strike has been called to protest at what the CGT labour confederation said was police brutality. Riot police on Friday used tear gas and water cannon to disperse the crowd at the Plaza de Mayo, where Argentina's Government House stands.

Señor Saul Ubaldini, the secretary general of the CGT,

said that the police action was "worse than anything possible from (President) Pinochet (of Chile)".

But President Alfonsín said that police were "provoked by misfits". Señor Enrique Nosiglia, the Interior Minister, praised the police efforts. His ministry repeatedly televised film of the incident at the weekend, edited to show its point of view.

The violence was the worst here since March 30, 1982, when the regime of General Leopoldo Galtieri crushed another protest by the CGT, the labour bastion of the Peronist party.

Police said yesterday that

113 people received hospital treatment and that 13 protesters accused of looting and destroying property remained under arrest. Police denied reports of deaths, but the CGT said that 10 supporters were still unaccounted for.

Protesters vandalized 50 stores, damaged and destroyed vehicles, and smashed the windows of the City Council building during the hour of clashes.

Friday's strike was called in protest against the Government's economic austerity measures, known as the Plan Primavera (Spring Plan), announced in early August.

Leading article, page 13

Press Cuttings

from Broad Street Associates **SUNDAY TELEGRAPH**

11 SEP 1988

Argentina strike

ARGENTINA'S trade union leaders have called for a 24-hour strike tomorrow to protest against alleged police violence at an anti-government rally on Friday.

Argentine strike violence

By Gary Mead in Buenos Aires

VIOLENCE flared last night in the centre of Buenos Aires, as police tried to prevent crowds of demonstrating Peronist supporters from looting and setting fire to furniture, on the day of an Argentine general strike.

Police fired more than 20 smoke-canisters into crowds in the plush Avenida de Mayo street, where it appeared young Peronist supporters had started a fight with opposition Radical party sympathisers.

Around 30 national guardsmen were on the scene, and were clearly taken by surprise by the scale of the attack. They indiscriminately fired canisters from a distance of 200 yards, often aiming directly into the crowd which scattered and

returned, re-armed.

I saw two arrests, one man - hit in the face by a uniformed officer with a wooden baton - and a woman. After firing more canisters the national guard and police withdrew. Just one street away up to 15,000 people listened to trade union leaders appeal for calm.

Sporadic fights broke out among the crowd in the Plaza de Mayo, between opposing factions attending the rally. The demonstration was called to mark the 12th general strike since President Raúl Alfonsín took office in December 1983.

Both were called by the General Confederation of Labour (CGT), in protest against President Alfonsín's economic policies.

HUGO DAVENPORT samples a little heavy reading

HISTORIANS, if they still exist in the years to come, will one day argue more about the 20th century than any other. It has after all been the century of "more" — more people, more things, more ideas, more discoveries, more upheavals, more conflict; more marvels and more horrors. And certainly much, much more news.

In 1854, it took 21 days for William Howard Russell's celebrated dispatch on the fate of the Light Brigade to reach England. Today (though sceptics may object that pictures of the attack on HMS Sheffield during the Falklands War actually took two days longer than that to reach us) the only theoretical limit to the speed of human communication is Einstein's equation, $e=mc^2$.

And so, later this month, a book is to be published that claims, without a trace of bashfulness, to be big enough to accommodate this great sprawling brute of a century. Devoting on average a page to each month of each year, it covers all the major news stories since 1900, plus many of the period's more beguiling ephemera. And they are written as if they were today's news hot off the press.

"Without doubt, the ultimate record of the most significant period in the history of mankind," pants the publishers' breathless self-assessment. These words are but the first scattered droplets from a tidal wave of hype that is soon to break over the heads of the book-buying public. Longman plans to spend £250,000 plugging its hardback Chronicle of the 20th Century between the end of September and Christmas, with the declared ambition of selling a copy to every household in the country.

It also claims the marketing of the book could revolutionise the trade — and it may, just possibly, be right. For the British edition of Chronicle arrives with an undeniably remarkable sales record. It has topped best-seller lists in seven countries; last year it was the American Booksellers Association's Book of the Year.

The book has sold 1.4 million

A tome for our times



"It's more of a coffee table than a coffee-table book"

copies in Germany, 430,000 in France and Belgium, 180,000 in Holland, 145,000 in Spain, 242,000 in Japan, 30,000 in Finland, and 290,000 in just three months in North America. And though it will be priced here at £29.95, Longman is clearly confident of repeating these successes.

The initial print run for Britain, including a Reader's Digest mail order edition, is almost 200,000: eventual sales could easily double that. In the hardback non-fiction market, anything above 10,000 is regarded as exceptional.

"It's a big book, but then it's been a big century," says Peter Zombory-Moldovan, sounding more like a cigar-chomping Hollywood mogul of the old school than the publishing manager of Longman's home, education and reference section. It was he who spotted the book in its original German edition — devised by a former sports journalist, Bodo Harenberg — and later tracked down Jacques Legend, the Belgian-born pub-

lisher who had bought the English and French language rights.

"It's a reference book, a kind of encyclopaedia; at the same time it's also the ultimate nostalgia book," he enthuses. "It's a story — the story of our century, and the story of all our lives."

Big though it is, the book is not quite so prodigious as the publishers seek to suggest. It weighs 11lb — not much beside the 557lb so-called "Super Book" printed in Denver, Colorado, in 1976 and listed in the Guinness Book of Records as the world's largest. And its 1.2 million words seem positively terse compared with the 165,200,000 contained in Spain's *Enciclopedia Universal Ilustrada Europeo-Americana*.

Bodo Harenberg's idea was to produce "television on paper" — a book geared to the short attention span of a generation reared on the small screen — but he found it hard to interest a German publisher. He went ahead on his own, and, according to legend, proceeded to deliver the finished product by dumping pallets of 36 books on booksellers' doorsteps.

Since then, the pattern has been repeated in the United States: initial rejection from publishers, followed by those same publishers wailing and gnashing their teeth in the face of the book's runaway success, followed by a thunderous stampede to get in on the act.

The publicity boasts, as if advertising potatoes, of "11lb of headline news". But Derrick Mercer, editor-in-chief of the British edition, assembled a formidable team of very experienced journalists and — irrespective of hype — has done a splendid job.

In fact, the publishers have overlooked just one point: the cardboard suitcase in which the book is sold is not re-useable. If it were, people could — at only minor risk of rupture — carry a copy around with them all the time. And if they found themselves actually present at one of those moments where history is made, but too far back in the crowd, they could stand on it for a better view.

Argentine bid to stop Falklands ferry service

ARGENTINA is increasing its pressure on Uruguay to prevent a new shipping link with the Falkland Islands going ahead in early November. The planned ferry between Port Stanley and Montevideo, the capital of Uruguay, would be the first regular link with the mainland for the 1,700 Falkland Islanders since the war with Argentina in 1982.

"Everything looked ready to go ahead a few months ago," said a diplomat involved in the discussions. "But now the Uruguayans are having second thoughts." Argentina's Foreign Minister, Dante Caputo, has made several public statements warning Uruguay that if the ferry service went ahead it would "undermine Latin American solidarity". Uruguay, which politicians in Buenos Aires tend to treat as if it were a province of Argentina, is fairly susceptible to pressure from its much larger neighbour. "Clearly the Uruguayans are in a difficult position," said an executive from one of the companies involved in the ferry venture. "They want it go ahead because it will bring money in, but at the same time they do not want to upset the Argentines unnecessarily."

Six fishing companies from Britain, Japan, France, Taiwan, South Korea and Spain have got together to run the ferry, the *Indiana*, which is being refurbished in Hull. It will be used mainly to service their fishing vessels around the Falklands which at present have to return to Montevideo for stores, losing two weeks' fishing. The *Indiana* is being fitted out to carry 12 passengers and construc-

By John Eisenhammer
Latin America Specialist

tion materials for use on the islands.

Talks are also going on to link the service to the port of Punta Arenas in southern Chile, which is much closer to the Falkland Islands. "But the Chileans won't go ahead unless the Uruguayans do so first," said a diplomatic source. "Chile is much less susceptible to Argentine pressure. But since they are just getting their relations with Buenos Aires on to a better footing they do not want to make the running on their own."

The Uruguayan fishing industry, annoyed with the restrictions placed by the Argentines on fishing in their waters, is pressing for the ferry to go ahead. For, as the president of the Uruguayan trawlermen's association said: "Either we get an agreement with Argentina to fish in their waters or we will have to ask for licences from Britain in the Falkland Islands."

All sides involved in the venture stress its purely commercial nature and that nothing should prevent a private shipping service from going ahead. But diplomats recognise the emotive implications for Argentina of restoring regular links between the Falklands and South America. The British Foreign office emits quiet satisfaction at the prospect of the ferry but, at a time when it is exploring the possibility of holding talks with Argentina about fishing and reducing tension in the South Atlantic, it wants to avoid any serious upset.

Burmah needs Maggie U-turn for Argentina deal

BURMAH Oil, where Denis Thatcher used to be a director, hopes that Maggie will soon change her mind about Argentina.

John Maltby, chairman of the lubricants and fuel distribution giant, wants the green light for Burmah to buy its local agent.

"The deal will go ahead as soon as it is politically acceptable", he said.

Burmah aims to buy into one new country every year but so far in 1988 it has opened up in Portugal, Mexico, Turkey and Greece.

Next on the list is Taiwan.

Yesterday Burmah (511p, down 6p) revealed that first-half profits to June 30 were up from £61m to £66m and earnings from 18.85p to 21.61p a share.

The interim dividend rises a penny to 7p a share.

Burmah's big boost came from the Castrol side where a worldwide marketing and product development drive increased the sales volume of lubricants by 16%.

Buying ICI's petrol stations last Christmas helped fuel sales and 30 new pumping sites are under way.

Meanwhile another oil giant, Ultramar, (213p, down 31p) launched a £130m rights issue to help pay for the £259m purchase of Los Angeles-based Wilmington Refinery. Kiwi tycoon Sir Ron Brierley, who has 13.7% of Ultramar, is taking his full entitlement in the six for 25 rights at 200p a share.

But the postal strike means Ultramar shareholders will not be asked to vote on the deal.

Instead the directors have gained special permission from the Stock Exchange to carry on without asking for approval.

Spring reforms spark Argentine general strike

By Gary Mead in Buenos Aires

ARGENTINES are due today to stage their 12th general strike since President Raúl Alfonsín took office in December 1983.

The strike, set for midday, was called by the General Confederation of Labour (CGT). A mass rally is scheduled for this evening at the Plaza de Mayo in central Buenos Aires, where Mr Saul Ubaldini, CGT secretary general, will call for the resignation of the Government's economic team and for substantial wage increases.

The general strike comes on top of industrial action throughout the country in a number of sectors. Among those who have taken action are doctors at public hospitals in Buenos Aires, municipal employees in Cordoba and teachers in several provinces.

In the last month, postal, banking, transport and water supply workers have staged strikes for higher wages.

Wages have declined almost 10 per cent in real terms since the end of 1987, according to independently compiled figures. Unemployment of 6.3 per cent is at its highest since the first unemployment survey was made in 1974.

The immediate spark for the general strike today is the Radical Party Government's *Primavera* or Spring Plan, introduced at the beginning of last month. The CGT leadership regards it as an attack on the living standards of trade union members. It includes an immediate 30 per cent increase in public utility tariffs.

This comes on top of claims by some 50,000 people in Buenos Aires that they have been overcharged by as much as several hundred per cent for last month's electricity bill. The Government has promised an investigation.

The heart of the economic measures was an attempt to control spiralling inflation, and on that front they show some preliminary success. The figure for September seems certain to drop below the 27.6 per cent for August.

The austral is also holding firm against the US dollar for the first time in many months because of a subtle system of central bank control over buying and selling foreign currency.

Taxpayers out £5m as Falklands fish firm goes bust

By BRYAN CHRISTIE

ABOUT £5 million of British taxpayers' money has been lost through the failure of a Falkland Islands fishery venture.

Mr Lewis Clifton, a London-based representative of the Falkland Islands Government, confirmed to *The Scotsman* yesterday that a joint-venture company established to fish the South Atlantic waters has been wound up with debts of about £9 million.

The company, Seamount Ltd, was formed two years by Seaboard Offshore Ltd of Aberdeen and Stanley Fisheries, a wholly-owned subsidiary of the Falklands Development Corporation. Both put about £1 million into the venture, with the rest of the initial finance being provided through a bank loan of £4.8 million guaranteed by the Government.

Two stern trawlers were bought and named after two of the islands' mountains, the *Mount Kent* and *Mount Challenger*. Setbacks in converting the vessels meant that the *Mount Kent* arrived in the Falklands in March this year and after two weeks she was taken to Chile in need of extensive repairs.

The *Mount Challenger* never reached the islands and has been laid up in a Spanish port while the financial problems of the company in meeting loan repayments have increased.

This week the Falklands Government decided to wind up the company and to hold an inquiry into what had gone wrong. Mr Clifton said yesterday that there was considerable concern over the situation and added that the islands' Government wanted to ensure that such a thing never happened again.

Mr Kenneth MacKenzie, a spokesman for Seaboard Offshore, said he had not been able to communicate with the Falklands and therefore did not know what the position was. Asked what the implications of the losses could be for his company, he said they would not be significant as the venture was not a major part of its business, which is mainly based in operating rescue ships in the North Sea.

The Falklands Government has approved the expenditure of £2.15 million to pay off some of Seamount's debts and to arrange for the sale of the two vessels before winding up the company.

8 SEP 1988

Press Cuttings

from Broad Street Associates

Daily Express



Naval officer found hanged

A ROYAL NAVY officer was found hanged in his cabin yesterday, an hour before his ship was due to sail.

Lieutenant-Commander Paul Keane, 40, was second-in-command of the ice patrol vessel Endurance.

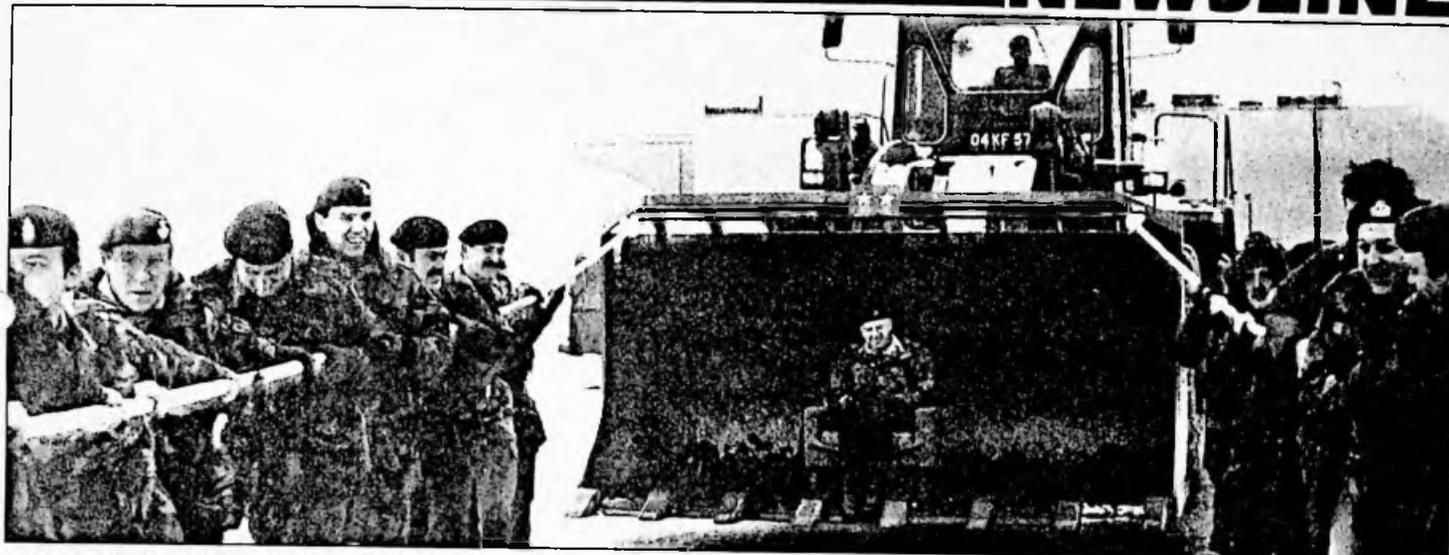
The ship was due to leave Portsmouth for trials off Portland, Dorset, before returning to the South Atlantic.

Lt-Cdr Keane, who was married with two children, joined Endurance in

Panama last year as she was returning from Antarctica. His family live in Southern England.

A Royal Navy spokesman said "He was found hanged in his cabin at 8.45 a.m. An inquiry has begun and the coroner has been informed."

Endurance was the ship which gave warning of a threatened Argentinian invasion of the Falkland Islands in 1982.



MAJ GEN Neil Carlier left his headquarters as Commander British Forces Falkland Islands for the last time in a style befitting a former Royal Engineer. He sat on an armchair in the

bucket of one of the 50-ton Terex tractors which sappers of the Falkland Islands Field Squadron use to practise airfield damage repairs. Headquarters staff manned a couple of ropes and

symbolically towed their departing boss to the entrance at a time of powerful snow showers.

New CBF is Air Vice-Marshal David Crwys-Williams.

Stanley Gurkhas double up

LAYING foundations for good community relations in the Falkland Islands, men from I Troop, 69 Gurkha Independent Engineer Squadron, QGE, have prepared a new site for the Stanley Scout hut.

The Gurkha sappers are serving in the South Atlantic on what amounts to a double detachment. They are spending four months with the resident engineer unit, 59 Independent Commando Squadron RE, on detachment from the Engineers' Depot in Chatham where they

have been on an 18 month detachment from their usual base in Perowne Barracks, Hong Kong.

The Gurkhas are due to fence a track through a minefield to Stanley's new rubbish tip.

Most are newcomers to the bracing South Atlantic, but one is a Falklands veteran. Capt (QGO) Birbahadur Limbu was there in 1982, just after the war, when his unit lost a man during mine clearing operations.

Falklands contract for C&W

Cable and Wireless is installing a £5.4 million digital telephone network in the Falkland Islands which will be ready for service in 1990.

The new system will replace the existing analogue one and will provide international direct dialling, conference calling and call diversion through a System X exchange. Telex, facsimile and high speed data services will also be available.

The cost of the new system will be met by the Falkland Islands government and Cable and Wireless, which will operate the new domestic network under a 22-year licence.



Falklands radio operator Eileen Vidal, who intercepted Argentinian messages signalling the invasion PHOTOGRAPH: FRANK MARTIN

Ringling the changes on the Falklands

Peter Large
Technology Editor

ANOTHER bastion of the crank-the-handle phone — the Falkland Islands — surrenders to the computer next year.

Cable and Wireless announced yesterday that it is to install a £5.4 million digital telecoms network spanning all the Falklands before 1990. That means that the islanders' communications will be modernised overall at least a decade ahead of Britain.

It also means that the 400 current phone customers among Port Stanley's 1,300 residents will lose their mag-

neto phones — and their free local calls.

Magneto phones, whereby the user conjures electricity to call the operator by turning a handle, are by no means extinct on public phone networks. Britain's last specimens were removed from the Scottish isles a decade ago, but they survive in remote areas of the US as well as in the Third World and Eastern Europe.

The 700 or so islanders outside Port Stanley rely on a version of citizens' band radio, which lacks privacy. That will be replaced with microwave radio-phones.

All but the remotest homes will be linked by cable to 20 microwave stations in the

coastal farm-clusters. The remotest will get their own microwave equipment. The operation will be managed by a British System X computerised phone exchange.

In Stanley, where the government-run phone service depends mainly on overhead wires, cables are being laid in new water-main ducts. All customers will have international direct dialling and (C&W says hopefully) high-speed computer communications and facsimile document transmission.

But it will cost them. Today, phone subscribers pay a £30 annual rental and local calls come free. The Falklands Government said yesterday that rentals will

have to rise, and all calls will be charged. But there will be subsidies to protect old people, "who talk by the hour."

C&W built a satellite earth station in 1983 and has handled the islands' international communications since 1973. It will now take over the local phone network as well under a 22-year licence.

The Falklands Government is providing £2.8 million of the initial £5.4 million investment in the network, which will be separate from military communications. The Governor, Gordon Jawkes, said the deal completed a "thorough overhaul" of the islands' infrastructure.

Latin America's Rising Populist Left

MEXICO CITY — Much has been made about the relative homogeneity of political trends in Latin America today. In the United States, there are those, particularly in the Reagan administration, who speak of the "return to democracy" in the hemisphere, mentioning countries such as Argentina, Brazil and Uruguay. Others, more preoccupied with economic policy than with the nature of the governments that implement it, have stressed the growing uniformity of market-oriented, anti-statist, anti-populist economic policies in many countries, particularly Chile, Mexico, Argentina and Brazil.

But the most recent sign of the continent's moving in one direction is of a different nature. It involves the return or resurrection of the nationalistic, reformist, somewhat statist and populist left that supposedly had been consigned to history's dust bin. In country after country ravaged by years of economic stagnation and debt, the center-left is making a triumphant return to power, or is in serious contention to do so, as societies begin to show their resentment of the economic situation they have had to endure for nearly a decade.

In Argentina, the favorite for the forthcoming presidential election is Carlos Menem of the Peronist party; in Venezuela, the favorite is Carlos Andrés Pérez of Democratic Action, the social democratic party. Both men are publicly committed to the so-called policies of the past: populism, nationalism, statism, a

By Jorge G. Castañeda

strong defense of the welfare state and a tough line on foreign debt.

In Brazil, where presidential elections are due next year, a left-of-center, nationalist, nearly legendary figure, Leonel Brizola, is emerging as a leading candidate.

In Mexico, the stunning showing of the opposition candidate Cuauhtémoc Cárdenas (again, on a leftist platform) in the July 6 presidential election underlined the strength of the nationalist, social-minded mood sweeping the country.

And Ecuador's recently inaugurated president, Rodrigo Borja, appears to be the quintessential Latin American social democrat.

There is disagreement as to causes of the trend. Many attribute it to the negative effects of the region's foreign debt, above all to the obstacles that it presents to economic growth.

There is truth in that, but more is involved. The main reason for the disenchantment with the prevalent economic fashion — Reaganomics with a Latin flavor — is that it has not worked; it has not led the continent back to economic growth.

The 1980s are being called the lost decade for Latin American economic growth. After almost six years of reform, structural change and adjustment, the Mexican economy has not grown at all; the Brazilian economy has advanced irregularly, with dramatic peaks and valleys; Argentina and Venezuela have persevered against stagnation,

but time is catching up with them.

The only major country in which the economy has responded well to "market-oriented" policies is Chile — where the drift toward democratization has not taken hold.

Undoubtedly, many of the "new" policies need time to bring benefits, and it is difficult to conceive of any economic policies that could prosper as long as the present debt hangs over Latin America. But when democratization, debt and unproven economic reforms all occur at once, the combination is incendiary.

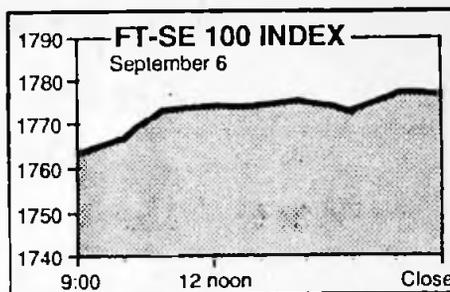
The Mexican example is illustrative: It is virtually suicidal, politically, simultaneously to open up a political system, implement unpopular economic reforms that do not bring results, and meet debt payments punctually. The authorities have only begun to pay the price of their boldness — or folly, some would say.

Latin American societies will vote their governments out of office as long as elections are held and growth is postponed. The newly touted "policies of the past" may well be outdated, expensive or inefficient, but for a number of years, they had one merit: They worked. That is clearly no longer the case, but the other, more fashionable policies, have not worked either. Their time is running out, as is their popularity among officials, intellectuals, politicians and technocrats.

The writer is a professor of political science at the National Autonomous University of Mexico. He contributed this to the Los Angeles Times.

MAIN FEATURES

English China Clay 457p, up 5p (Brierley stake speculation); **Rubberoid** 260p, up 8p (Raine has 17 per cent); **Persimmon** 163p, up 5p (bumper profits on Monday); **Taylor Woodrow** 626p, up 39p (Smith New Court lunch; **P & O** bid hopes); **Costain** 299p, up 8p; **Wimpey** 246p, up 10p; **T & N** 108p, up 7p; **Blue Circle** 437p, up 9p and **BICC** 342p, up 4p (Interim today); **NEI** 97p, up 3p (Iraqi contract); **Dowty** 209p, up 3p (Messerschmidt contract); **Thorn EMI** 625p, up 5p (Holophane acquisition success); **Western Motor** 601p, up 13p (figures due Sept 12); **Brent Walker** 371p, up 14p (recovery); **Capital Radio** 322p, up 12p (firm media issues); **Ladbroke** 447p, up 12p (Warburg presentation); **Hillsdown** 274p, up 5p (interim today); **Bowater** 421p, up 6p (profits up 76 per cent); **Bunzl** 140p, up 7p (Interim today); **Glaxo** 978p, up 8p (anti-migraine drug prospects); **Continuous Stationery** 110p, up 6p (comment); **Cannon St Inv** 279p, down 21p (£42 million rights issue); **Charles Barker** 137p, down 21p (WPP bid talks terminated); **Blue Arrow** 925.5p, down 4p (cautious comment); **Legal & General** 310p, up 5p (Interim today); **Caird Group** 283p, up 4p (doubled profits); **Cable & Wireless** 378p, up 7p (Falklands phone system); **Ward White** 260p, up 5p (figures next week).



Falkland exchange

International communications giant Cable and Wireless is to install a £5.4-million digital telephone system, spanning the entire Falkland Islands.

The system will be ready for service by early next year.

THE ancient telephone system on the Falkland islands is being replaced at a cost of £2,700 for every person there.

Alfonsin moves to reassert his authority

**By Gary Mead in
Buenos Aires**

PRESIDENT Raul Alfonsin of Argentina has issued a strongly-worded statement reasserting his position as head of the armed forces, after attempts by two officers to challenge their suspension from duty by using civilian court hearings.

Seventeen army officers have recently been relieved of their duties by Gen Jose Dante Caridi, the army Chief of Staff, allegedly for involvement in the group associated with cashiered Col Aldo Rico, now in prison awaiting trial for his part in rebellions at Easter last year and in January this year.

Five of those officers have since returned to duty after being cleared of the allegations. However, two have taken the unusual step of seeking reinstatement through civilian courts.

Last week, after two separate court hearings, civil judges ordered Gen Caridi to give his reasons for suspending from duty Lt Col Hector di Pasquale, and told him to permit Major Osvaldo Vercelotti to continue his studies at Argentina's War College. Despite the ruling, Major Vercelotti was not allowed to enter the college last week.

President Alfonsin described the court's decision in the case of Major Vercelotti as "undermining the indispensable discipline which is the essential principle of any armed organisation" and he asked for the decision to be revoked.

Recruiting in step with the times

WHAT did you do in the Great War, Daddy? was the emotive message skilfully used to help drum up recruits for World War One. Today, with the youngest of former National Servicemen pushing 47, the chances of British teenagers learning about army life at their father's knee are slim.

Recruitment of regular soldiers is currently in the doldrums. Once boosted by the gung-ho patriotism engendered by the Falklands dispute, applications are currently 20 per cent down on last year's figure. And the decline, which covers officers as well as other ranks, looks set to be long term.

The decline in unemployment has not helped; nor have reports of barrack-room bullying. But more important is the demographic trough which will cause a significant drop in the numbers of youngsters in the coming five years. It is a population hiccup that the Army has been aware of and planning for the past year or so and one which equally affects the remainder of the Nato Alliance and the Soviet Union.

With the proportion of young men between 16 and 25 — the Army's chief recruitment target — set to decline by 15 per cent in the next few years, the forces

Virginia Matthews reports on the Army's latest campaign . . .

face a great challenge to their recruitment efforts.

As competition for young employees becomes fierce, the Army needs to find new ways to persuade youngsters that joining up can be as fulfilling, if not as safe, as becoming a Marks & Spencer trainee or joining a bank.

A new press advertising campaign being unveiled this week will spearhead the Army's quest for numbers. While it retains the traditional guns and tanks imagery that has been attracting Army enthusiasts for many years, the advertisements attempt to portray army life as more than simply licensed killing.

"There is never a problem in attracting the real 'Army Barmies'. You simply show a picture of men with guns and they sign up instantly," says Peter Lovatt, account director with Army ad agency Slaymaker Cowley

White. "But an Army career is increasingly sophisticated today and we felt that a more thinking style was appropriate."

The Army does not require pre-entry academic qualifications, unless a soldier is intending to work in a highly technical field such as computer science. For most young soldiers, who have a bewildering 200 trades to choose from, the test of what they are able to do is largely made for them.

The first three days after joining up are spent undergoing a series of psychometric tests, as the Army attempts to match each new recruit with a trade according to his or her mental capability. Each trade, be it chef or instrument technician, has an average score attached to it. If a young soldier wanting to become a computer operator fails to reach the necessary score for that trade in his or her test period, he/she is directed towards a less intellectually demanding occupation. Although some soldiers have fixed ideas on the occupation they wish to pursue, the Army finds it easier to cope with more flexible attitudes.

Whether a soldier is destined to become a crack rifleman or a carpenter, he goes through the



From Frankenstein to Laurel and Hardy: images from the Slaymaker recruitment adverts

same basic 10-week training. Although some soldiers are unlikely to ever be asked to fight, the 10-week training ensures that they feel they are soldiers first and foremost. The second phase of training, which includes regular tests, can be anything from six to 38 weeks depending on how skilled the task.

The new message in the poster from Slaymaker — the agency has worked with the Army for over 18 years — is that the Army offers excellent training facilities, decent money and an intellectual and physical challenge.

Although the new press ads are nominally aimed at 15- to 25-

year-olds, the Army now needs to broaden its appeal among boys as young as 15. The ads will run in teenage magazines such as Sky as well as TV Times and the mass market colour supplements.

The Army actually gets far more recruits than it can handle, but it weeds them out with vigour. And although the newer recruitment ads have requested applications from both sexes, the rejection ratio for women is far higher. While only 800 or so WRAC trainees were signed up out of 8,300 applications last year, around 11,000 men, out of 33,000 applicants, were eventually enlisted.

It might be tempting for the Army to liberalise its selection procedures in order to achieve annual recruitment targets, but, says head of marketing for Army recruitment Major Nick Mercer, this will not happen:

“There are people who don't make it because their physical or intellectual standards aren't high enough, and there are others who have the wrong temperament.”

The Army's image may still be more brawn than brain, but the new advertisements — headlined “If you've got it in you, we'll bring it out” — may help break down prejudices.

Antarctic posts

By Our Sydney Correspondent

The Australian government yesterday appointed two women to lead the Mawson and Macquarie Island Antarctic stations, the first women from any country to take charge of permanent bases in the region.

Swissair drops interest in buying Aerolineas stake

SWISSAIR IS giving up its interest in acquiring a stake in Aerolineas Argentinas, the Argentine flag carrier, Reuter reports from Zurich.

The Swiss group was part of a consortium which included Alitalia, Italy's state airline, and a group of Argentinian businessmen who control Austral, the country's privatised airline. This consortium made its original offer for the key stake in Aerolineas in July.

In a brief statement, Swissair said: "Since no genuine reprivatisation of Aerolineas Argentinas appears likely in the fore-

seeable future, Swissair's executive management has now decided to withdraw the airline's participation from any such offer." Swissair declined to elaborate.

Last month, the airline confirmed its interest in the deal in spite of an agreement in which Scandinavian Airlines System (SAS) will buy 40 per cent of Aerolineas' shares for \$204m, subject to approval by Argentina's Congress.

A senior Italian politician has since hinted, however, that Alitalia was willing to outbid SAS for the stake.

Press Cuttings

from Broad Street Associates **THE  TIMES**

6 SEP 1988

Swiss bale out

Swissair is giving up its interest in acquiring a stake in Aerolineas Argentinas, the Argentinian state airline. "Since no genuine reprivatization of AA appears likely, Swissair has now decided to withdraw its participation from any such offer," it said.



Jackie McHardy, 23, of Northwich, leaves Plymouth on a Nato exercise as one of the first Wrens to serve at sea

12 reservists first Wrens to serve at sea

BRITAIN'S amphibious force set sail on a major Nato exercise to reinforce Norway yesterday, assisted by a team of Wrens communications experts but hampered by the lack of a flight deck from which to transport troops.

Welcoming the 12 reservist Wrens, the first to go to sea, Cdre Brian Turner, of the joint British-Netherlands force, said: "I

doubt Nelson would have turned in his grave. He was something of a ladies' man, after all."

Their presence on six merchant ships chartered for the exercise fills a gap that emerged during the Falklands war, when many crews of merchant ships were found to have little or no knowledge of tactical signalling.

"I never thought when I joined

By Adela Gooch, Defence Staff

that I would go to sea," said Wren Jo Whitmore, 24, a secretary in civilian life. "But we have trained for it and I am looking forward to using the skills."

Regular Wrens are still barred from service at sea.

The Dutch, American and Danish forces allow women to serve in warships and some are on this

exercise, code-named Team Work, which ends in an amphibious landing by 9,000 Marines.

The 19-ship force left Plymouth yesterday carrying 42 and 45 Commando and Dutch Marines to join the US 4th Marine Expeditionary Brigade for the landings on Sept 16. The Navy's three suitable ships for transporting troops by helicopter, the carriers *Illustrious*, *Invincible* and *Ark Royal*, are unavailable.

Third World Lenders Urged To Write Off 30% of Debt

AP-DOW JONES NEWS SERVICE

GENEVA—A United Nations report urged commercial lenders to write off 30% of their loans to 15 heavily indebted countries to help revive economic growth and ease a seven-year debt crisis.

"The international strategy for dealing with the debt problem of developing countries is not working, and it's not going to work unless significantly modified," Roger Lawrence, a director of the U.N. Conference on Trade and Development, told a news conference called to present the agency's annual economic survey.

The report said that continuing the current approach to the crisis "implies an eventual breakdown in debtor-creditor relations." It said the danger of indebted countries defaulting on loans has risen as their debt certificates sell in financial markets at discounts of as much as 55%.

Debt plans have successfully reduced the exposure of banks and helped prevent major disruption of financial markets, the survey said. But rising interest rates and relatively low global commodity prices continue to hurt efforts to resolve the crisis, it added.

To help the group of 15 debtor nations, private creditors should agree to a one-time 30% cut in their level of debt, the survey said.

The countries targeted by the plan account for about 60% of Third World debt totaling some \$500 billion. They are Argentina, Bolivia, Brazil, Chile, Colombia, the Ivory Coast, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

Swissair Quits Talks On Argentine Carrier

AP-DOW JONES NEWS SERVICE

ZURICH - Swissair said it withdrew from talks aimed at taking a stake in Argentina's state airline.

In June, a group that includes the owner of the Argentine domestic airline Austral invited Swissair to participate in a plan to buy state-owned Aerolineas Argentinas, Swissair said.

Alitalia SpA, the Italian flag airline, later joined the talks, and Scandinavian Airline Systems in February signed a letter of intent to buy a 40% stake in the Argentine carrier. Swissair said that, together with Alitalia, it planned to provide "comprehensive technical support" and to take a financial stake in the denationalized Argentine carrier.

But, the carrier said, "no genuine" denationalization appears likely now, and the government controlled Swiss carrier said it decided to withdraw from the talks.

The reluctant soap star

A hundred and fifty years ago this month the steamer Forfarshire lost power and was driven on to the rocky Farne Islands off Northumberland. In the early morning light the keeper of the Longstone Lighthouse rowed out to the rocks and took off nine survivors, and two dead infants. Later, he headed his day's log "Melancholy".

That was his only concession to drama: a few lines further into his log, William Darling was prosaically listing the ship's cargo of "superfine cloths, boiler-plate and spinning gear". The journal does not even mention his assistant: it was his unmarried daughter Grace, aged 22. She took an oar for the row out, and manoeuvred the coble alone while he mustered the survivors to jump aboard. Men from the Forfarshire's crew rowed back and made a second trip, while Grace stayed at the lighthouse with the victims.

As far as the Darlings were concerned, that was where the story ended. It was unusual, but not astonishing, for Grace to have helped; her brothers were all away, and as she herself explained: "I have often had occasion to be in the boat with my father for want of better help, but never at the saving of any lives before, and I pray God never be again."

Grace Darling was no romantic figure. She was a Victorian daughter: her duties were domestic, and her leisure was passed in reading books on divinity and geography.

"When I have been on the Main," she wrote, "I am quite surprised to see people generally, after what they call getting their day's work done, they sit down, some to play at cards which I do not under-

The RNLI this week commemorates Grace Darling, who became the very first romantic heroine of the tabloids

stand, perhaps as well, for my father says they are some of the Devil's books; others to read romances, novels and plays, which are books my father will not allow a place in our house, for he says they are throwing away time."

She seems to have liked her quiet life, and to have been quite incapable of posturing. It is a

bitter irony that this girl, who had never read a romance in her life, should have been turned into the heroine of one. But this was the dawn of the newspaper age; and with a girl queen, the press needed girl heroines to continue the theme. Grace was ideal. Before long her praises were, literally, sung:

'Twas on the Longstone Lighthouse

*There dwelt an English maid
Pure as the air around her
Of Danger ne'er afraid . . .*

She was given money and medals; she was invited to appear at theatres and circuses (she refused) and badgered incessantly by portrait-painters and boatloads of trippers. Her name and image appeared on a variety of products — pens, shoes, sweets, soap and



Suds for a heroine: Grace's image appeared everywhere

all kinds of decorative tableware. When she died of tuberculosis four years later, her legend was complete.

How did it happen? As Jessica Mitford points out in her book about the Darling affair, provincial news at the time was provided by freelance

"penny-a-liners". The more they wrote, the more they earned.

Some romanticizations were harmless: Grace probably did not protest at being depicted sitting at the oars with flowing locks, even though the fact is that she did her great deed in curling-rags. But the family were deeply distressed by another pennyworth: the invention that it was Grace who "urged her father to go off in the boat at all risks". To improve the drama, the papers shrank the stout lighthouse coble into a "frail skiff" and had Grace urging a positively unwilling father.

All this was anathema to the Darlings. Grace's sister, Thomasin, repeatedly protested that her father was an experienced seaman who would never have risked two lives in response to "girlish importunity"; the record shows him as a brave man. Grace — so respectful of

his virtues — must have been mortified to find her own reputation inflated by a slur upon his. Her deed was brave and humane and sensible, and is being decorously marked this year by the Royal National Lifeboat Institution with an appeal for a new lifeboat to be named after her. But she was never the dashing figure of legend, and, embarrassedly, she knew it.

There was a backlash, too. The Darlings suffered hostility from the local fishermen, and in later years, debunkers claimed that Grace did nothing, and that she had a hare-lip and an incestuous relationship with her father. Poor ordinary Grace, pulling on her oar with calloused hands, and comforting a mother of two dead infants! She was no romantic: to her the wreck and the sea were real and nasty, deathly and sad; things to forget.

Grace Darling was a Victorian idol; but she was also the first tabloid victim. Think of PC Trevor Lock, who phlegmatically did his duty in the Iranian embassy siege, and ended up by having to leave the home he loved in Dagenham because of the pressures of celebrity; think of the Falkland widows fictionalized beyond endurance; think of the survivors of Zeebrugge, waking from private nightmares to find pressmen camped in their front gardens. Think of Hungerford. We may laugh at the Victorian hyperbolists, but we have long since beaten them at their own game.

● *Grace Had An English Heart*, by Jessica Mitford is published by Viking on Wednesday (£14.95). The RNLI Grace Darling Appeal for a memorially named lifeboat: RNLI, West Quay Road, Poole, Dorset BH15 1HZ.

King vague on Army rules of engagement

THE SAS killing of three IRA men in Omagh was carried out under ministerially-agreed rules allowing soldiers to fire in self-defence, Tom King, Secretary of State for Northern Ireland, said yesterday.

Mr King was deliberately vague about the Army's rules of engagement, leading to Opposition fears that they will not, as expected, be revealed in detail at the inquest into the shooting of an IRA team in Gibraltar on 6 March. The rules are considered central to the inquest.

Kevin McNamara, Labour's Northern Ireland spokesman, said yesterday he felt that Mr King had been less than forthcoming about the circumstances in which the Army may open fire.

"We still don't know from what he said what degree of information will be available in Gibraltar — on the basis of what he has said, very little indeed," Mr McNamara said.

Asked to confirm whether the Army was operating under similar rules to those used in the Falklands War — when, obviously, soldiers could fire first — Mr King said only that the rules were

By Andrew Marr
Political Correspondent

fair and necessary and recognised the right of self-defence.

"The position is that if a threat is perceived by a member of the security forces then he is absolutely entitled to defend himself," Mr King said in an interview on BBC radio.

Government sources said yesterday it was expected that seven Army personnel would attend the Gibraltar inquest.

They would include three SAS men directly involved in the shooting of Mairead Farrell, Danny McCann and Sean Savage, and two of their officers who directed the operation.

The men would simply be identified as soldiers A to G and are expected to give evidence relatively late in the proceedings, well into the second week of the inquest.

Last month, George Younger, Secretary of State for Defence, said that the soldiers would give evidence subject to an up-to-date assessment of the security risk they faced. The three IRA men in

Omagh had been a "particularly nasty murder gang" and the Army had acted absolutely correctly, under the rule of law, to prevent the possibility of more killings, he added.

"There is only one shoot-to-kill policy in Northern Ireland. That is carried out by the IRA. They were carrying it out quite clearly on this occasion: shoot anybody, shoot first and shoot often," Mr King said.

The Royal Ulster Constabulary had carried out forensic science tests and had confirmed, the Secretary of State said, that spent cartridge cases found at the scene had come from an IRA Kalashnikov automatic rifle found at the scene.

"There will, of course, be the normal and absolutely proper full investigation on this matter because we do set very high standards and the security forces are expected to fulfil them," Mr King said.

He denied press reports that he had had a row with the security forces after deciding not to reveal, following the shooting in Co Tyrone, that the IRA men had fired first.



The three IRA members who died (from left) Daniel McCann, Sean Savage and Mairead Farrell.

Public indifferent as Argentine war hearing nears end

From Michael Llanos, Buenos Aires

Defence lawyers in the Falklands hearings are preparing their final pleas this week, after the state prosecution on Friday demanded stiff sentences against the three former military commanders-in-chief who waged the 1982 war with Britain.

The prosecutor, Señor Luis Moreno Ocampo, requested 20 years in prison for the former President, General Leopoldo Galtieri, 18 years for Admiral Jorge Anaya, and 15 years for Air Brigadier General Basilio Lami Dozo. Three to five-year sentences were sought for three officers further down the chain of command.

In his closing arguments, Señor Moreno Ocampo upheld the right of civilian judges to review military cases and emphasized that the hearings offered Argentines the chance to review their past. This is Argentina's first trial of war infractions by a civilian court in public.

But, judging from the lack of public interest in the hearings, it would seem that Argentines would rather bury the 10-week period in which the entire nation backed what in retrospect was an unwinnable war.

The military family, on the other hand, is closely following the hearings which last week combined with other events to produce the most difficult period for government-military relations since an attempted mutiny last January.

The civilian Federal Appeals Court is reviewing the verdict passed in May, 1986, by a military tribunal, which found the former commanders guilty of negligence in occupying the islands and then failing to plan for a British attack. The tribunal acquitted 13 other officers.

The prosecution argued on Friday that the tribunal misinterpreted the military code of justice, imposing lighter sentences than called for by law. The six defendants were present during the four-hour session in which General Galtieri avoided contact with

his two former junta members. The defence teams are to begin their pleas on September 12, and a verdict is expected by mid-October.

The military tribunal sentenced General Galtieri to 12 years, Admiral Anaya to 14 years, and Brigadier General Lami Dozo to eight years, and stripped them of their ranks.

Señor Moreno Ocampo cited testimonies revealing the lack of co-ordination between the armed forces and argued that by law the penalty for negligence is based on the damage to the security and interests of the nation.

The prosecution demanded five years for Vice-Admiral Juan Lombardo, four years for Army General Mario Menendez, and three years for Army General Omar Parada — of the six defendants, the lowest in the chain of command.

The cases against the three lower-ranking officers provided the colour in the hearings, with some 70 Falklands veterans testifying during the last three weeks of August. Many servicemen toned down criticisms made immediately after the war, but a few reiterated their complaints.

General Parada, accused of not having joined his Third Infantry Brigade on the front line, received much of that criticism. General Juan Mabragna recalled how servicemen at Port Howard had to order their own missions because of General Parada's failure to maintain personal contact with his troops.

Vice-Admiral Lombardo, who commanded the South Atlantic Theatre of Operations, was charged with failing to draft a defence plan.

General Menendez, the islands' Governor during the Argentine occupation, was charged with not informing his superiors of the "real situation" in the Falklands and not advising General Galtieri against sending the entire Third Brigade to the islands — an order which put a strain on limited rations and supplies.

**Galtieri
gaol plea**

General Leopoldo Galtieri should serve an extra eight years in prison for taking Argentina into the Falklands War in 1982, the prosecution told a civilian court reviewing a military verdict three years ago, *Jeremy Morgan writes from Buenos Aires.*

The prosecutor, Mr Luis Moreno Ocampo, said the 12-year sentence handed down by Argentina's highest military tribunal, the Armed Forces Supreme Council, in May 1985 should be increased to 20 years. General Galtieri was the only member of the three-man military junta to reject a peace plan put forward by Peru as fighting began in earnest at the end of April 1982, Mr Moreno Ocampo said.

LATE EXPLANATION

Yesterday, the Northern Ireland Secretary Tom King said that there was no question of British troops operating a "shoot to kill" policy in Northern Ireland. The three gunmen who were killed in Co. Tyrone had opened fire on the security forces.

It is difficult to see why this statement should have been so long delayed. By now, an entirely different version of events has passed around the world, and Mr. King's words are too late to overtake them.

Presumably, if the killing of the IRA men had been planned in advance, a cover story would also have been planned in advance. In that sense, the delay may be seen as giving some weight to the official version.

Yet there is a difference between

a delay to allow de-briefing, and a delay while the story is checked all the way up through the civil service, until it finally reaches the Minister when he comes back from holiday.

Part of the war in Northern Ireland is a propaganda war, and it is a very important part. It cannot be allowed simply to go by default. There have been too many incidents in which the official account has been inadequate, and consequently buried beneath other more colourful accounts.

In the Falklands War, the Ministry of Defence was also very slow to understand the need to communicate. It should pass on to Mr. King the lessons which it then learned.

Blast from the past

AN Argentinian sub-machine gun, thought to be a Falklands war souvenir, has been handed to police at Shepton Mallet, Somerset, during the nationwide weapons amnesty.

FLIGHT INTERNATIONAL, 3 September 1988

AEROSPACE APPOINTMENTS

FALKLAND ISLANDS GOVERNMENT AIR SERVICE

FIGAS requires the services of a pilot on a short term contract from 1 October, 1988 until 28 February, 1989. Minimum requirements are valid UK or ICAO CPL and IR rated for BN2 Islander with 3500 hours total and 500 hours on type. Salary circa £1,600 per month. Contract on an unaccompanied basis with subsidised accommodation and passages to and from the Falklands. Interviews will be conducted in London in early September.

Applications with full cv to:

**Falkland Islands Government Office, 29 Tufton Street,
London SW1P 3QL.**

Closing date: 8 September, 1988.

Return by Allende's daughter 'precipitates exile amnesty'

By Imogen Mark
in Santiago

AN indiscreet Argentine senator and Isabel Allende, youngest daughter of Chile's last elected president, are said to have forced President Pinochet to bring forward his announcement to allow all his political opponents to return from exile.

Señor Sergio Bitar, a minister in the Allende government and a family friend, said that Isabel, 42, had planned to return secretly from Buenos Aires

However, the unnamed Argentine senator leaked the news, incorrectly, that it was Allende's widow, Hortensia Bussi de Allende, who was about to try to return, with the support of the Argentine government.

The news was reported by the agency, United Press International.

The prospect of a full-scale international scandal if his government refused her entry, just as it is starting an electoral campaign, is said to have forced President Pinochet to bring forward the announcement, which had been planned for later in the month, that the 430 political exiles could return.

The announcement of the lifting of the restrictions was carefully casual.

President Pinochet mentioned it almost in passing to journalists on Thursday morning, and it was confirmed by the Interior Ministry an hour before Isabel Allende arrived.

She had been so sure, when



Isabel Allende:
back home yesterday

she planned her trip, that she would be refused entry, that she travelled without a suitcase.

President Allende's widow, who lives in Mexico, has said she will return "after Sept 11", the day of the coup in which her husband died in 1973.

Church leaders, politicians of all shades of opinion and leading businessmen have welcomed the decision to allow exiles to return.

The issue of exile has been a sore point for several years, even between the government and some of its civilian supporters, who have argued that the return of a few elderly former political prisoners, such as Luis Corbalan, the Chilean Communist leader now resident in Moscow, would hardly electrify opposition activities.

Señor Corvalan is reported to be planning to return to Chile.

The lifting of the restrictions on exiles will affect a total of 430 people, of whom 177 were political prisoners whose sentences were later commuted to exile, and whose cases will have to be reviewed by the courts, the Interior Ministry says.

Most of this group may well choose to wait and see what happens in the Oct 5 presidential plebiscite before venturing back.

Exiles cannot vote in this because electoral registers have closed.

● Our Foreign Staff writes: President Pinochet's announcement is viewed with scepticism by many of the 2,800 Chileans in Britain. They see the move as a wily propaganda stunt before the plebiscite.

"Like the lifting of emergency measures last week, the move is clearly an electoral ploy," said Señor Enrique Parada, 40, a former Left-wing student leader from the southern town of Temuco.

He was expelled from Chile in 1976 after a year's imprisonment and now lives in London.

"The fact that lists of people who can go back are being published is no guarantee that basic human rights will be respected once they have returned," he added.

Chilean exile sources say President Pinochet has lifted bans on exiles several times during the past few years, and that many people went back only to be harassed, banned from working or taking part in political activity, and in some cases tortured or killed.

Alitalia 'willing to raise bid for Aerolineas'

By Gary Mead
in Buenos Aires

A SENIOR Italian politician has hinted that Alitalia, Italy's state airline, is willing to outbid the Scandinavian-owned SAS for a key stake in Aerolineas Argentinas, the Argentine flag carrier.

Last month, the Buenos Aires Government announced that SAS would pay \$204m for 40 per cent of Aerolineas.

Alitalia had made an original offer in July as part of a consortium with Swissair and Argentine businessmen who control Austral, the country's privatised airline.

Mr Gianni de Michelis, vice-president of Italy's Council of Ministers, has just left Argentina after a visit to discuss trade relations. His visit carried considerable weight as Argentina and Italy are due to begin implementation of an accord which will provide up to \$5bn of Italian finance for industrial projects in Argentina.

Prior to departure, Mr de Michelis said that "we are in a position to exceed" the offer made by SAS, adding pointedly that an Alitalia deal "would be very important for bilateral relations."

The consortium has refused to put a price on its offer, arguing that it has not been granted access to Aerolineas' accounts.

The SAS deal has been muddied by the hasty departure as Aerolineas president of Mr Horacio Domingorena, who claims that the actual price SAS will pay is \$156m, valuing the company at \$390m - a \$120m shortfall explained by leasing arrangements between Aerolineas and other airline companies, which SAS believes should not be counted as part of Aerolineas' assets.

Mr Rodolfo Terragno, who as Minister for Public Works is responsible for Argentina's privatisation programme, has stated that the consortium's offer will not be considered. He alleges that Swissair and Alitalia have British financial support. Argentina and the UK have yet to resume diplomatic relations following the Falklands conflict.

A more unified United Kingdom

Dear Sir,

Your leading article (29 August) is correct in arguing that the most effective response to IRA violence would be for our politicians continuously and vociferously to proclaim the integrity of the United Kingdom. Like Argentina before the Falklands War, the IRA receives misleading political signals about our true intentions.

As you say, promoting the integrity of the United Kingdom requires our Conservative, Labour and other parties to organise in Ulster (which they have never done). It also requires electoral and other constitutional arrangements to be the same throughout the United Kingdom (which they have never been since partition).

A unified United Kingdom approach would have led to the introduction by now of a general law against discrimination on religious grounds. There is a social mischief in Ulster calling for this remedy and therefore it should on usual legislative principles apply generally. Such a law, vigorously enforced, would do more than anything else to drain away popular support for the IRA.

Yours faithfully,
FRANCIS BENNION
Oxford
29 August

UNCTAD calls for debt relief

COMMERCIAL banks should write off 30 per cent of the amount owed by the 15 most heavily indebted countries, the United Nations Conference on Trade and Development proposes in its annual report published today.

UNCTAD, the forum for dialogue between the Third World and the industrialised nations and one of the most radical of the international organisations, is the first such group to call for sweeping debt relief.

Mr Kenneth Dadzie, its secretary-general, says that unless creditors scale down claims significantly the debtors will find it impossible to break out of the cycle of over-indebtedness and stagnation. The report says the risk to the international banking system of defaults has increased rather than lessened since Mr James Baker, the US Secretary of the Treasury, launched the

industrial nations' new debt strategy in 1985.

The countries are Argentina, Bolivia, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

UNCTAD says that although the Baker plan has prevented a breakdown in relations between creditors and debtors and protected the international banking system, it has not yielded improvement in the main debt indicators. It says the market's evaluation is that the risks of default are high, with secondary market prices for developing country debt showing steeply rising discounts.

Even the debt of countries such as Argentina, Brazil and Mexico, claimed to be fully solvent, is selling for less than half its face value. UNCTAD says concerted, once-for-all reduction of debt is needed to release foreign ex-

change and permit the raising of developing country imports, investment and output.

It considers a 30 per cent cut in commercial bank debt to be the minimum necessary to enable the 15 countries to break out of foreign exchange constraints.

Mr Dadzie said commercial banks had greatly reduced exposure rates and increased provisions and were in a position — with the help of bank regulators — to absorb the debt relief required.

The debt reduction would be complemented by fresh lending from multilateral agencies. New mechanisms would link more directly the debt relief with the developing countries' growth and adjustment efforts.

UNCTAD recognises that its proposal calls for a fundamental change in perceptions by commercial bankers, who fear that they could be pushed down a

slippery slope of repeated concessions, if they allow the sanctity of contractual commitments to be breached.

However, the UN organisation argues that the banks are overlooking their long-term interest in removing the debt overhang. A debt reduction would reduce the credit risk on the remaining debt and raise prices on secondary markets. Faster growth in the debtor countries would open up opportunities for banks in traditional lines of business, UNCTAD believes.

If US banks were to cancel 30 per cent of their claims on the 15 countries, they would collectively lose about 24 per cent of their total developing country portfolio. That is less than the 25-30 per cent level of provisions those banks have reached on average on their Third World loans, UNCTAD points out. — (*Financial Times Service*).

Falklands invasion 'doomed'

BUENOS AIRES — A hundred witnesses have told a civil court trying the military chiefs who plunged Argentina into war with Britain in 1982 that victory was never a possibility.

The testimony of the veterans of the conflict, who have given evidence in the Federal Appeals Court over the past month, has shown that Argentine troops were ill-prepared for a war in which the three armed services were often at odds over planning and execution of strategy.

The federal prosecutor, Luis Moreno Ocampo, has accused ex-President Leopoldo Galtieri and five other former military leaders of failing in their military duty and of incompetence during the war.

General Galtieri ordered the invasion of the Falkland Islands in April 1982, in an attempt to recover territory held by Britain since 1833, but claimed by Argentina. The general and his fellow members of the military junta then in power, the former air force chief, Brigadier Basilio Lami Dozo, and Admiral Jorge Isaac Anaya, were given prison terms of between eight and 14 years by a military tribunal in 1986, which found them guilty of negligence and gross incompetence.

**From Alberto Arebalos
of Reuters**

Britain sent a task force to the South Atlantic, which recovered the islands after 10 weeks of fighting in which more than 1,000 died: 255 British troops and at least 800 Argentinians.

In Appeal Court testimony, a retired army colonel said that the armed forces had no knowledge of the islands before April 1982. "[The high command] did not even know the combat zone on maps," a former tank brigade commander, Félix Aguiar, said. "There was never a war hypothesis drawn up for the Malvinas." Colonel Aguiar said that, until 1982, there were only plans for conflicts with neighbouring Brazil and Chile, and a vague strategy for the possible recovery of the Falklands.

Most witnesses put the defeat down to Britain's superior military technique, but also to the failings of the Argentine armed forces. The conscripts had little combat instruction, said Captain Oscar Morán. Most of the raw recruits went straight from subtropical northern Argentina to the cold, windswept islands to face professional British soldiers. There were also political mis-

takes, according to the witnesses. The air force launched a diplomatic offensive to avoid fighting after mediation efforts by the then President of Peru, Fernando Belaúnde Terry, broke down, Brigadier Lami Dozo said. The former head of the air force said he sent ambassadors abroad because he was not sure how committed to peace the other junta members were.

He said the junta agreed in mid-May 1982 to accept a peace proposal by the former US Secretary of State, Alexander Haig. But General Galtieri telephoned him the next day to reverse the decision because of Britain's sinking earlier that month of the Argentine warship, General Belgrano.

The defendants' lawyers said their clients should not face trial for the patriotic act of trying to recover the Falklands for their country.

Mr Moreno Ocampo will now state the case for stiffer jail terms for General Galtieri, Admiral Anaya and Brigadier Lami Dozo, and sentences for three other officers who were acquitted by the military tribunal. The trial, which has sparked far less public interest than the human rights trial of members of the same military regime three years ago, could end later this month.



General Galtieri (top left) listens to the proceedings of the Appeal Court in Buenos Aires.

Junta's 'unwinnable' Falklands war

SIX years after the guns stopped firing on the Falkland Islands, a civil court is trying the military chiefs who plunged Argentina into a war with Britain which witnesses say it could never have won.

The evidence of about 100 officers, veterans of the 1982 war who have taken the witness stand at the Federal Appeals Court in Buenos Aires during the last month, revealed that the former military regime's Falklands adventure was doomed.

The witnesses in the trial, which

began more than a month ago, said Argentine troops were ill-prepared for a war in which the three armed forces were often at odds over planning and execution of strategy.

The federal prosecutor, Mr Luis Moreno Ocampo, has accused former President Leopoldo Galtieri and five other former military leaders of failing in their military duty and incompetence.

Gen Galtieri ordered an invasion of the Falklands on April 2, 1982, to recover the South Atlantic archipelago, held by Britain since

1833 but claimed by Argentina. Galtieri and fellow members of the then military junta — the former air force chief, Basilio Lami Dozo and Adml Jorge Anaya, were handed jail terms of between eight and 14 years in 1986 by a military tribunal for negligence and gross incompetence.

Britain sent a task force to the South Atlantic which recovered the islands after ten weeks of bloody fighting which left more than 1,000 dead — 255 British troops and at least 800 Argentinians.

Lami Dozo told the trial said the junta had in mid-May, 1982, agreed to accept a peace proposal by the former United States Secretary of State, Gen Alexander Haig. But Galtieri phoned him the next day to reverse the decision because of Britain's sinking earlier that month of the Argentine warship, the General Belgrano.

The trial, which has aroused far less public interest than the human rights trial against members of the same military regime three years ago, could end later this month.

Beware the creeping sogginess that is sapping society's wealth

Nicholas Colchester warns of a growing tendency to take the easy option

Right and left, market and state, democratic and totalitarian, wet and dry: we use many such notions to describe attitudes and policies. But we ignore Crunchiness and Sogginess, the pair of antitheses that drive the wheel of fortune. Crunchiness brings wealth. Wealth leads to sogginess. Sogginess leads to poverty. Poverty creates crunchiness. This great wheel turns unstoppably, and from its movement we know that to cling to wealth we must cling to crunchiness.

Crunchy systems are those in which small changes have big effects, leaving those affected by them in no doubt whether they are up or down, rich or broke, dead or alive. The going was decidedly crunchy for Captain Scott as he plodded southwards. He was either on top of the snow-crust and smiling, or floundering thigh-deep. The further he marched, the crunchier his predicament became.

Sogginess is comfortable uncertainty. The modern Scott can radio his sponsoring newspaper for an airlift, or chance upon an early-warning station for a hot toddy. The more advanced a society becomes, the soggy its systems get. Light-switches dim where once they turned on or off. Intelligent questions replace the Church's absolute faith. Seat belts are worn. Proportional representation challenges the first-past-the-post electoral system, despite the sogginess of the first and crunchiness of the second. Forecasters reel off scenarios

and probabilities, rather than dare to get the future as magnificently wrong as Mr Fish. Exams are no longer passed or failed but are graded, and happily most seconds are good ones. There is a whiff of free lunch in the air.

Some of these softnesses are the welcome accompaniments of wealth. But lurking beyond sogginess lies moral hazard — man's tendency to abuse the security that society provides — and systemic drama in which such abuses accumulate to threaten the whole house of cards.

Henry Wallich, until recently a governor of the US Federal Reserve, was an early proponent of crunchiness. He bemoaned the worldwide move from fixed-rate money lending to floating-rate loans. Fixed-rate lending is crunchy: borrower and lender commit themselves to a future view of inflation and interest rates and must then live with it. If interest rates rise, borrowers are heftily deterred, for no one wants to be saddled with a loan at a high, fixed rate. A soggy, floating rate system demands no such commitment. The borrower lives in hope that his interest costs will fall. He knows they will be no higher than his neighbour's and suspects there will be safety in numbers if house prices turn down. The result, as in Britain today, is a need for puzzlingly high rates of interest to curb the

citizen's appetite for loans. And now that rates are high, the talk is of "low entry" mortgages that are seductively cheap to start with. Soggy.

Last year's Wall Street crash provided a nice example of sogginess leading to systemic drama. Some very big investors had taken out "portfolio insurance" in the financial futures market. They were soggy reassured that there would, in effect, be a buyer for their shares at any price. It took a very pronounced move in share prices to disabuse them. An uncrunchy system of federal deposit insurance, coupled with the move to a soggy interest rate system has led many of America's banks into the shadow of a systemic collapse. Dramatic bailouts are now needed there.

The dangers of sogginess abound in a modern economy. Brian Corby, the chief executive of the Prudential Insurance Company, has noted a nice paradox. Much of Western society has turned to the crunchiness of free competition (I restate his thesis) in order to put a bit of ginger into its economic performance. But the same societies are at the same time becoming more risk-averse. They try to insulate people from misfortune with ever-more-complex rules and to create an expectation that, whether from the state or from insurance or from legal redress, there is someone out there who will pick up the bill

when mistakes are made or bad luck strikes. Competition in which no one is expected to lose is uncrunchy, not to say futile.

Take the rampant problem of liability suits in the United States. There, liability insurance has provided industry with a soggy answer to the evolution of American tort law.

Instead of fighting absurd law suits, like the one brought against a telephone company by a man who was in a phone-booth when it was hit by a run-away lorry, companies are happy for their insurers to settle out of court. The result is that whole areas of American business, including the development of new medicines, are threatened because the liability cover has become too expensive.

Crunchiness is not merely a facet of right-wing politics. Much of the sogginess so far mentioned was delivered by the free market: for the comforts of sogginess are much in demand. Stalin was crunchy in his own way. Gorbachev needs to become a lot crunchier in his. Britain now needs a dose of crunchy corporatism: the Victorian confidence to decide what must be left to the market and where government must take its own crunchy decisions on infrastructure, education and defence. Bear in mind, though, that such corporatism would be doomed to sogginess but for the crunchy work of Mrs Thatcher. Two of her initiatives show perfectly

the magnification factor that comes with crunchiness. Her stand on the Falkland Islands led straight to the collapse of a dictatorship. Her stand against the National Union of Mineworkers transformed labour relations in Britain.

In tackling inflation, Mrs Thatcher suppressed an arch-purveyor of sogginess. Inflation is a great cop-out, leeching away the obligations of debtors and the wealth of savers, transferring national income from the uncomplaining to the militant. But after nine crunchy years fighting it, Mrs Thatcher's credit boom shows her risking sogginess today. Her desire to keep sterling floating rather than link it firmly to the D-mark is uncrunchy too, the Bundesbank being the crunchiest institution in a country that is becoming an object lesson in how wealth leads to sogginess. President Reagan? Crunchy, but with that sentimentally soft centre. Munchy, perhaps.

Whether in a person or a system crunchiness means decisiveness, unambiguousness and lack of self-delusion. It is a texture, rather than a value judgement. You may detest or admire *The Economist's* point of view, but you cannot accuse it of sogginess. Whether for good or for ill, societies are strongest when people are clear where they stand. Run your country, or your company or your life as you think fit. But whatever you decide, keep things crunchy.

The writer is business editor of The Economist

Islanders to fight Sunday ferry plan

AN ACTION group on Harris is to fight Caledonian Mac-Brayne's plans for Sunday ferry services next year linking Uig (Skye), Lochmaddy (South Uist) and Tarbert (Harris).

Mr John Murdo Morrison, a Harris hotelier and a member of the Harris Transport Action Group, said yesterday that it planned to express opposition to the Scottish Shipping Advisory Committee, which meets today to discuss Cal Mac's draft proposals.

He said that if the group got no satisfaction, it would contact MPs, Highland Regional Council, which owns Uig pier, and the Western Isles Council, which has already decided not to make available the council-owned pier at Lochmaddy for Sunday ferries.

It would also approach the Scottish Office and churches in Lewis and Harris, and appeal for public support.

"In addition, we will be writing to the Prime Minister who, in the case of the Falkland Isles, stated that if there were problems the wishes of the islanders would be paramount, and we would want her to apply the same analogy to the Western Isles."

Iran buys arms

Argentina is supplying Iran with a large quantity of arms, including rifles, mortars, personnel transport and munitions, estimated to be worth \$120m, writes Gary Mead in Buenos Aires.

Mr Jorge Carnelli, head of Argentina's state-owned arms industry said the delivery was the last of a series due under contracts with Iran.

Press Cuttings

from Broad Street Associates

FINANCIALTIMES

1 SEP 1988

ARGENTINE Government officials said they had secured a \$750m (£445m) loan from the World Bank.

Inside story

BRITAIN'S export of prison ships is proving no less controversial than its export of convicts to the colonies some 150 years ago.

No-one, it seems, wants the former Falklands Islands floating barracks *Bibby Venture*, which was converted last year into a gaol barge for the New York City Department of Correction.

The Bahamian-registered barge has been moored at Pier 36 on Manhattan's East River since last October, housing up to 386 inmates. But under an agreement with local residents who had fiercely opposed the prison ship location, *Bibby Venture* was due to leave that pier by yesterday.

An alternative location, at Pier 40 on the Hudson River, has been identified by the Department of Correction, which has chartered the Bibby-controlled barge for five years.

Not surprisingly, the residents there are less than enamoured with the prospect of sharing their riverside view with a boat load of convicts.

The city originally planned to moor the *Bibby Venture* permanently at Riker's Island, off the Bronx. However, it now says Riker's Island — which holds some 11,000 prisoners — is overpopulated and that Pier 40 was identified only after a long and thorough search for a suitable mooring close to Manhattan.

Pier 40 residents won't see the latest descendent of the River Thames estuary prison hulks just yet, however. The barge is due to be towed shortly to a local repair yard to make good damage done by an errant Greek tanker.

Press Cuttings

from Broad Street Associates **The Daily Telegraph** 1 SEP 1988

Penguin man

ON BOARD an RAF Tristar from Brize Norton tonight will be David Taylor, chief executive of the Falklands from 1983-1987, who has agreed to return to the islands to his old job.

Taylor is going back at the request of the Foreign Office, which needs someone to stand in while a full-time replacement is found for the outgoing chief executive, Brian Cummings. The job is highly demanding, likened to running a small country alone, but Taylor tells me he is looking forward to returning. A keen oil painter, he loves the Falklands countryside, and even admits to enjoying the islands' staple diet of mutton.

There is, however, a drawback. Labour is in such short supply that bachelor Taylor will have to do his own housework in the chief executive's official residence, Sullivan House in Port Stanley.

Record European Sales Aid VW Net

Reuters

WOLFSBURG, West Germany — Volkswagen AG said Wednesday that its earnings in the first half rose 2 percent from a year earlier, to 310 million Deutsche marks (\$166 million), as its sales in Europe rose to a record.

The automaker, the European sales leader, also predicted that its earnings for all of 1988 would be in line with 1987 results, when it posted group net profit of 598 million DM.

Group revenue in the half rose 5.2 percent, to 29.07 billion DM, from 27.64 billion.

The numbers matched a forecast by Carl Hahn, the management board chairman, at the company's annual meeting in June.

VW said its European sales rose to a record 611,412 cars in the half,

up 7.1 percent from the record set a year earlier. But sales in West Germany were 7.8 percent lower, a development the company said reflected production bottlenecks during the introduction of its new Passat model.

The carmaker said there was strong demand for its new Audi 80 and 90 models, as well as its Spanish-made SEAT Ibiza range in Europe. Italy, Spain and France were VW's most important markets in Europe, where the company is the market leader.

There was a decline in sales in the United States, where VW reported continuing tight competition and unsatisfactory sales of Audi models. Audi's U.S. sales have suffered because of negative publicity about a technical problem that has caused unintended ac-

celeration in Audi 5000s equipped with automatic transmission.

In Brazil, sales of VW models produced in Latin America by Autolatina, a joint venture with Ford Motor Co., rose 30 percent. But VW said sales dropped 17.5 percent in Argentina and Volkswagen do Mexico's sales fell 1.8 percent.

VW's investment spending fell to 1.68 billion DM in the half from 2.21 billion in the first half of 1987, which was dominated by the development of the Passat.

VW said investment in the half continued at a high level and was covered by an improved cash flow, which rose 13.8 percent, to 2.37 billion DM.

Sales and general administrative costs rose to 2.82 billion DM from 2.50 billion. Employment worldwide declined by 6.1 percent.

Frailty of Argentina Reform Bid Illustrated By Backlash to Sale of Airline Stake to SAS

By JUDITH EVANS and ROGER COHEN

Special to THE WALL STREET JOURNAL

BUENOS AIRES—When President Raul Alfonsin launched an ambitious program in 1986 to sell off state-owned enterprises, it was seen as a crucial test of Argentina's ability to revamp an indebted and inefficient public sector.

Since then, the government has failed this test. The economy has stagnated. And now, the state's first major sale, the proposed divestment of part of national airline Aerolineas Argentinas to Scandinavian Airline System, is embroiled in a controversy that seems likely to block it.

The dispute illustrates the difficulties of bringing structural change in many Latin American economies, where nationalism runs strong and vested interests tied to secure state jobs are entrenched. Meanwhile, heavy public-sector deficits continue to fuel high inflation. In Argentina alone, the 13 biggest state companies ran up a combined deficit of \$2.7 billion last year.

It was just two weeks ago, after months of negotiations, that the government announced that SAS had agreed to buy 40% of the heavily indebted Argentine carrier for \$204 million. Since then, the president of Aerolineas Argentinas has resigned in protest, the opposition Peronist party has made clear it aims to block the sale, a private group has presented a rival offer, and both the air force and labor unions have balked.

Even Odds at Best

"It's now no better than a 50-50 chance that the deal will go through," says financier Jorge Bustamante. Others are more pessimistic, pointing out that the Peronists have 22 of the 45 seats in the Senate and will almost certainly get the votes of a few other members. Both houses of Congress must approve the sale.

An air force report contends SAS isn't suitable because Scandinavian nations imposed sanctions on Argentina during the 1982 Falklands war with Britain.

For the government, however, Aerolineas Argentinas proves costly. With a staff of 10,000, it is \$800 million in debt and has recently suffered several damaging strikes. SAS, 50%-owned by the governments of Sweden, Denmark and Norway and 50% by private shareholders, is interested in the carrier for its South American routes.

The SAS bid has met objections of procedure as well as principle. Aerolineas Argentinas President Horacio Domingarena resigned, saying the company had been grossly undervalued and a tender offer should have been held for the sale.

Public Works Minister Rodolfo Terragno, who oversees the divestment of state companies, retorted that a public tender was unnecessary because Aerolineas was merely seeking a partner. Still, price remains a bitter issue. "Why has there been no open auction? This creates suspicions," says financier Daniel Precedo.

Suspicious Voiced

The suspicions have been voiced in the form of accusations of graft against Mr. Terragno and Mr. Alfonsin's Radical Party. Leading local businessman Enrique Pescarmona, who owns the country's other airline, Austral, has been vociferous in such accusations. He has put together a rival consortium known as Grupo Argentino. Despite a name designed to appeal to national sentiment, his consortium includes Alitalia and Swissair. He has said he will pay more than SAS, but can't say how much because, he says, Mr. Terragno is refusing information.

By the terms of the accord, the SAS pact must be ratified by Dec. 15, a relatively imminent deadline for Argentina's lumbering political mechanisms.



'NO CHARGE' PLEDGE FOR SURRENDER OF ILLEGAL ARMS

Police in guns round-up amnesty

TENS of thousands of lethal weapons, including trophies of war from the Falklands campaign, will be handed in at police stations across Britain today.

Home Secretary Douglas Hurd launched the first nationwide firearms amnesty for 20 years last night. It will run to the end of the month.

Anyone who hands in a weapon which is banned under the law can do so, without fear of prosecution. But failure could lead to penalties of up to three years in jail.

During the last amnesty, in 1968, 25,000 guns and 800,000 rounds of ammunition were surrendered.

The amnesty is linked to the new firearms law, banning the possession of automatic self-loading rifles and burst-fire weapons.

It was sparked by Michael Ryan's Hungerford massacre and other serious incidents.

Many of the firearms which can be handed in anonymously at police stations are likely to be machine-guns, handguns and rifles.

Among them Home Office officials are ex-

By PAUL WILENIUS

pecting a large number of weapons used by the Argentinians during the Falklands war and brought back by British Servicemen.

Mr Hurd said last night: "The use of firearms in crime is a threat which we cannot ignore.

"If a violent criminal steals your gun tomorrow, he could well use it the next week against an



Hurd: Warning



Ryan: Massacre

innocent citizen—perhaps in your own town or village."

He added: "We must do everything within our means to ensure that guns do not fall into the wrong hands."

Backing

A national propaganda blitz to make people aware of the amnesty will begin in the next few days with posters and TV and newspaper advertisements.

The Home Office will

be spending £500,000 on the campaign. The amnesty does not apply in Northern Ireland.

It has the full backing of Scotland Yard's acting Commissioner John Dellow. He said last night: "We all have a duty to ensure that guns do not fall into the wrong hands.

"If a criminal steals a gun from someone's home today it might just be any member of the public looking up the wrong end of its barrel tomorrow."

Argentina obtains pledge of \$750m loan from World Bank

A WORLD BANK delegation has left Argentina after spending almost three weeks in the country, with the promise, according to Argentine government officials, of a loan of \$750m.

At the same time a delegation from the International Monetary Fund is due to arrive this week to discuss Argentina's request for a new stand-by loan of \$1.2bn. Argentina's foreign debt currently stands at \$56bn, with repayments this year in the region of \$5bn.

Discussions with the IMF for a fresh loan have been in progress for more than two months. It is thought that any new loan is unlikely to be authorised before the next general meeting of the IMF, due to be held in Berlin at the end of September. Argentina is also hoping that it can persuade its commercial bank creditors to extend fresh loan of up to \$2bn.

The loans from the World Bank have yet to be authorised. They are reportedly intended for reform of the banking and foreign trade sectors of the Argentine economy.

At the beginning of August the US indicated its willingness to extend a bridging loan of \$500m to Argentina, coin-

cing with a visit by Mr George Shultz, the US Secretary of State. That bridging loan has yet to be confirmed. At the same time Mr Mario Brodersohn, the Argentine Treasury Minister, recently returned from a visit from Japan where it is understood he sought a loan in the region of \$1bn.

The IMF will undoubtedly take a close look at the mixed preliminary results of the new economic plan launched by the Argentine government at the beginning of August. The measures were designed to halt a spiralling inflation rate of 25 per cent (in July) and tackle public sector spending which, officially, wastes at least \$2bn annually.

Argentina's current wave of strikes and the success of some powerful trade unions in achieving wage increases above inflationary levels will give the IMF cause for concern over any new agreement for fresh financing. It will also be interested to learn details of various banking and financial scandals currently causing interest in Argentina. The most prominent concerns the Banco Hipotecario, a state-run mortgage bank which allegedly has failed to abide by normal banking regulations over loans made to individuals.

Government under pressure to give full details of IRA deaths

THE Government yesterday came under mounting pressure to disclose the full circumstances surrounding the shooting on Tuesday of three IRA men by Northern Ireland security forces, Michael Cassell writes.

Demands for an investigation into the deaths, near Omagh in an area close to where eight British soldiers were killed last month by an IRA bomb, came from Dublin, nationalist politicians in the province and Westminster.

Mr Tom King, Northern Ireland Secretary, faced calls to provide an early explanation of

the incident and to allay fears that a "shoot-to-kill" policy was being pursued by the security forces in the wake of the recent escalation in terrorist violence.

Mrs Margaret Thatcher, Prime Minister, questioned about Tuesday's shootings, said the security forces involved were operating within the law. In an interview in today's Daily Express she rejected suggestions that the Army was operating a shoot-to-kill policy.

Mrs Thatcher said that, as in the Falklands conflict, rules of engagement were laid down for

the forces to observe. "You obviously set certain criteria and let the people operate within them. Things happen quickly on the ground but that is what responsibility means."

The prospect of renewed strains in Anglo-Irish relations emerged last night when the Dublin Government requested an early meeting of the Anglo-Irish Conference to discuss the implications of the recent violence in Northern Ireland.

In a strongly worded statement, Mr Charles Haughey, Irish Prime Minister, and his Cabinet colleagues highlighted their "deep and anxious con-

cern about the deteriorating situation in the North of Ireland, and the grave danger it represents for all of the people of the community there.

"The frightening escalation in the level of violence undermines the very maintenance of the rule of law, and can only bring further divisions and tragedy for the people of the North," they said.

Last night's move is likely to advance plans for a conference session in the middle of September. The meeting could now take place within a week.

In west Belfast last night about three dozen vehicles

were set on fire. Gangs of youths swarmed the streets of Republican strongholds, hijacking and destroying vehicles.

It is widely accepted that the SAS orchestrated Tuesday's undercover operation. However, given the sensitive nature of covert security operations in Ulster, the British Government is not expected to accede to any demands for a disclosure of events surrounding the shootings.

Yesterday, there was no comment on the latest incident from the Northern Ireland Office, where ministers are

engaged in a review of security tactics designed to improve the effectiveness of the fight against the IRA.

In a potentially important breakthrough for the Government's counter-offensive, West German border guards yesterday arrested two heavily-armed suspected IRA terrorists after they had driven into the country from The Netherlands through a remote border crossing near Aachen.

The arrests follow recent moves by the IRA to step up its campaign against British military personnel on the Continent. West German police believe the latest arrests may have prevented another attack on a British base.

There was further violence in the province yesterday, when an elderly man and woman were killed by a bomb in a flat in the Republican Creggan area of Londonderry. The IRA later admitted that it had been intended for an army search squad.

Before last night's statement Mr Haughey asked for a report on Tuesday's deaths through the Anglo-Irish secretariat in Belfast. His request was immediately attacked by unionist politicians, who welcomed the outcome of the Omagh operation and accused him of interfering in British affairs.

The Rev William McCrea, Democratic Unionist MP for Mid-Ulster, said it was "sheer hypocrisy" for Mr Haughey to demand a report from the British Government. Mr Haughey had not demanded a report into the recent murder of eight British soldiers, he said.

In London, Mr Jim Marshall, a Labour spokesman on Northern Ireland, wrote to Mr King asking him to make clear whether or not the SAS had been involved in Omagh.

Mr Marshall said it was important to establish whether the deaths were unavoidable and consistent with the use of minimum force by security forces.

Mr Paddy Ashdown, Social and Liberal Democrat leader, also called for a full explanation to allay fears of another "shoot-to-kill" controversy.

The IRA said yesterday that the men killed on Tuesday - brothers Martin and Gerard Harte and their brother-in-law Brian Mullen - had all been on "active service."

One of them had been questioned by detectives investigating the IRA coach bomb blast near Ballygawley on August 20, in which eight British soldiers died. The Royal Ulster Constabulary regarded all three as active terrorists who had carried out numerous attacks on security forces.

The RUC refused to elaborate on its statements that the men had been killed when "soldiers encountered armed men in a vehicle and opened fire." Two rifles were recovered from the scene.

Any SAS officers involved in Tuesday's shooting were almost certainly out of the province within hours.

Modular freezer in Falklands ship

THE newly-converted Falkland joint venture trawler *Mount Challenger* has been fitted with a self-contained modular freezing system and cold store designed to handle 51 metric tons of fresh fish a day.

The fresh fish trawler has been successfully converted into a freezer for catching and storing squid and hake.

Her six freezing units were supplied and installed by the Hull, England, based Marine and Industrial Refrigeration (Yorkshire) Ltd. (MIR) in two weeks. The cold store installation took just under four weeks.

"The expedited installation of the freezing system is a testimony to the quality of our products leaving the factory," said Roger Stow, managing director of MIR.

"Repeated in-house testing ensures the product is right before delivery to the customer, resulting in cost savings for the trawler convert."

MIR was contracted by Tyne Dock Engineering for the project and worked in conjunction with Seaboard Offshore, which is behind the Seamount joint venture with the Falklands.

The six 8/12 freezers run on three-phase and jointly

The newly-converted *Mount Challenger* is fitted with a self-contained modular freezing system and cold store from MIR of Hull.

absorb a maximum of 120kVA. The MIR system is claimed to use one-third the fuel and energy consumption compared to conventional systems.

"This results in a plant room saving of around £10,000 a freezer unit a year," Mr. Stow told *FNI*.

The fish are packed in trays after being washed and then covered in a polythene film. The trays are loaded in one side of the freezer while, simultaneously, frozen fish are removed from the other side resulting in a continuous work flow.

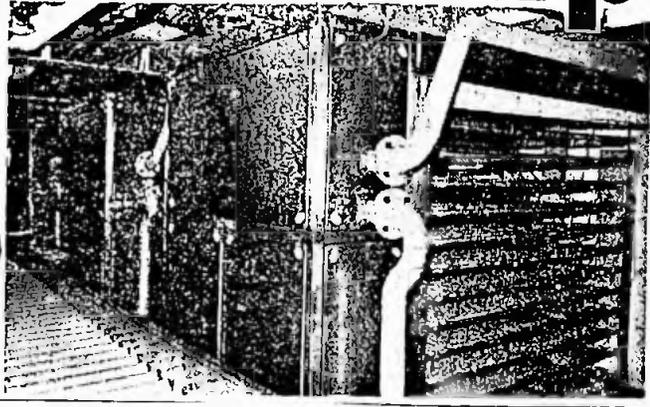
Frozen

Frozen fish are then removed from the trays and put into the cold store which maintains -25 deg. C temperature.

MIR is planning to arrange for on-site service in the Falklands as it now has machines in five vessels and two in a shore-based crab factory in the Falklands.

Conversion of the *Mount Challenger* was carried out simultaneously with the major refit of the trawler *Mount Kent*. This conventional system refit involved five horizontal and two vertical freezers on to the existing trichlorethylene pump circulation freezing system.

In contrast to the *Mount Challenger*, this conventional installation took three months to complete.



4 Fishing News International — September 1

UK fleet must be smaller

FLEET FROZEN was the headline in our sister paper *Fishing News* early last month when it reported that the UK ministries responsible for fisheries had banned all transfers of pressure stocks licences to vessels of a greater tonnage or engine power than the vessel giving up the licences.

Also banned was any increase in the tonnage or engine power of a currently licensed vessel.

The ban had immediate effect and remains in force until new licensing rules are brought in following discussions with the fishing industry.

A consultative document has been issued by the ministries to the industry. It details four alternative methods of tightening up licensing and licence transfers. The industry has until September 21 to respond to the proposals.

Tighter controls of the UK fleet are necessitated by the requirement to reduce its size under EEC guidance figures.

By the end of 1991, the UK must reduce the tonnage of the fishing fleet from 163,410 tons in 1987 to 147,268 tons. And engine power has to go down from 840,982 to 773,456 hp.

Pollack moves into the cod markets

AS WE report on the following pages, the 1988 Nor-Fishing exhibition set new records for this two-yearly event in size and support from exhibitors.

It was, as usual, very well promoted and organised, reflecting the considerable experience in running exhibitions of the Norwegian Trade Fair Foundation, which handles Nor-Fishing under contract to the Ministry of Fisheries and the Directorate of Fisheries.

This time, the show took place in the newly extended Nidaros Halls, which the city of Trondheim developed to provide for exhibitions which include Nor-Fishing and the big alternate year show, Aqua Nor.

Unfortunately, like Nor-Fishing, it will suffer from the constraint which a relatively small city like Trondheim must impose on events that for a short period demand far more than it can comfortably provide in accommodation and other amenities for visitors.

But this should not detract from the obvious success of its two great fishing industry shows.

Nor-Fishing 1988 took place as the industry faced two difficulties which may cut its profits in the immediate future and also threaten long-term development.

The first, as we reported last month, is the decision by the Norwegian and Soviet fisheries ministers to reduce this year's Arctic cod quota in the Barents Sea by 22 per cent. It is a drastic step made necessary by evidence of a fall in the cod biomass.

As we were told by Odd Nakken, head of fisheries research in Norway,

the fish in only a few years have so decreased in size, that a five-year-old cod that once weighed around two kilos now weighs only 0.8 kg.

This could reflect overfishing, but it is also an indication of the interaction of species. In recent years, the fall in the capelin stock has deprived the cod of one of its main sources of food.

Cod in the Barents Sea are going hungry and many more fish have to be caught to make up the tonnage in the quotas. This could lead to serious depletion and the cuts in 1989 may have to be even more severe.

Paradoxically, Norwegian processors deprived of cod in August had a surfeit of frozen fish they had been unable to sell at the prices demanded. During Nor-Fishing, there were reports of overstocked cold stores and of workers being laid off.

High prices were blamed by some for this glut of frozen fish. It was said that the high cost structure of the Norwegian industry, which goes all the way along the supply line to the catchers and their agreed raw fish prices, has this year soared beyond what the market is prepared to pay.

Another factor, however, appears to be the increasing supply of Alaska pollack, both in the US market and now also in Europe.

Alaska pollack, both in the North Pacific and Bering Sea contributes around six million tons a year to the world catch, but most of it is processed into surimi for the preparation of kamaboko and other fish protein products.

However, surimi seems to have peaked and a number of the large new processing trawlers moving into the United States Pacific fleet are now concentrating on frozen fillet blocks.

At a crowded press conference during Nor-Fishing, Norway's fisheries minister mentioned Alaska pollack as a factor in the over-supplied frozen fish markets, and said it was depressing prices.

The Barents Sea quota cut may reduce catches enough get the frozen stocks moving again. But it does look as if Alaska pollack is now a species to be considered in any future assessment of frozen white fish supplies in world markets.

comment

A catch he can keep

A FISHERMAN'S bride, smuggled into Taiwan aboard a fishing boat, has become the first illegal entrant from mainland China to be allowed to remain in Taiwan in recent memory.

When the Tungking-based fishing boat aboard which Tsao Ting-ming (28) was a crewmember paid an illegal visit to China's Hainan island last March, Tsao met and fell in love with sixteen year old Man Men-ying.

Evidently finding Tsao to her liking, Miss Man agreed to return to Taiwan with him and sneaked ashore once his boat arrived home.

The new bride could not be kept hid-

den for long, however, and when rumours began to spread in mid-April, Tsao went to the local police headquarters and confessed what he had done.

Miss Man was immediately arrested for deportation. Officials of the Taiwan Garrison Command, which until the lifting of martial law last year virtually ruled the island, demanded her deportation as the current law states that no mainland Chinese resident can enter Taiwan without first living for five years outside mainland China.

But a sympathetic judge ruled that the law does not apply to Miss Man as she is a minor, thus clearing the way for her to remain in Taiwan with Tsao.

SURIMI GIANT PROCESSES NZ HOKI

NEW Zealand got a look at high-powered Japanese fishing in July when the giant factory trawler *Akebono Maru No. 77* called at Auckland. She is one of a fleet of New Zealand and chartered joint venture ships working the hoki grounds off the South Island.

Later she moved further south to catch southern blue whiting. Both hoki and blue whiting have the properties necessary for the production of high-grade surimi, and this is where the *Akebono Maru No. 77* comes in.

She is probably the world's most modern sea-going surimi factory, with the complex process computer controlled and almost automatic from the time the net spills fish into the bins until wrapped blocks of frozen product are conveyed into the hold.

A processing trawler is considered exceptionally large when she is between 90 and 100 metres long. This Japanese vessel is 118 metres long with a breadth of 18 metres.

She carries a crew of 76 and is powered by an engine of 8000 hp. Also in her power plant are two generator sets driven by 1500 hp diesel engines, and generators driven off the main engine.

The 3800-ton ship has accommodation for a crew of up to 76. She was built by the Shimonoseki Dockyard of Mitsubishi Heavy Industry and was delivered to her owner, Nichiro Gyogyo Kaisha, at the end of 1986.

Her main engine is a Mitsubishi MAN Model 6L58/64 of 8100 hp. There are three Taiyo 1247 kVA generator sets, two driven by 1500 hp Daihatsu diesels and one from the main engine.

When she was in Auckland, *FNI* correspondent Jim Campbell visited the ship, with other members of the New Zealand fishing industry.

"We were", he writes, "very pleased to see Nobuyoshi Takeuchi, now a senior director of the Japanese owning company and general manager of its North American operations.

"He found many old friends among the NZ fishing community because in 1964 he was one of the leading members of a Japanese delegation which came here to give demonstrations of various methods which could be adopted by the developing New Zealand fishing industry.

"Since then, he has been a frequent visitor, especially during the past few years when his company has had a joint venture in which two of its trawlers work in NZ waters."

But, while Japanese surimi processors continue to thrive on stocks of Alaska pollack, and now on other species considered suitable for the meticulous requirements of the trade, other later entrants have been having problems.

From the Faroe Islands comes news of further difficulties for owners of some very large trawlers converted a few years ago to produce surumi from blue whiting.

A former Italian trawler, the *Olaf i Gardastovu*, was sold recently to South Korea. This ship has been through two sets of owners and two conversions since coming to Faroe in 1983, and is believed to have been sold at a price well below her earlier value.

Also having problems is the trawler *Andrias i Hvannasundi* and a similar ship, which were both reported to be up for sale.

Meanwhile, earlier this year a French project in the port of Lorient was taken a stage further with the opening of a surimi line, using local fish.

The product is reported to be very white and suitable for the making of crab sticks.

The company SCOMA is associated with two other local co-operatives.

Its manager Patrick Andrier sees a future for surimi beyond the more traditional Japanese uses and processing crab sticks, which accounted for much of the 2700 metric tons imported by France in 1987.

He expects other, darker coloured fish flesh to widen the range of products.

A wheel

FALKLANDS

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HULL DAILY Mail

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REGION
10

- 1 SEP 1988

Ferry plan: Hull link

A HULL shipping group is at the centre of plans to introduce a ferry service between the Falklands and South America.

"The Indiana" is currently being converted in Albert Dock for its new role.

It is owned by a consortium of South Atlantic fishing fleet owners and will be managed by J. Marr Shipping Management Ltd.

The vessel — built in France in the early 1970s — will operate as a passenger-carrying roll-on, roll-off ship.

Route

Her likely major route will be between Montevideo, Uruguay and Port Stanley.

A company spokesman said it was not known when the Indiana would be heading for the South Atlantic.

MoS libel appeal date

THE *Mail on Sunday's* appeal against a High Court jury's award of £260,000 libel damages to Narendra Sethia, a lieutenant on HMS *Conqueror*, the submarine which in May 1982 sank the Argentine cruiser *General Belgrano* during the Falklands conflict, is due to be heard in the Court of Appeal on Monday November 21.

Sethia, now living in the West Indies, successfully claimed in last November's hearing that a 1985 *Mail on Sunday* article had libelled him by suggesting he was about to be prosecuted for stealing a vital log book from the *Conqueror*.

The newspaper's appeal before three judges is expected to last a week.

31 OCT 1988

Press Cuttings

from Broad Street Associates THE  TIMES

Argentine debt

Debt talks are expected to resume today between the Argentine government and its commercial bank advisory committee. Argentina is expected to ask foreign banks for some \$3 billion (£1.68 billion) in new loans.

Press Cuttings

from Broad Street Associates

FINANCIAL TIMES

Where presidents meet to produce fine phrases

Gary Mead observes the Group of Eight at work

THE URUGUAYAN beach resort of Punta del Este is dead for nine months of the year.

A playground of jetset Argentines, it mutates into an outpost of Buenos Aires between December and March. At other time, it is definitely not the place to be seen. Or at least it wasn't until last weekend, when seven Latin American presidents, and their outsize entourages, invaded it.

They were there to stage the Second Meeting of the Permanent Consultative and Political Agreement Body, otherwise known as the Group of Eight.

The group likes out-of-season resorts. Its inaugural meeting a year ago was in Acapulco, Mexico, where Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay and Venezuela agreed that "peace, democracy and development" should be at the heart of their relationship, now that they were all democracies.

Panama has since fallen by the wayside, as a result of General Manuel Noriega orchestrating the downfall of President Eric Arturo del Valle. Its membership suspended until it returns to the Acapulco norms, Panama was, by mutual if unstated agreement, a non-country this time.

It still had its symbolic place. In the huge, echoing school gym where the seven presidents sat to announce their "Uruguay Declaration", a large motif of the group hung from the wall behind them: a blue circle with eight, not seven, sheriff-badge gold stars.

The same sense of unreality pervaded the declaration itself, which will be recalled for its failure to break out of several vicious circles bedeviling Latin America.

It says precisely nothing new, and that in itself may be a clue to the nature of Latin America's problems.

Of the issues on the agenda, the seven countries' combined foreign debt of \$420bn (£237bn) was uppermost in their minds. But no new initiatives were announced, nothing beyond a repetition of the complaint that

this cannot go on, and an announcement that the group's finance ministers will meet before the end of the year in Rio de Janeiro to discuss the problem further.

The opening statement of the declaration speaks of the good news of superpower disarmament - good news for the group in that the resulting cut in arms expenditure "could release an extraordinary mass of resources which could be applied to the creation of a

There are no threats, no concrete suggestions to solve the debt crisis

new and more socially just world order."

Cynics might feel uneasy at the hardly hidden hint that the solution to a \$420bn debt is to add a little more to the pot.

The group promised a "new dialogue" with industrialised nations, "in the search for a more equitable system of international relations."

These problems relate to what the declaration says is the net transfer of \$100bn from the region, in the form of debt repayments, in the last five years.

The group says that "each of our countries has put into practice profound economic reform programmes" but "we have not seen a corresponding effort on the part of developed countries". In other words, we have done our bit - now it's your turn.

The declaration accuses developed countries of protectionism, and international institutions such as the International Monetary Fund - although not named - of providing "inadequate and contradictory" measures, making economic control difficult at an "extremely difficult juncture".

But there are no threats to do anything - apart from holding the Rio conference and the third Group of Eight meeting in Peru next year. Of concrete suggestions for solving

the debt crisis, not a whisper. Uruguay's President Sanguinetti is solicited to write to French President François Mitterrand, thanking him for his recent suggestion that an answer to the debt crisis must be found.

On other issues, such as Ecuador's application to join, regional problems with drugs, AIDS or the destruction of the environment, either silence (over Ecuador) or impressive phraseology. All the resolutions for action promise closer economic, communications, cultural, and social co-operation; and those puddings have yet to be swallowed.

Given that three of the group - Argentina, Brazil, and Uruguay - face tough presidential elections next year, and Mexico and Venezuela will soon have new presidents, it is perhaps not surprising that so little was achieved.

But perhaps the most important thing was the public testimony that these historically hostile countries still prefer to slap rather than stab each other's backs.

Press Cuttings

from Broad Street Associates **The Daily Telegraph**

31 OCT 1988

Latin plea

SEVEN Latin American nations intend seeking urgent talks with the next United States administration on debt, drugs and economic development.

The presidents of Argentina, Brazil, Colombia, Mexico, Peru, Venezuela and Uruguay say the developed world will be asked to help them to reverse the decline in economic growth suffered in the 1980s.

Argentina faces new debt obstacle

Jeremy Morgan
in Buenos Aires

ARGENTINA still faces difficult debt talks even after World Bank approval of a \$1.25 billion package last week, bankers here warn.

Argentina expects the World Bank decision will quickly unblock a \$500 million bridge loan pledged by the US when Argentina adopted a new anti-inflation programme in August.

Reports from Washington suggest the British Chancellor of the exchequer, Nigel Lawson, argued at the World Bank meeting last Thursday against the credit, and that he voted against the majority decision. West Germany, which also had doubts about Argentina's economic policies, voted in favour but apparently only after expressing major reservations.

Argentine officials earlier said world bank approval would trigger a \$150 million payment under the bridge, supported by the US.

But bankers here question whether Washington will disburse payment before the US presidential vote. "Nobody wants to draw attention to Latin American debt before then," said one banker, adding this was not the only obstacle.

Other creditors want to keep the pressure on Argentina. President Raul Alfonsin's economic team has yet to agree with the International Monetary Fund on terms for a new standby loan accord, also for \$1.25 billion, and is at odds with foreign banks over a proposed "fresh funds" new loan deal.

New Deal On Debt Is Urged

Latin Americans Want U.S. Talks

By Eugene Robinson

Washington Post Service

PUNTA DEL ESTE, Uruguay — Seven Latin American leaders, concerned that an acute economic crisis threatens their young democracies, called Saturday for a new deal on the region's \$420 billion foreign debt and urgent talks with the next U.S. president.

In their most pessimistic assessment to date, the leaders, known as the Group of Eight, said that the "grave problems" of debt and unfavorable conditions of international trade "endanger political efforts to consolidate democracy."

Their declaration followed a three-day summit meeting here.

The presidents said they would send their finance ministers to a meeting in Rio de Janeiro later this year to develop new proposals for reducing debt repayments.

The seven leaders are Raúl Alfonsín of Argentina; José Sarney of Brazil; Virgilio Barco Vargas of Colombia; Miguel de la Madrid of Mexico; Alan García Pérez of Peru; Julio María Sanguinetti of Uruguay; and Jaime Lusinchi of Venezuela.

Panama, the eighth member nation of the group, was not invited to this year's meeting.

"It is our intention to initiate a new dialogue with developed nations in the search for a system of more equal relations," the presidents said in a communiqué. They said they want to begin the talks by speaking with the United States, and Mr. García made clear that they expected to talk with the new U.S. president next year.

Latin American countries owe a total of \$420 billion to banks and international organizations; the seven owe \$335 billion of that total.

The debt has virtually strangled the region's economies, creating frustration and anger in countries where most people's living standards are declining.

In servicing its debt since 1982, the region has exported a net \$150 billion of capital.

Press Cuttings

from Broad Street Associates THE  TIMESLatin American summit**Plea for 'fairer'
links with US**

From Michael Llanos, Punta del Este, Uruguay

Latin American leaders, meeting as the Group of Eight, agreed over the weekend to seek a "super-summit" with the next President of the United States and to convene their economic ministers this year to discuss ways of reducing the region's \$420 billion (£247 billion) foreign debt.

The presidents represented Argentina, Brazil, Colombia, Mexico, Peru, Uruguay and Venezuela. These countries, plus Panama, founded the Group of Eight, which held its first presidential summit last year in Mexico.

The group agreed here to meet next in Peru in the second half of 1989. Panama withdrew from the group last



**President de la Madrid:
Priority to development.**

February, following pressure on it to hold free elections.

Although covering issues such as drug trafficking and the environment, the summit focused on relations with the US and other industrialized powers. It made economic development a priority over repayment of the region's debt. The seven countries represented here hold \$340 billion of that debt.

In their final declaration, the presidents proposed a new dialogue with industrialized nations aimed at creating "fairer international relations". They suggested new talks with European Community members.

The US received a special mention. Relations between Latin America and the US were at "the stage of challenges". The presidents called

for an immediate dialogue with the US in order to work out different interests and perceptions which have blocked "broad and fair co-operations".

President Garcia of Peru later said that the group would like to meet with "whoever wins the US election as soon as he takes office".

President Garcia, President Alfonsin of Argentina and President de la Madrid of Mexico were the most adamant in their opening speeches on fostering "a new relationship".

Brazilian sources said the presidents were looking for a super-summit where Latin America would be accepted as "a bloc seeking integration and unity". In the past the United Nations has expressed reservations about the group, suggesting it was moving away from the traditional framework for relations.

The declaration noted that the "few advances" involved the debt problem. Although the Presidents offered nothing new, they announced that their economic ministers would meet this year in Brazil to "propose means of reducing the debt and increasing the flow of financial resources necessary for the development" of their countries.

President Sarney of Brazil appeared to be the driving force behind the ministerial proposal, with Senhor Mailson de Nobrega, his Finance Minister, angering other delegations by leaking the announcement before schedule.

Creditors have shown concern over these regional efforts to tackle the debt problem. But Senhor de Nobrega emphasized that the group was not seeking to create "a debtors' club" and that negotiations would continue on a country-by-country basis.

Doubts remained, though, as to the long-term stability of the Group of Eight. President de la Madrid and President Lusinski of Venezuela have just a few months left in office. Whether their successors continue backing the group will be a key test of its resistance to changes in government.

Tory fury over 'warts-and-all' war paintings

FALKLANDS ART SHOW IS INSULT TO OUR HEROES

MP calls for boycott

by ALWYN THOMAS

A CONTROVERSIAL Falklands War art exhibition was last night branded an insult to Britain's fallen heroes.

Tory MP Geoffrey Dickens slammed the warts-and-all show as a "slur" on the memory of brave men like Colonel H. Jones VC, who died in a hail of bullets as he stormed an Argentinian machine-gun nest.

"An exhibition like this can only bring more heartbreak to the many bereaved in this country," he said. "It is inconsiderate and insensitive".

The show, which opens at Manchester City Art Gallery in December, contains several satirical postcards and cartoons critical of the war.

One mocks the famous World War One recruiting poster, Your Country Needs You.

Rubbish

It carries the message over a picture of a penguin wearing a Union Jack vest. Another postcard depicts a DIY Sidewinder missile.

There are collages, put together by Falklands veterans, which graphically depict the bloody battles and events like the sinking of the Argie warship, The Belgrano.

Organiser Tim Wilcox admitted the exhibition might upset some people.

"I would expect some criticism," he said. "If someone didn't criticise parts of it, I would regard



Colonel H... victim

the exhibition as pretty bland.

"I feel the critical aspect is more than balanced by the rest of the exhibition and we have tried not to upset people who lost relatives in the war."

But Mr Dickens urged people to snub the exhibition.

"An exhibition like this is not worthy of an excellent gallery and I hope the public stay away in droves."

The Stars Says — Page 8

PIT HORROR

SEVENTEEN miners have been killed in an underground explosion at a coalmine in north-east China.

DAILY
STAR

**Don't mock
our heroes**

THE Falklands war was a brief, bloody chapter in Britain's military history.

But it was one of our finest hours.

We sent a Task Force 8,000 miles to do battle in one of the world's most inhospitable regions, against a determined enemy dug in for a siege.

And we won a famous victory.

Now, six and a half years later, Manchester's City Art Gallery is mounting an exhibition to commemorate the Falklands.

But it is tainted with needless nonsense. With works that poke fun at our brave lads, belittling the blood that was shed.

Why? Just because the organisers want the exhibition to be "controversial," to gain cheap publicity.

They don't seem to care about the widows and children who still grieve for more than 225 British dead. They don't seem to give a hoot about heroes like Colonel H who sacrificed their lives for their comrades, or the men who were hideously burned on the Sheffield and the Galahad.

The City Art Gallery must remove this offensive trash. We don't want to look at penguins decked out like Kitchener, or silly postcards showing "DIY" missiles.

We want an exhibition that does honour to those who fought and died to give the Falklanders a precious gift:

THE RIGHT TO BE BRITISH.

Alfonsin dances a Peron tango

by Maria Laura Avignolo
Buenos Aires

SOME fled in terror, but President Raul Alfonsin found time to tango last week when a skeleton stepped out of the political closet. Isabel Peron, the widow of General Juan Peron, was back in town.

Her return from exile in Spain stirred memories of the nightmare that started when Peron died 14 years ago. Current leaders of the Peronist movement — who regard her as a historical embarrassment — boycotted her arrival. But Alfonsin, whose Radical party faces an election battle with the Peronists early next year, stepped into the breach.

Alfonsin, whose popularity rating is not what it was when he was elected in 1983 — he has been plagued by intractable economic problems — has launched what Americans would call a negative election campaign, playing on people's fears of, at worst, a return to the turbulent past under Peronism and, at best, an uncertain future governed by a splintered organisation whose factions reach into all extremes of the political spectrum.

For Alfonsin, the negative effect of this Peronist ghost from the past was too good to be true. He rolled out the red carpet and invited her to dinner — a shrewd move if the sceptics are to be believed.

They calculate that each day Isabel Peron stays in Argentina costs the Peronist party 100,000 votes. They suggest

her visit was engineered by the Radicals as a subtle ploy to embarrass the Peronists who, if opinion polls are anything to go by, have a slight edge over Alfonsin.

Argentines remember Isabel as a whimsical woman with an interest in the occult who was the most unsuitable person ever likely to become president. By the time she was booted out by the army in 1976 and locked up in Patagonia, Argentina had sunk into anarchy. Daily kidnappings, bombings and bank raids made Buenos Aires more like Beirut and people blamed Mrs Peron.

Even those who once stubbornly supported her presidency are finding it politically expedient to give her the cold shoulder. Carlos Menem, the controversial Peronist presidential candidate — who has pledged to expropriate British-owned ranches if elected — could barely disguise his irritation at her untimely apparition: "Mrs Peron knows nothing of politics," he snapped.

The key to her 15-day visit seems to be money rather than politics. Legal authorities have ordered her to pay £4m to the sisters of Peron's previous wife, Evita, a sum Peron had bequeathed to Evita's family when she died.

Isabel is willing to hand over the money as soon as the state hands over £4.7m, which she was awarded by a court in compensation for property confiscated from her by the military when she was ousted.

Latin American plea on debts

By Gary Mead in Punta del Este, Uruguay

FOREIGN debt worries and Latin American economic integration dominated the Second Meeting of the Group of 8, the Organisation of eight Latin American states, which ends today, at the seaside resort of Punta del Este in Uruguay.

While none of the heads of state proposed a repudiation of the region's \$420bn (£237bn) debt, all called on their creditors to develop a means of reducing the burden and all alleged that West European and US protectionism was hampering the region's economic development.

Seven of the member country's presidents - those from Argentina, Brazil, Colombia, Mexico, Peru, Uruguay and Venezuela - met for almost three days in closed session, and are expected to release a joint statement late today. President Manuel Noriega of Panama was absent, as his country's membership is temporarily suspended.

Formed a year ago in Acapulco, Mexico, the Group of 8

aims at strengthening regional peace, development and democracy. Those issues dominated the proceedings.

However, underlying the conference was a clear determination to try to present a united front against what is clearly regarded as less than sympathetic US and West European political and economic dominance and protectionism. To that end foreign and economic ministers from all the Group, except Panama, were also present at the conference.

President Raúl Alfonsín of Argentina set the tone by saying Latin America was now in the midst of "the most serious economic crisis in all its history".

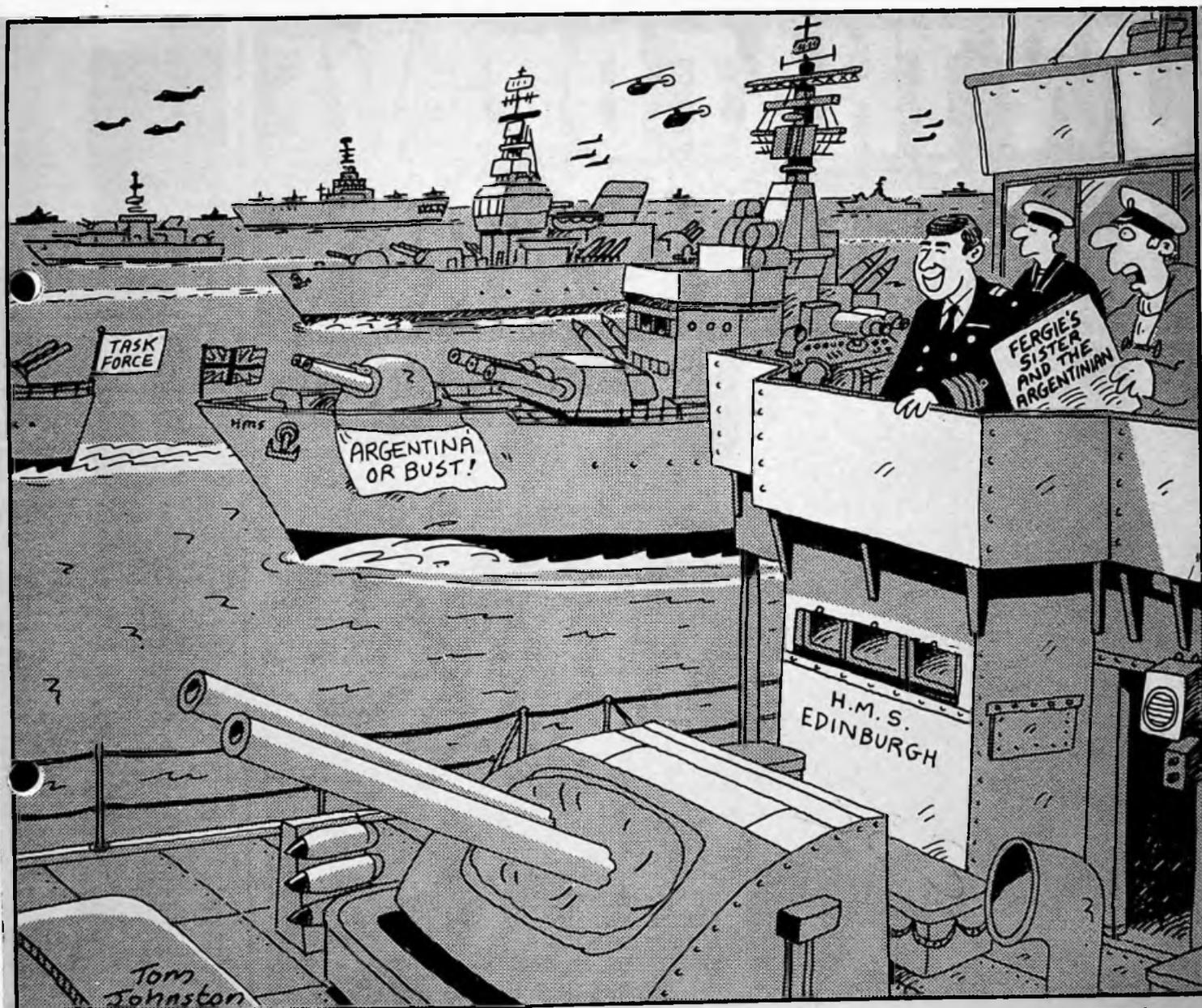
He said industrialised nations optimistically pointed to their own growth without inflation for the last six years, "but those same six years formed the most dramatic in our region," adding: "That gap has worsened and is insupportable."

While calling for a "new dialogue" with the US and industrialised nations, Mr Alfonsín added: "We repudiate the vision of a world integrated economy which relegates us to the margin."

President Miguel de la Madrid of Mexico added weight by saying: "The effort and sacrifice of Latin America's people has not met with fair reward."

The phrase "the lost decade", in reference to Latin America's economic development, was on several presidents' lips, with the clear implication that this was the responsibility of foreign creditors.

President Alan Garcia of Peru highlighted the conference's concerns by saying the "norms and theories of the International Monetary Fund" had exhausted themselves, adding that the IMF was "blocking the possibility of a reconstruction of the international economic system" - a complete reversal of the IMF's founding principles.



"I STILL THINK IT'S A BIT MUCH JUST BECAUSE OF AN ARGIE POLO PLAYER!"

Loan package for Argentina expected

By Stephen Fidler, Euromarkets Correspondent

THE board of the World Bank was yesterday scheduled to give formal approval to \$1.252bn in loans for Argentina, the largest loan package ever approved by the bank in one session for a single country.

The meeting was taking place as an International Monetary Fund team was in talks in Buenos Aires over a standby financing programme. An IMF official was present at the Bank meeting yesterday.

A row over the loans blew up at the IMF-World Bank annual meeting in West Berlin last month, when the bank was accused of pre-empting the fund, traditionally the leading institution in working out packages for indebted countries, in proposing the loans.

There is also scepticism that Argentina, which has a poor record in meeting loans from the institutions, will be able to

meet the terms and conditions of the loans.

The financing comprises \$700m in two fast-disbursing sector loans, of which only \$150m will be disbursed immediately under a trade sector reform loan, and a further \$552m in project and investment finance. A \$300m housing project loan will be disbursed over five years and a \$252m power sector investment loan over two years.

A further \$150m of the trade loan and \$200m of a banking sector reform loan will be disbursed in January, but only after certain economic conditions have been met. By this time, officials hope an IMF programme can be in place, which they believe will offer further support for the credit.

The bank is stressing that it considers the fund's participation critical in the resolution of Argentina's problems.

Shy watchdog ponders the world's bad debtors

Stephen Fidler looks at the work of ICERC

IN Washington this week, nine bank regulators with power to force banks to write off bad debts have been discussing how US banks should be evaluating their loans to developing countries. In about four weeks, the results of the deliberations will be sent out to banks across the US. Bankers will be told not to disclose the decisions.

This body - the Interagency Country Exposure Review Committee - is little understood even inside the US. This is partly a consequence of the committee's own desire for secrecy, fostered by the realisation that its decisions can have political consequences far beyond their direct implication to banks.

For example, at this week's meeting ICERC is scheduled to discuss Argentina, in arrears of more than \$1bn (£570m) to commercial banks dating back to April, which is trying to put together a package of new financing from creditors.

If ICERC were to force banks to write off a portion of their Argentine exposure, the likelihood of bank participation in the financing - difficult enough to put together anyway - would be much reduced.

If the Argentine Government failed to extract finance from foreign creditors, some in Washington argue that this could bury the ruling Radical Party at the Argentine presidential elections, to be held next May.

Most bet that, partly for this reason, Argentina will be downgraded by ICERC to "sub-standard", a classification that will not necessitate compulsory write-downs.

The regulators agree that the boundaries between the various categories are fuzzy, but

argue that they should be. "We're dealing with real-life situations here, not some kind of academic exercise," said one of them.

ICERC was established in February 1979 to resolve the inconsistencies in the treatment of loans by different supervisors. Formalised by legislation in 1983, it meets three times a year, in March, June and October.

On it sit three representatives each of the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Federal Reserve.

The chairmanship rotates - the current chairman is Mr Leon Tarrant of the OCC - and decisions are made on a simple majority vote.

Although it is an issue on which the regulators will not comment, the FDIC representatives are reputed to take the "hawkish" line, as would be expected from the insurance agency, and the Fed the softest.

The committee is rarely publicly criticised by bankers, although it was regarded by some as too quick in downgrading Polish debt a few years ago. Generally, it views itself as a follower rather than a leader, there to corral the stragglers. If it makes a decision which means banks writing down debts, most banks will probably already have done so.

However, it does not escape criticism from Congressmen who believe it to be too soft on the banks. A report from the General Accounting Office assailed it for, among other things, not paying enough regard to the secondary market in Third World debt, where loans often trade at a much

deeper discount to face value than implied by ICERC's directives.

Most regulators do not have much time for that argument. Market volume is low and prices, driven by a multitude of special factors, such as the availability of debt-to-equity swaps, are not representative of the value of the loans.

At a typical meeting, 15 to 18 countries are on the agenda. The categories start with strong, moderately strong and weak, all of which imply no imminent debt service problems.

The next grade down, known as Otrip (Other Transfer Risk Problems), is reserved for loans for which debt service problems appear imminent, or which are moving up from a lower grade.

Below that, when among other things there are arrears and there are no International Monetary Fund loans or other economic programmes in place, loans are classified as sub-standard, but still no reserves are required. Only in the classification below that - Value Impaired - is the provision of what are called Allocated Transfer Risk Reserves required.

Usually, a reserve of 10 per cent is required at first, and if the position has worsened subsequently, that will be increased by a further 15 per cent after one year, and more thereafter.

When reserves are increased to 100 per cent, the loans are described as a loss: an unbankable asset. Around a dozen countries are defined as sub-standard, eight thought to include Peru, Zaire, Sudan and Poland are value-impaired, and one - thought to be Nicaragua - is defined as a loss.

Rotten eggs

■ Ornithologists visiting the Falkland Islands have been horrified to discover that one component of the local diet is penguin eggs: pleasant

enough to eat, though the whites stay translucent when you fry them.

Consumption offers no threat to the survival of the species. Indeed, the birds probably outnumber the islanders by 100 to 1. But to the "twitchers" (birdwatchers) a penguin egg is an object of scientific study, not an item on the luncheon menu.

This has created problems for Graham Bound, the head of Falklands Tourism, who is very keen to attract ornithologists and has adopted the slogan: "The Falkland Islands - where nature is in charge." He wrote an article in the local newspaper, which is called Penguin News, advising that the "outdated" custom of eating the eggs be given up.

That in turn has generated a barrage of local criticism. The Falklanders will not change their ways.

Maggie can still outwit the schemers

JOURNALISTS of my acquaintance emitted a collective groan when Mrs Thatcher said this week that she would like a fourth term as Prime Minister.

This is nothing to do with their political views. Some of the groaners are keen Thatcherites. It is simply that, as a breed, we love change.

The name Mrs Thatcher has been bashed out on our typewriters or tapped quietly into our word processors too often.

Now we want to tap in Mr X instead. We are looking forward to the fight for the Tory leadership. There are virtually 10 men (no women yet visible) in the running. It will be the best political story since the Falklands war.

As a citizen rather than a journalist, however, I feel somewhat different. I think Mrs Thatcher is tempting fate to declare her intentions, but I am reassured to know that she has the stomach for many more fights.

Much has been written about the Prime Minis-

ter's energy, determination and courage. Not enough has been said about her sheer political skill.

By presenting herself as a "conviction politician" — which she certainly is — Mrs Thatcher deflects attention from her cunning as a pragmatic one.

Plotters

Again and again, her colleagues and opponents have tried to pull the rug from under her. In 1981, it was the Wet revolt. In 1982, one false move in the Falklands and they would have

sunk her. Then came the miners' strike and then Westland.

On all these occasions, the plotters have underestimated their intended victim. Because she is dogmatic, they have thought that she was not sure-footed. Because she was not part of the gang, they thought she was naive.

Soon there will be another would-be putsch as the elder generation of her rivals sees its chances of succession slipping away.

Mrs Thatcher will probably survive it, and she

will deserve to. Politicians ought only to go either when they are too ill to work or when they have no more idea about what to do next (often the two go together).

In the case of this Prime Minister, I am sure that the physical crack-up will come before any loss of political momentum. And neither looks exactly imminent.

If she wants it, it is hers. That is the bullet which restless journalists and even more restless Cabinet Ministers will have to bite.



Bulldog spirit... Maggie's a survivor

Falklands art draws fire

SIX YEARS after the end of the Falklands War, the first major art exhibition devoted to, and mostly ridiculing, the conflict will open at the Manchester City Art Gallery on December 10. It seems certain to offend many by its overwhelming use of anti-war material.

The exhibition includes work by convalescing campaign veterans alongside press cartoons and satirical postcards. The postcards borrow war-time rhetoric to reflect ironically on the Falklands War. "Your country needs ..." depicts a penguin wearing a Union flag vest. Another purports to show a DIY sidewinder missile.

"Graphic artists and cartoonists tend to take an oppositional point of view," explains the gallery's Tim Wilcox of the sharply anti-war images created by, among others, Guardian cartoonist Steve Bell and Raymond Briggs, who produced one of the most bitter indictments of the war in *The Tin Pot General* and *the Old Iron Woman*.

Much of the work was inspired by the sinking of the *General Belgrano*, said to have turned previously unbiased illustrators against British policies. "The photographs tend to take a more neutral angle," Wilcox adds cautiously.

Commenting on the exhibition, Conservative MP James Spicer said: "The majority of the British people fully supported the Falklands War. I would hope that those who control one of our great provincial cities represent the views of its citizens, rather than their own miserable ideological fantasies."

Latin challenge to US

Punta del Este, Uruguay — Latin American heads of state meeting here yesterday called for a “new relationship” with the United States, especially on issues like the region’s \$420 billion foreign debt and drug trafficking (Michael Llanos writes). The call came amid US fears that the so-called Group of Eight was trying to undermine US influence in the region by meeting outside the Organization of American States. President Alfonsín of Argentina said that the group had an international political identity. President Garcia of Peru emphasized that they were not seeking confrontation.

UK loses on loan to Argentina

From A Correspondent,
Washington

The World Bank, over the strong objections of Britain, yesterday approved a \$1.25 billion (£0.7 billion) package of loans for Argentina to be disbursed with or without International Monetary Fund approval.

Britain felt the loan should be conditional on an IMF macroeconomic programme.

Other nations also expressed scepticism over Argentina's ability to repay the loans but Britain was the only large donor nation to vote against it.

Mr Barber Conable, president of the Bank, said \$700 million of the loan should be made quickly.

He cited the forthcoming elections in Argentina and the willingness of its president, Señor Raoul Alfonsín, to undertake economic reforms as a "window of opportunity."

Mr Nigel Lawson, the Chancellor, again expressed his concern yesterday over the loans, which were accompanied by a macroeconomic programme of reforms, which some donor nations felt were easier than those which would be required by the IMF. Mr Lawson was concerned over the blurring of roles between the Bank and the Fund.

Mr Conable said yesterday, however, that he did not consider the Argentina programme a "precedent setting," though he did not rule out approving similar loans should the conditions be right.



FERGIE'S REPLY: The Duchess of York pokes fun at the Ahoy there! greeting of the Duke when meeting his ship in Perth

Aussies say it's Fergie's fault . . .

THE Australian Press today blamed the Duchess of York for the reported break up of her sister's marriage.

"Marriage Wrecker—That's Fergie," said the tabloid Daily Mirror of Sydney, over a report that claimed the duchess was responsible for the estrangement, which has yet to be confirmed officially.

The duchess' sister, Jane Makim, married to Australian outback farmer Alex Makim for 11 years, is widely reported to have left her husband for Argentine polo player Cesar Ruiz Guinazu. But he has denied having an affair with her.

Adding spice to the stories, the Daily Mirror was quick to point out that the sisters' mother left their father for Argentine polo player Hector Barrantes

Standard Foreign News Desk

when the two girls were small.

The duchess in Australia on holiday with her husband after an official 10-day Bicentennial visit, has been under attack from sections

break-up. The 30-year-old mother of two is said to be seeking custody of the children, Seamus, 7, and Ayesha, 2, who are believed to be staying with their father on his remote farm near North Star on the border between New South Wales and Queensland.

The Australian newspaper, owned by Rupert Mur-

doch, said that Mr Makim had taken out an injunction to prevent his children leaving the country

● Anti-nuclear Senator Jo Vallentine, who tried to handcuff herself to the gangplank of the Duke of York's ship when it arrived in Fremantle, was arrested and charged with disorderly conduct, police said.

of the British press for opting to leave her new baby at home.

Her father, Major Ronald Ferguson, has refused to discuss the reports that his oldest daughter was parting from her husband.

Yesterday Jane, who was in Adelaide with her sister, reportedly looked annoyed when questioned about a

Naval officer 'driven to suicide'

A ROYAL NAVAL captain denied yesterday he had worked his first-lieutenant so hard he committed suicide.

Lt-Cdr Paul Keane, 40, was found hanged in his cabin aboard the Ice Patrol Ship Endurance, a Portsmouth inquest was told.

In a statement to Ministry of Defence police, Mrs Joanna Keane, blamed Capt Thomas Sunter for her husband's death

because, she claimed, he had pushed her husband beyond "a reasonable level".

Mrs Keane, of Arundel, West Sussex, said her husband had telephoned to her before his death and had been depressed about trials the ship was to undergo at Portland.

"He said he felt like a nigger in the woodpile," she added. Before joining the Endurance, he had been confident and a

perfectionist.

Capt Sunter, who had worked with Lt-Cdr Keane before, said: "I cannot see that I was riding him. I was not aware of any personal differences between us. No hard words have ever passed between us."

A verdict of suicide was recorded.

A Naval spokesman said no action would be taken against Capt Sunter.

Suicide officer 'teased'

A Naval captain yesterday denied driving an officer to suicide.

The widow of Lieutenant Commander Paul Keane, 40, claimed that Captain Thomas Sunter worked her husband too hard.

Mrs Joanna Keane, of Arundel, Sussex, said her husband had confidence before he joined the ice patrol ship Endurance.

Before hanging himself in his cabin, he phoned her because he was depressed about impending ship's trials.

She said Capt. Sunter used to call her husband a 'failed submariner'.

Capt. Sunter told the Portsmouth inquest: 'I teased him about being a submariner in the same way as I was teased about being a gunnery officer.'

Verdict: suicide.

Argentina in debt move to boost orders

ARGENTINA hopes to use a debt conversion scheme to finance new projects in shipbuilding and other industries.

The scheme is seen by the country's Merchant Marine Secretary, Dr Luis Siquot Ferre, as a way of encouraging domestic owners to place orders.

Argentina's Merchant Marine Fund amounts to only US\$40 million and the authorities want to divert part of this year's allocation to cut the deficit in the railway system.

Under the new scheme. An Argentine owner could go overseas and buy bonds covering a part of the Argentine external debt at, say, 40% of the original value. In turn, a domestic bank would buy at perhaps 80% of the value.

Shipyards have already had tentative talks with owners, although the total amount for industry as a whole is limited.

Dr Siquot Ferre said next

From James Brewer, Shipping Reporter, Buenos Aires

year's Merchant Marine Fund would remain intact, but it still amounted to no more than a big ship and a half per year.

"The system could perhaps be extended to orders from overseas owners, but not at this stage. Brazil has had a similar scheme in operation for some time and a number of overseas orders are under official consideration."

Dr Siquot Ferre said there had to be a debate about the future of Elma the state shipping line — but after next year's national elections.

A former vice-president of Elma he said the question of whether to privatise the line would have to wait but participation of local owners could be possible as they shared Elma's trades.

Perón return worries opposition



Señora Perón being greeted by well-wishers in Buenos Aires after her return to Argentina, where she was once President.

From Michael Llanos, Buenos Aires

The surprise return to Argentina of Señora María Estela Perón has thrown the country's main opposition party into disarray just before the Peronist presidential candidate leaves for Europe on a tour designed to improve the party's image abroad.

Señora Perón, the widow of the late President Juan Domingo Perón and herself President of Argentina between 1974-76, arrived here from her home in Spain on Tuesday to the surprise of Peronist leaders, including the party's presidential candidate, Señor Carlos Menem.

The two do not get along, and Señor Menem's aides have suggested that President Alfonsín and the ruling Radical Party planned Señora Perón's visit in an attempt to divide the Peronists just as rival factions were reaching agreement in the run up to the May 1989 elections.

Señora Perón said on arrival that during her indefinite stay she would probably meet President Alfonsín, "a friend whom I admire fondly".

But Señora Perón evaded questions on whether she would meet Señor Menem and whether she supported his candidacy.

Señor Menem, for his part, said of the prospects of a meeting: "She knows where to find me."

Previously, Señora Perón refused to receive Señor Menem at her Madrid home, and he had to leave his

bouquet of flowers tied to a tree outside her residence.

Señora Perón has been living in Spain since being released by the military regime which removed her from office in March 1976. The second wife of Juan Perón, she assumed the presidency in July, 1974, after his death.

Señora Perón's presence here has reawakened the memories of many Argentines who lived through her presidency, when left-wing terrorists and right-wing death squads ruled the streets.

The Peronists fear that her visit is a tactic of the ruling Radical Party, whose candidate, Señor Eduardo Angeloz, is far behind Señor Menem in opinion polls.

Señor Menem, who uses the same populist style which brought General Perón to power, is to leave on Saturday for a two-week European tour. This visit is intended to improve his standing in Europe after his campaign promises, which include "huge wage increases" at a time when Argentina is broke, and "the expropriation of British assets" as a means of putting pressure on Britain over the Falklands issue.

The Carlos Pellegrini Foundation, a conservative Argentine think tank, recently reported that Señor Menem's image in the United States and Western Europe is "very negative". His first stop is to be Spain, followed by France, West Germany, and Italy.

Mrs Perón's return prompts party row

THE SURPRISE arrival in Buenos Aires of the former president, María Estela Martínez de Perón, has provoked upheavals within the opposition Peronist party as Argentina's presidential campaign heats up.

In perhaps the strongest denunciation of Isabel Perón, as she is more popularly known, the Peronist deputy-governor of Buenos Aires, Luis Macaya, said that she does not represent the Peronism of the current generation, but the Peronism characterised by the violence and chaos of the 1970s. In contrast, others welcome her visit, hailing the return of the "spiritual head of the Peronist movement".

Senior Peronist leaders sought to play down the significance of the supposedly private visit, while some claim it was deliberately encouraged by President Raúl Alfonsín's government to discredit Peronism and to destabilise the opposition party.

With the governing Radical Party's presidential candidate, Eduardo Angeloz, suffering from the parlous state of the Argentine economy, the Peronist candidate, the flamboyant governor of La Rioja province, Carlos Menem, is winning considerable support. He is, however, hugely controversial and so, while striving to exploit the rich vein of Peronist populism, he is also trying to convince

From Christopher Berger-North
in Buenos Aires

waverers that he does not represent a return to the bad old days. Mrs Perón has been enigmatic about her role, noting, shortly after her arrival: "I consider myself far away from politics, but I do not know if politics wishes to keep away from me."

Isabel Perón assumed the presidency in July 1974 following the death of her husband Juan Perón. Her two-year tenure saw Argentina sink into economic and political chaos, with an undeclared "dirty war" between left-wing extremists and right-wing hit squads attached to the government causing considerable loss of life. Her short, but tragic, term of office was ended by a military coup in March 1976 and she fled Argentina to live in Spain.

For Carlos Menem, the presence of Juan Perón's widow will only complicate matters as the campaign for the presidential elections on 14 May becomes increasingly tense and personal. Recently Mr Menem, along with several senior Peronist leaders, hinted at the possibility of calling for the impeachment of President Alfonsín. Mr Alfonsín responded with a stinging attack on Mr Menem, calling him the worst governor in Argentina.

Argentina and the Reemergence of Peronism

By MANUEL MORA Y ARAUJO

BUENOS AIRES—In its August primary, the Peronist Party opted to turn back the clock by nominating Carlos Menem as its candidate for next year's presidential election. Mr. Menem came from behind as leader of the internal opposition in the Peronist Party. His victory was due to his personal charisma and his ability to put together a broad coalition of various factions opposed to those inside the party who were trying to move Peronism away from its neofascist roots.

Mr. Menem's triumph follows a revival of the Peronist electoral strength, after its defeat by Raul Alfonsin in 1983 and 1985. The Peronist Party was then able to win the 1987 congressional election and now is favored to win the 1989 presidential election.

To many observers, this situation is a disturbing indication that Argentina is turning again to the sources of its serious political and economic problems: populism, state intervention and protectionism in the economy, and the all-powerful trade unions, a system that Peronism supported and developed through various decades. However, trends in public-opinion indicators suggest that Argentines are not going back to the old recipes.

Polls conducted by my firm (as well as by Gallup and others) show a sustained growth of those who support a free market and an economy open to the world. According to a poll taken in June, more than half the adult population thinks that Argentina should improve links with Western countries, and accept negotiation with the International Monetary Fund to deal with the foreign-debt problem. And the issue of greatest concern to Argentines is inflation

brought on by massive government spending. Old models of income redistribution based on class hatred are rejected outright by most Argentines polled.

Also reflected in the polls is a growing skepticism among the people about the role of government in their lives. Traditional politicians, and their capacity to produce solutions, are held in low esteem. Concurrently, there is a marked increase of the public's confidence in entrepreneurial activities, private investment and personal effort. While there are expectations that the armed forces and the rest of society can resolve their conflicts, there is little "nostalgia" for either past military governments or the military in general.

But why the Peronist resurgence? Since 1983 Peronism has been the major opposition force, maintaining its majority in the Senate. And since 1987 it has controlled most of the provincial governments. Conservative parties are still weak, even though Alvaro Alsogaray's Central Democratic Union has exhibited the highest growth rate of any Argentine party—practically doubling its approval rating in the past year, from 14% to 22%. Marxist parties are weak, and their potential supporters mainly vote Peronist. Since the electorate wants an alternative to President Alfonsin's Radical government, the Peronist revival, with or without Mr. Menem, was inevitable.

As for Mr. Menem, his victory probably represents little more than a general dissatisfaction among the electorate with party machinery. Professional politicians—irrespective of the political party to which they belong—are viewed as unreliable people. They are inextricably linked to a state sector that is both inefficient and

corrupt, and they are accustomed to a style of governing that consists of talking too much and doing little. Mr. Menem, the rebel, does not appear as one of these politicians. He is therefore popular, despite his being at odds with the public on ideological issues.

Argentina suffers at present from a serious illness: high inflation directly related to a fiscal deficit that seems out of control. However, there also are some positive signs: an agrarian boom; a strong growth in nontraditional exports; a significant increase in the informal (or underground) economy—estimated by the Institute of Contemporary Studies as including 55% of the working population. In this context, it seems unlikely that people could tolerate a return to public policies aimed at redistributing income, closing the national economy and increasing taxes.

Peronism is therefore confronting a major challenge: to reconcile the political demands of the poorest Argentines—where it finds its strongest electoral base—with the expectations of a moderate electorate demanding modern answers to the old problems of its country. Whether the Peronists will be able to meet that challenge remains uncertain. But it is hoped that, should they fail to do so, Argentines will continue to search for satisfactory responses to economic and social problems through democratic means. This would be the surest indicator that Argentina's relatively new democracy is secure.

Mr. Mora y Araujo is co-chairman of Socmerc Inc., a polling and consulting firm based in Buenos Aires.

Uruguayan summit to discuss debt, drugs

By Gary Mead in
Montevideo

SEVEN LATIN American heads of state are due to meet from tomorrow until Saturday in the Uruguayan resort of Punte del Este.

On the agenda will be discussion of several common Latin American issues. Those include Latin American foreign debt, currently standing at \$420bn; measures to combat drug trafficking; consideration of environmental problems in the region; and a common attitude towards the end of internal trade barriers in the European Economic Community in 1992.

Leaders of Argentina, Brazil, Colombia, Mexico, Peru, Venezuela and Uruguay will be present. The only absentee will be Panama, whose membership of the Group of Eight is temporarily suspended due to Panamanian president Noriega's failure to abide by the group's commonly-shared democratic principles.

Presidential elections are set for next year in four of the seven countries, and Mexico's President Miguel de la Madrid will hand over power to his elected successor in December.

The Group of Eight is an outgrowth of the Contadora Group, formed in 1983 to promote a peaceful political solution to fighting in Central America.

Mr Luis Barrios Tassano, Uruguayan Foreign Minister, said the group would also be considering ways of reinvigorating the Organisation of American States.

Diplomats said a document would urge industrial nations to dismantle protectionist trade barriers blocking the access of Latin American goods to the world's richest markets.

● Mr William Rosenblatt, Assistant Commissioner of US Customs, said in Washington that other financial institutions besides the Bank of Credit and Commerce International (BCCI) were being investigated for alleged drug money laundering.

He could not disclose how many, or which, institutions were being investigated, he added.

Press Cuttings

from Broad Street Associates **FINANCIAL TIMES**

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Viola brings fresh air to Buenos Aires

Gary Mead reports on the leading lady in the vital contest to become the city's next mayor

THE battle to become Argentina's next President has commenced, and the jousting will be rough. But another tournament is being fought out away from the glare of publicity, and its implications for the country's democracy are arguably as profound as a clean Presidential handover next May.

The contest in question is who will be the next "Intendente" or Mayor of Buenos Aires and, more significantly, how will that person achieve office?

For a country which has lived under democracy for almost 5 years it comes as a shock to realise that the mayor of the capital is directly nominated by the President, and not elected by almost 3m potential voters living in the city.

The present incumbent, Mr Facundo Suarez Lastra, is a Radical Party man, selected by President Alfonsin. His term of office ends with the change-over of President next year. The next Argentine President could once again have a tremendous fiefdom at his disposal.

That could change if the national Congress passed a bill to introduce direct elections for Mayor. They were to have considered such a proposal during their last session, but ran out of time.

The bill may come up again. Congress is evenly balanced, with Peronists just having the edge. The Radicals scent defeat in next May's Presidential election and are only too happy to see direct elections for Mayor of Buenos Aires. The last thing they want is a Peronist President who also controls such a powerful post. On the other hand Peronists believe they will win in 1989, so why voluntarily relinquish such a delectable political titbit?

But considerable pressure is now being put on the Peronist Presidential candidate, Mr Carlos Menem, to back the legislation, in order to promote his image as a generous democrat.

The argument runs thus: if

he permits direct elections to the office of Mayor of Buenos Aires he enhances his public image and improves his chances of attracting floating voters who remain afraid of old-style Peronism. The incentive, therefore is to give up the Mayorship of Buenos Aires for the greater prize of Argentina.

What will influence Mr Menem is the number of votes he believes are already in the bag.

In the middle of these calculations enters a woman with tremendous political ambition who is neither a Radical nor a Peronist, and who has the audacity to think she deserves to be Mayor of Buenos Aires.

Mrs Maria Estela Martinez de Peron, widow of General Juan Peron, has unexpectedly arrived back in Argentina for a two week visit.

She has described the visit as being for purely personal reasons but local speculation is that she has come back to discuss the internal problems of Peronism in the

Even more astonishing, she is not trying to be a second Eva Peron but prefers Reaganism instead.

Adelina Dalesio de Viola is, at 38, a leading light of the Union del Centro Democratico (UCD), Argentina's third largest party. The UCD, in a classic espousal of the doctrines of Hayek, offers voters a version of Thatcherite economic toughness which, barring miracles, should have it romping home third place next May.

The UCD regards Peronism as being slightly more dangerous than the Four Horsemen of the Apocalypse, but without their redeeming speed.

Ms de Viola, who this week is on a fact-finding tour of West Germany, comes from what she describes as a typically anti-Peronist middle class background.

"My family were always talking politics and complaining about Peronism but they were never involved. My father

told me to not to get involved in politics, and thinking politics was bad because bad people do it. I could never be a Peronist because of its totalitarian tendencies."

She rejected the Radicals because not only is it "a macho party, it has no place for women," but more because "it has a structure which impedes the de-bureaucratisation of the country. Under the Radical Mayor of Buenos Aires the number of bureaucrats in the municipality has increased from 70,000 to 107,000. Both Radicals and Peronists feel they have to give jobs to party members once they have

run-up to presidential elections due to be held on May 14 1989.

The third wife of General Peron, "Isabelita" briefly ruled as president between 1974 and 1976 following her husband's death. She was overthrown in 1976 by a military junta and, after a spell in prison, has lived in exile in Madrid ever since.

achieved office".

Leading members of the UCD were once happy enough to participate in earlier military governments, a point she acknowledges but throws back with an interesting statistic: "In the province of Buenos Aires during the last military dictatorship the Radicals had more than 120 mayors. There are no parties in Argentina which have not participated in coups. When we've had liberty there's been no order; when order, no liberty".

The main thrust of her attack is against the waste of public money which in Argentina reaches scandalous levels. An example she gives concerns an amusement park, built in 1983, which she claims loses \$300,000 every month. She also criticises the construction of a school for circus training - which costs the same as a primary school - when there is a shortage of primary education in the city.

Ms de Viola also loathes the sort of Kafkaesque bureaucracy which prevents children from attending school without birth certificates, or the soliciting of documents from 70,000 people in 1985 in support of claims for re-housing - when only 500 homes were available. From her point of view "the less chance the Government has of making decisions, the less chance it has of being corrupt".

She is optimistic that the Peronists will eventually permit direct elections for Buenos Aires's Mayor; and she is confident that her common-sense cost-cutting directness will win her not only that post, but ultimately that of President.

That kind of confidence won her 1988 "Woman of the Year" - against such stiff opposition as Gabriela Sabatini. But with all the powerful vested interests in today's Argentina, confidence and the right ideas may not be sufficient.

Peron's widow stages return

Jeremy Morgan
in Buenos Aires

MRS Isabel Peron, the former president, returned to Argentina yesterday to the surprise of just about everybody — including Peronist leaders.

Speculation that she might return had been building for more than a month, but nobody seems to have been prepared for her arrival on a flight from Madrid, where she has lived in exile since 1981.

Mrs Peron, who oversaw two years of economic chaos and political violence before her overthrow by the military in 1976, told astonished bystanders before being whisked away in an airport limousine: "I simply wanted to be in Argentina, and here I am."

It remains unclear whether any of today's Peronist leaders wanted the widow of General Juan Domingo Peron to return. Some fear memories of the Peronists' last term in power will undo their chances at general elections next May.

Opinion polls are predicting a victory for their presidential candidate, Mr Carlos Menem, but the Peronists are bedevilled by factional feuds and personal rivalries.

Press Cuttings

from Broad Street Associates **The Daily Telegraph**

'Isabelita' Peron

Señora Peron returns to Argentina

By Cristina Bonasegna
in Buenos Aires

SEÑORA Maria Estela Peron, former President of Argentina, made a surprise return to her country yesterday amid speculation that members of her own Peronist party, now in opposition, had failed in attempts to stop her visit.

With general elections a little over five months away, some Peronist leaders fear she may bring back memories of her chaotic term in office, which was cut short by a military coup in March 1976.

Local news reports said there was a "welcoming committee" at the Buenos Aires airport when she arrived unexpectedly yesterday morning.

After landing Señora Peron, who is known as "Isabelita", said: "I simply wanted to be in Argentina and here I am".

Señora Peron took over the presidency on the death of her husband, Juan Peron, but her chaotic rule led to military intervention.

Although this is her third trip to Argentina since President Raul Alfonsin took over in 1983, it takes on added political significance because of the approaching election.

After being overthrown, she was first kept under house arrest and then exiled to Spain.

Señor Juan Labake, Señora Peron's lawyer, recently said she had for months wanted to travel to Argentina to visit her late husband's grave.

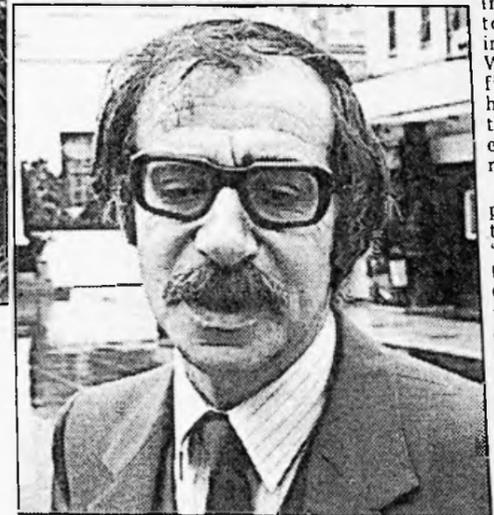
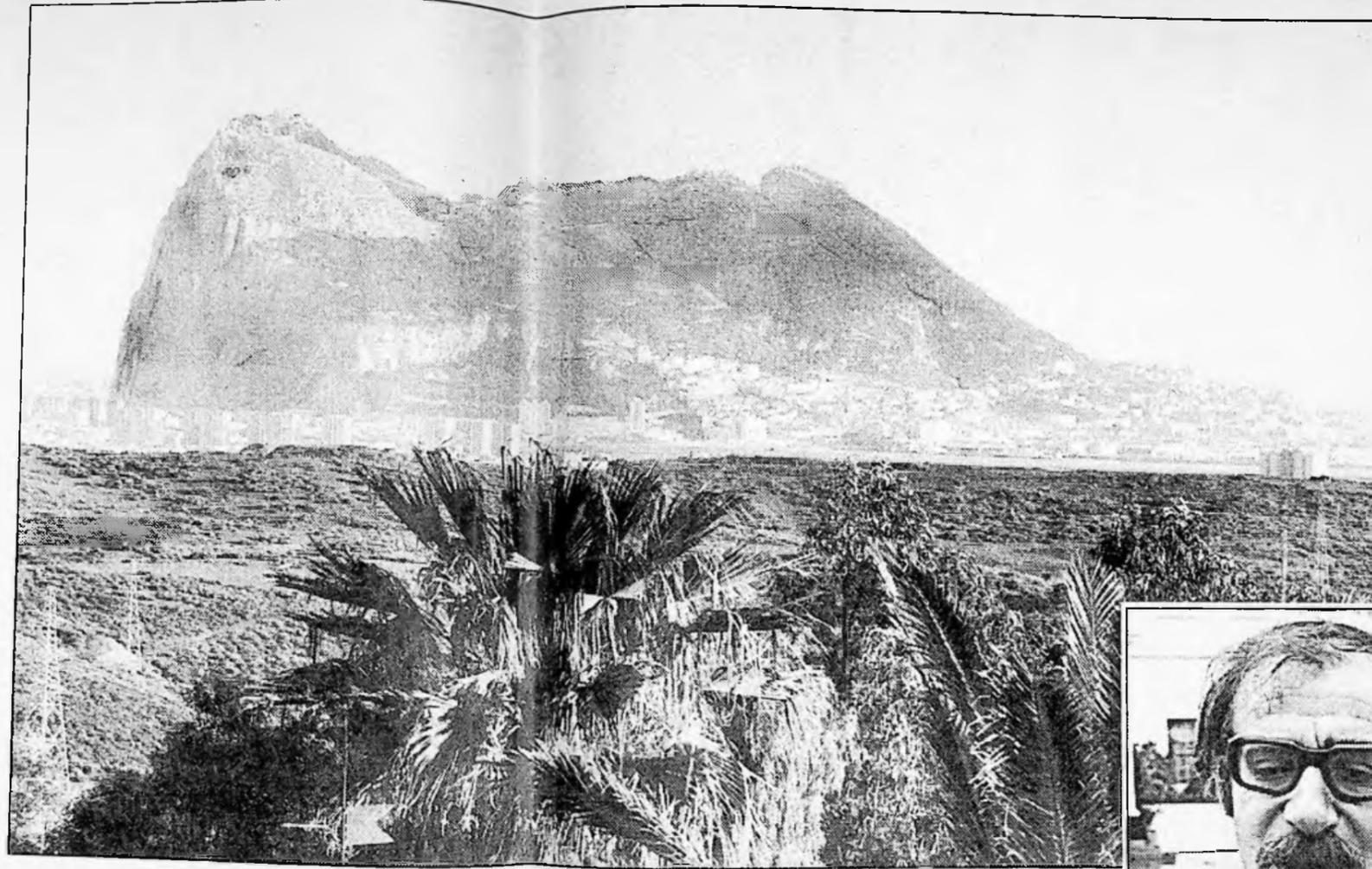
But many in the Peronist party surmise that the ruling Radical party might be behind her visit in an attempt to sow confusion in Peronist ranks, damaging their electoral prospects.

GIBRALTAR 1

The SAS have come and gone. The historic, bitter inquest is over. Now Gibraltar can move out of the world spotlight and get on with the business which has preoccupied it for decades — a determination to exist as a *British* community in the very shadow of Spain, irrespective of what Madrid wants.

But a new ambition is also abroad: to become attractive, under a Socialist government, to international business, particularly as an (almost) offshore financial centre — the Barlow Clowes scandal notwithstanding.

These are bold ambitions for a community no larger than a tiny English town, devoid of resources except for a strategic fortress location, its natural development to the north perpetually blighted by political intransigence across its land frontier. This survey looks at how Gibraltar proposes to stand independently of Spain and Britain



Joe Bossano: broader perspectives

his government's proposals to allow for the appointment of local inspectors to investigate a company without having to wait for shareholders to voice concern.

Mr Bossano makes light of what outsiders might regard as his most pressing domestic problem, the Anglo-Spanish agreement on joint use of Gibraltar's frontier airport. Despite the price Gibraltar would pay for blocking the deal, by forfeiting benefits from the EEC cheap air fares package, he insists it is "not an issue."

He is equally dismissive when challenged on the issue of the unresolved saga of who should pay the pensions of thousands of Spanish workers employed in Gibraltar before Franco closed the border. The final cost, with 5,500 pensioners already crossing the border for weekly payouts and 2,500 more still to reach retirement age, could top £257 million between now and 2026.

Britain is footing the bill but only, Mr Bossano claims, by eating into funds originally ear-

marked for improvements to Gibraltar's infra-structure. Whatever the final solution, he is adamant that Gibraltar's economy will not suffer.

"We are simply not prepared to pay," he says. "The reality is that the British Government will have to come up with an answer."

That leaves Spain, and Madrid's undimishing designs on the Rock, as the obstacle to Mr Bossano's long-term hopes for Gibraltar. Even in this dip-

lomatic minefield, Gibraltar's former branch officer of the Transport and General Workers' Union, exhibits all the cunning of a seasoned negotiator.

A referendum today, he maintains, would produce an even smaller minority of Gibraltarians in favour of union with Spain than the 44 who, in 1967, dissented when some 12,138 voted in favour of retaining the link with Britain.

But if Spain's wishes can be denied now, what about 50 years' time, or 100?

He has an answer for that, too. "In 100 years," he says: "I believe Spain will not be Spain any more."

"There will be a single nation in Europe with different levels of local independence. Gibraltar will form part of that, will be Gibraltar and will still be linked to Britain."

with the same number in all of 1987.

"We have no oil, no gold, no coal," he says. "We can only succeed by providing services for people involved in financial transactions. At the end of the day, it doesn't really matter whether that is between nationalised industries or privately-owned companies."

The trauma of the recent IRA inquest in the Gibraltar Supreme Court and the implications for the Rock of the Barlow-Clowes affair have acted as unwelcome distractions for the Chief Minister. Both clouds have their more silvery linings, he believes.

Mr Bossano sees a vindication of "the very high standard of our British system of law in Gibraltar."

There is also a consolation to be found from the Barlow-Clowes collapse, he feels. That is

people" from the White House, Pentagon and Wall Street.

"In the past," he said, "the sum total of Gibraltar's international presence was that we went along with Britain to bilateral talks with Spain. But our policy is to increase our rate of growth to a level never before achieved in Europe — 12 per cent by 1989 — and we cannot do that by waiting for business to come to our doorstep."

"We want to make the international business community much more aware of our potential and come and see for themselves what might be in it for them."

What the Gibraltar of 1988 offers, says Mr Bossano, is not a "cosy British backwater," but a modern business centre with greater fiscal freedom and incentives than elsewhere, including the Channel Islands. By slashing red tape, he claims to have inspired a 97 per cent increase in the registration of new companies, with nearly 4,000 logged in a few months this year compared

Chief minister Joe Bossano sees a rich future for Gib, reports Colin Randall

ALMOST three centuries after Admiral Sir George Rooke's famous victory signalled the end of 242 years of Spanish occupation, the Gibraltarians are locked in another crucial battle over their identity.

Led by their new socialist Chief Minister, Joseph Bossano, the 50,000-strong Rock community has engaged in an attempt to revolutionise its image and secure world respect.

Gibraltar has endured 14 sieges during its colourful history (or 15, if Franco's 16-year frontier closure is counted). But if their traditional siege mentality is understandable, their outlook has remained incongruously insular for a people whose tiny numbers belie cosmopolitan roots embracing Genoa, Portugal, Malta and North Africa as well as Britain and Spain.

Now, the a new spirit of self-esteem and broadened perspective is emerging as Mr Bossano,

whose Socialist Labour party was elected in March on the retirement after 40 years of Sir Joshua Hassan, tries to increase the Rock's international recognition and prestige.

Mr Bossano is determined that Gibraltar should break free from its home for unwanted image as a curiosity of an imperial age renowned for its wild apes image (not really apes at all, but tail-less macaque monkeys brought by early Moorish settlers) and the tanned, Spanish-speaking policemen dressed as British bobbies. Part of his strategy involves overseas missions to promote Gibraltar's growing status as an off-shore finance and trading centre with hopes of rivalling Jersey or the Isle of Man.

The challenge which Mr Bossano has accepted is tough. For a man who was formerly the Rock's powerful and tenacious trade union boss, it also seems

an unusual one. Yet he displays a political pragmatism which manages to please both old and new followers in a fashion that Mr Kinnoek, struggling to modernise the British Labour party in the face of stern old-guard resistance, might envy.

The Bossano socialist philosophy is straightforward though unorthodox. "The essence of our position is that we feel the hallmark of a Socialist government is how we spend our money, not how we make it," he says.

According to Mr Bossano, if educational scholarships are increased by half, social services are improved and an ambitious home-building programme is begun, there should be no complaints that it is all possible because Gibraltar is unashamedly wooing international capitalists.

Gibraltar's commitment to the British Crown remains as formi-

dable as the 1,400ft limestone peak which towers over the junction of the Mediterranean and Atlantic oceans. But Mr Bossano says that the territory becomes more Gibraltarian than British with "every passing day and every passing generation."

Mrs Thatcher's reaffirmation, on her visit to Spain in September, of British support for the rights of Gibraltarians to remain British, went down well. However, as Mr Bossano acknowledges, the "most pro-British element of the sentiment" now concerns the confidence that Britain will prevent Gibraltar from being swallowed up by Spain.

Gibraltar, just three miles long and less than a mile at its widest point, was fought for by Romans, Phoenicians, the Visigoths and the Moors before Britain and Spain and began centuries of

conflict over its sovereignty. The peninsula's name is a derivation of Gibel Tarik, or Tarik's Mountain after the Persian warrior who first exploited its fortress potential as Islamic invaders swept into Spain.

Stripped of this strategic location, Gibraltar is an interesting small town with delusions of grandeur, and its chief minister simply a mayor. But in his first few months of office, Joe Bossano has acted more like a statesman, visiting the U.S., West Germany and Cyprus with trips, including Hongkong, to come.

On the American visit (which, in another flourish of pragmatic flair, doubled as a honeymoon with his bride, Rose), he opened a Gibraltar government information bureau in Washington. He also managed to arouse considerable anger among Spanish diplomats by having talks with "top

COINCIDING WITH a strong presence at the Hongkong Money Show, which opens this week, Gibraltar is to give major impetus to its aspirations as a finance centre.

Regulations controlling its Savings Bank Ordinance have been altered to open it up to worldwide investment and the Rock's Chief Minister, Joe Bossano, will personally announce the changes at the Money Show, where the Gibraltar Chamber of Commerce has a stand.

Mr Bossano sees the savings bank as the "natural vehicle" for those seeking safe investment in national savings, free from capital gains and income tax. Ironically, the idea that there should be a good market for the savings bank came to him in the wake of the Barlow Clowes scandal which racked the financial sector. "The fact that Barlow Clowes was able to raise £190 million in investment shows the potential out there," says Mr Bossano.

At present the savings bank is geared for local consumption and the Minister is changing its rules to allow for various rates of income and lengths of withdrawal notice, along the lines of the British equivalent.

Since he was first elected as head of his socialist party, Mr Bossano has pleasantly surprised the pioneers of the Finance Centre Industry by giving them his full support. The re-

Opening up the coffers

Francis Cantos assesses the moves taking place to create a healthy financial climate to attract more investors

opening of the frontier in 1985 put them well in business, with an estimated 350,000 British expats on the adjoining Costa del Sol in need of their services.

The Rock is rapidly becoming a leading offshore base and the list of financial institutions includes many of Britain's most famous High Street names as well as companies from Switzerland, the Netherlands, the U.S.—even Spain. Its main attraction as a financial centre is that it is tax exempt and qualifying



Making a mint: Future plans for Gib's success rest heavily on wooing investors as well as tourists

aged and controlled from outside the territory.

Gibraltar is now eagerly looking ahead to 1992 following news that offshore activities will be given an advantage by an EEC directive which will become law next year and will open up the Spanish domestic market to the Rock as well.

In Hongkong Mr Bossano will

also be taking the advantage of promoting the 9½ per cent Gibraltar Government debentures on offer. This is not the first trip abroad since he topped the polls in March. His term has been characterised by globe-trotting to Britain, the U.S., Cyprus, Germany and the Canary Isles in what he calls the "business-style selling" of the Rock.

Neither is he alone in his travels. His Economic Development Minister, Michael Feetham, half-way on a tour to Britain, the U.S., Singapore and Australia to drum up business, will be meeting him in Hongkong. Mr Feetham will be meeting major international companies in his bid to see tourist and leisure complexes set up on reclaimed land.

He estimates that the land available—the Ministry of Defence still controls quite a chunk—can be doubled through his plan, although it has not been looked upon kindly by the Spanish, who see their hopes of ever recovering the Rock fading if its economy starts becoming viable.

But the Gibraltar Government shows no sign of bowing down to Spanish pressure. In fact Mr Bossano has organised a meeting with representatives of the giant Japanese building and engineering firm Kumagai Guma in Hongkong, where he also hopes to finalise details of the mammoth reclamation exercise.

Spain is right in thinking that Mr Bossano is out for economic self-sufficiency. He makes no apologies for this and says that if his economic plan succeeds, (after all he is an economist) his government budget will have attained that happy level by 1991. Thus the Rock as a whole could withstand a major MOD cutback eight years from now.

He estimates Gibraltar will enjoy a 12 per cent rate of economic growth next year, "which has the fastest growing economy in the World today." But how does he aim to achieve this?

"By attracting sufficient new business to Gibraltar and by modernising our structures to be able to cope," explains Mr Bossano. This entails a programme of setting up joint companies (part Government, part private

industry) in the fields of ship-repairing, tourism and finance, which will go hand in hand with restructuring and modernising of the Civil Service via computerisation.

Attracting business partners with their own customer base, both within and outside Gibraltar, is seen by the Government as the key to the plan. "To attain self-sufficiency by 1996, we are looking at an investment portfolio in the region of £100 million," says the Minister.

Up until now, Britain has not stood in his way, a fact which pleases Mr Bossano. "At the level of my international contacts in going out 'selling' Gibraltar, I am getting full support from the British Government. I could not have asked for more from their officials on my trips abroad," he adds.

The Foreign and Commonwealth Office is presently considering a move which Mr Bossano sees as symbolic, although his economist's mind does not lose track of an estimated £1 million annual gain if Gibraltar were to mint its own coins.

But the Chief Minister, who feels his edge comes from being in a position to put economic theories into practice and cutting, out the red-tape, sees the coins with Her Majesty the Queen on the front and the Rock-Ape on the other side as an outward sign of Gibraltar's search to establish its individual identity.

Tax haven in the sun but with shark infested waters

BARLOW CLOWES' scandal of £150 million assets seemingly missing from an offshore gilt fund, has focused media attention on an offshore finance centre better known for its Barbary apes.

But there could well be disastrous consequences for Gibraltar's development if there is evidence of fraud and mismanagement of Barlow Clowes clients' money.

Since the reopening of the border with Spain in 1985, a band of financial entrepreneurs have been having the time of their lives on this chunk of British-Rock-in-the-sun. They aim to make it the Hongkong of the Mediterranean, an England with sunshine and not tax, at least for non-residents. It is a fully fledged tax-haven within the EEC, and a ready-made market of Brits from the Costa del Sol are eager to invest cash and retain their anonymity.

The growth of financial services in Gibraltar has been generated by a favourable financial environment and a lax regulatory atmosphere, supervised by local authorities that have had neither the machinery or the

inclination to exert any effective control.

Brass plate banks, those whose name is nothing more than a plate on the door are not allowed, but Gibraltar has everything else going for it. There are no exchange controls (so bank accounts can be held in any currency and money can be transferred freely around the world), no double taxation agreements with any country (which means that no information is passed on to any other revenue authority, including mainland Britain), no VAT, no sales tax, no capital gains or transfer tax and strict banking secrecy.

Registered offshore companies pay a flat rate of tax (£225 per year, irrespective of profits—and as a British colony, Gibraltar also has a legal system based on English law, and most of the lawyers based there are U.K. trained.

There is no shortage of financial institutions happy to participate in all this. Banks, building societies, insurance companies and all the other appendages of financiers are scrambling to set up shop on the Rock and benefit from its tax advantages.

The big names are moving in,

most notably in the banking centre. Barclays and Lloyds have now been joined by Nat West and the Abbey National Building Society. The Banco de Bilbao, Banco Central and Banco Hispano Americano have all set up shop on the Rock to launch themselves into the international market.

There are now more than 20 banks on Gibraltar, from as far afield as Hongkong and New York. All the big U.K. insurance companies are represented on the Rock and Norwich Union has its own branch. Then there are all the trust formation companies and independent investment managers, ranging from high profile groups of Swiss parentage to one man bands selling insurance bonds and offshore funds.

The Gibraltar government has done its bit by enacting banking and insurance ordinances and is now turning its attention to financial services. But because there is no investor protection legislation in place yet, these operations are being conducted without supervision.

Non-residents, including those living in Spain, can set up tax-exempt investment companies.

Cheryl Taylor looks at the many advantages that the freewheeling financial regime offers to those with reason to want a low profile, but she warns that it might come to an end

Provided they are administered by Gibraltar residents (but don't carry on business with them). The creation of tax-exempt companies is the fastest growing financial service of this offshore centre. There are now more than 3,000 exempt companies enjoying income tax and estate duty concessions, most of them registered since 1985.

Virtually every financial institution on the Rock offers company formation services and you can get one set up in a matter of days, rather than weeks. Gibraltar is one of the cheapest places in the world to set up an offshore operation—for around £200 anyone can form an offshore company and avoid paying tax on Spanish property profits or on investment income arising from accounts in Gibraltar, at home. Such companies can be used to

buy property in Spain, hold bank deposit accounts, unit trusts, investment dealings, and own yachts registered in Gibraltar.

The use of nominee shareholders ensures complete anonymity and a company search will not reveal whether or not a company is exempt. Company accounts do not have to be prepared or filed at the Companies' Registry, so there is no disclosure of the company's finances.

Interest and dividends are paid without tax deducted. This is particularly useful for non-taxpayers.

Of course, the Gibraltar authorities are not going to tell the British tax-man about your offshore next-egg stashed away in one of their special high interest back accounts (nor do they have the machinery to do so). But, if you fail to declare the

income on your annual tax-return it is classed as evasion.

The most well-known tax dodge is the offshore property holding company. Britons buying property in Spain are using Gibraltar tax-exempt companies to avoid paying Spanish taxes on the eventual sale. (Spanish inheritance tax is particularly punishing, especially if you leave your property to a non-relative, or to anyone who happens to be rich already).

Instead of owning your villa or apartment direct, you set up an offshore company in Gibraltar. It owns the villa, and as you own the shares of a foreign company and not Spanish-sited assets, you avoid tax liability.

It is probably the widespread use of such tax avoidance vehicles that prompted the Spanish authorities to tighten up the rules and introduce a new law on Inheritances and Gifts. If you spend more than 182 days a year in the country you become resident for tax purposes and must declare and eventually pay tax on your worldwide wealth, including shares in an offshore property holding company.

Non-Spanish residents, using the offshore price to own prop-

erty in Spain are safe for the time being, but how long the Spaniards will tolerate the situation is uncertain. There is talk that they will crackdown further and introduce a levy on offshore property holding companies if the abuse gets out of hand.

The laws about who can set up an offshore investment business in places such as Gibraltar, Jersey, Guernsey and the Isle of Man are being tightened up. The British Government does not currently recognise any of the offshore finance centres as having rigid enough rules to allow funds managed on behalf of a pool of investors to sell their services in Britain. They have been given until December to get their local laws up to the same standards as those now in force in the U.K.—or stop selling investments there.

Gibraltar is drafting new legislation to improve the Rock's supervisory framework, along the lines of the U.K.'s financial Services Act. Joe Bossano, Gibraltar's new socialist Chief Minister, says: "At the moment anybody can come here and call themselves anything they want and register a company. There are no special provisions under

the company law for people undertaking financial services, or calling themselves financial advisers, consultants or whatever.

"We are setting up self-regulatory machinery from the existing professionals here, equivalent to the Securities and Investments Board in Britain, so that we can require people to be registered by licence, but that is not in place yet."

Legislative back-up is expected to come into force by the end of the year. But, according to the Chief Minister, the new legislation will differ to the Financial Services Act in the U.K. "All the reports we've had say it's unworkable, and we don't want to import that problem," says Bossano.

"But, it will enable us to make sure that at least we've got a safety mechanism to weed out the worst offenders," he adds. "We will never have a rule book system, because nobody has. After all, Barlow Clowes was done in the U.K., with all the resources they have. I can never expect with the resources of my Government to have an equivalent to the Department of Trade and Industry."

A day for some difficult Deutsche Bank decisions

Haig Simonian on investment outside W Germany

West German newspapers and tip sheets have been speculating wildly about today's meeting of Deutsche Bank's supervisory board, which many expect will reach a decision on the bank's long-awaited move into life insurance.

But the press's preoccupation with insurance has led many observers to overlook a string of smaller, but nevertheless significant, developments in the bank's core banking business, particularly on the securities side.

The steps have not been big in themselves. Last month's planned acquisition of a 50 per cent stake in Bain & Company, a leading Australian broker, remains the bank's most recent important initiative.

However, a string of other developments confirm that the bank is slowly pulling its international securities trading business together, particularly as far as government debt in Europe is concerned.

France and the Netherlands are key parts of that strategy. In Paris, Deutsche Bank has put aside plans to buy a French bank; the new French government has put the brakes on privatisation and the Germans do not seem too enthusiastic about what is already available in the private sector.

Buying a French broker is also low on its list of options, partly on the grounds of poor value for money. A French broking house would probably only be interesting if it also came with substantial funds.

French government securities play a key role in its plans.

The French market, boosted by the success of the Matif, the French futures exchange, has gained in importance, and the bank would like to be better represented on the ground.

The Netherlands is not far behind in the list of priorities. Dutch government securities are an important market in their own right, and have gained in interest as a result of their role as a substitute for German government paper.

Deutsche Bank already has access to the Dutch market through its 50 per cent stake in Albert de Bary, a small bank which it owns jointly with Amro. Now it would now like full control, and negotiations are said to be progressing.

Building up de Bary's fledgling securities operation will be a priority. But the bank, which specialises in international trade finance, is also interesting for its international connections. Not least, it has a lively business with Argentina, where Deutsche Bank earlier this year expanded its coverage when it bought 29 branches from Bank of America.

Could Deutsche Bank not trade French and Dutch government securities just as well out of Frankfurt given modern telecommunications and information links? Not according to one of its senior executives, who stresses the need to pick up the latest mood and gossip.

Deutsche Bank's view that certain continental European financial centres will gain in importance at London's expense in the years to come has not led it to isolate the City from its plans, however.

Entering the UK gilts market is an important discussion point for executives at the moment. The bank is aware of the overcrowding in the gilts market. Nevertheless the depth and liquidity of gilts trading make it an appealing venture, despite the slim margins.

The key question for Deutsche Bank is probably whether it can present itself to leading international investors as a credible player in gilts in the same way as such clients would naturally turn to it for German government bonds or certain other continental European fixed-income paper.

Meanwhile, the bank is stepping up its presence on the equities side out of London. Deutsche Bank Capital Markets (DBCM) is taking on four staff from Merrill Lynch in London and New York to build up an international equity dealing operation.

Although no specific areas of interest have been identified publicly, the team will probably concentrate on Far East, Australian and South African shares.

That initiative may have been somewhat opportunistic, say observers, with the bank responding favourably to an attractive concept put forward to it. Thus the arrival of the new team is not thought to herald the start of a major push in international equities out of London.

What is part of the longer-term plan is for DBCM to start quoting German equity prices on the stock exchange's SEAQ price information system by the end of this month.

25 OCT 1988

Press Cuttings
from Broad Street Associates **THE GUARDIAN**

Galtieri delay

Argentina's Federal Appeals Court yesterday delayed its verdict on General Leopoldo Galtieri and five other officers for their part in the Falklands War, because of General Galtieri's illness with a heart condition. *Jeremy Morgan writes in Buenos Aires.*

Press Cuttings

from Broad Street Associates **THE  TIMES**

25 OCT 1988

Falklands delay

Buenos Aires — The verdicts in the Falklands War hearings were postponed for about a week yesterday, after one of the six defendants, the former President, General Galtieri, claimed he was suffering from a "heart problem" (Our Correspondent writes). The delay came after Friday's session had been cancelled when General Galtieri, the Argentinian leader during the Falklands War, presented a doctor's certificate just before he was due to testify in another case on political prisoners.

Mexican airline in \$330m sell-off

By Lucy Conger in Mexico

THE MEXICAN Government has sold Aerovias de Mexico, formerly Aeromexico, for \$330m (£190m) to a consortium of leading private-sector investors.

The deal comes less than six weeks before President Miguel de la Madrid hands over to Mr Carlos Salinas de Gortari and is part of plans to accelerate privatisation in the wake of last week's unexpected \$3.5bn bridging loan offered by the US Treasury and Federal Reserve.

The sale also marks the first significant privatisation of a large carrier in Latin America. In Argentina the Government has authorised Aerolinas Argentinas, the national airline, to conclude an outline

agreement giving Scandinavian Airlines System a minority stake.

The Mexican airline, which has been rationalised since the Government declared it bankrupt in April, could benefit from a recent US-Mexican agreement opening up many destinations between the two countries, including Washington DC, Phoenix and Las Vegas.

It is up to the Mexican Government to assign the new routes to Mexican airlines.

The sale is expected to be followed shortly by the privatisation of the other national carrier, Mexicana, and should be seen against the background of efforts to deregulate

air traffic and stimulate tourism.

The consortium, called Dicitum, will pay cash no later than November 25 for a 65 per cent stake in the airline. The powerful pilots' union, Asociacion Sindical de Pilotos de Mexico, holds the right to purchase up to 35 per cent of the airline's shares.

A novelty of the deal will be the way Bancomer, one of the nationalised banks, will buy temporarily a minority portion of the consortium's stake for resale to smaller investors.

The consortium includes Transportacion Maritima Mexicana, Mexico's leading private-sector shipping group; Mr Miguel Aleman Velasco, head of

Televisa, the powerful media and business group; Mr Carlos Abedrop Davila, the brokerage house owner; and industrialists Mr Enrique Rojas Guaderrama and Mr Jose Serrano Segovia.

Under accelerated plans for privatisation, a senior official said last week that Mexico would sell 30 public-sector companies by late November to raise \$307m.

The sales are expected to send a positive message to Mexican investors at a delicate time leading up to the inauguration of Mr Salinas on December 1. He needs to establish credibility and popularity amid persistent accusations of electoral fraud and a deepening economic crisis.

Wage strike halts Argentina's trains

STRIKING signalmen and engineers paralysed Argentine train services and stranded tens of thousands of commuters yesterday in an effort to win wage increases and recoup buying power lost to inflation, AP reports from Buenos Aires.

Unions representing mail staff, teachers, doctors and many others of the estimated 1m Argentines who work for the state have held, or are planning to hold, similar walk-outs in what has become a big challenge to the Government's anti-inflation plan.

President Raúl Alfonsín said last week the Government would try to hold wage increases for public employees

to 4 per cent a month for November and December, except when productivity was increased. Private companies were urged to follow the same guideline.

Inflation for October is projected to be 8 per cent. Unions are demanding at least that much, plus more to cover the gap between their recent wage increases and an inflation rate which reached 25 per cent in July, 27 per cent in August and 12 per cent in September.

Mr Carlos Menem, the opposition Peronist Party's candidate for president in the national elections next May, estimated last weekend that workers' buying power had

shrunk by 30 per cent since Mr Alfonsín took office in December 1983.

The inflation rate since January 1984 has been 49,466 per cent.

Mr Alfonsín has imposed wage and price controls, devaluations and budget cuts in a failed effort to curtail rises in the cost of living.

Postal workers struck last Monday and Tuesday, and have called another nationwide strike for tomorrow.

The country's biggest labour federation, the General Labour Confederation, is demanding that the minimum wage of 1,310 australs a month (about £50) be drastically increased.

Press Cuttings

from Broad Street Associates

FINANCIAL TIMES

Lucas Industries pre-tax profits up 28% to £146.3m

By Richard Tomkins, Midlands Correspondent

LUCAS Industries, the UK-based international car components maker that has diversified heavily into aerospace and industrial systems, yesterday delivered a 28 per cent increase in pre-tax profits from £114.5m to £146.3m for the year to July.

The results were better than expected but Mr Tony Gill, chairman, refused to be drawn on the subject of the bid speculation surrounding the company or on his own takeover targets, and the shares shed ½p to 590p.

Lucas sold 10 businesses and bought seven during the year under review as part of its strategy to build up its aerospace and industrial operations, particularly in overseas markets.

Acquisitions, nevertheless, accounted for only £8m of the increase in operating profits. The biggest single contributor to the improvement was the automotive division, which increased operating profits from £86m to £106.4m.

Group sales rose 8 per cent from £1.82bn to £1.97bn. Reorganisation and redundancy costs took £14.1m (compared with £17.1m), related companies produced a net loss of £2.7m (against a profit of £5.8m) and the interest charge was virtually unchanged at £22.9m (£22.8m).

Fully diluted earnings per share rose 22 per cent to 73.7p (59.9p) and a final dividend of 15p is proposed, making 21p (15.7p).

Automotive profits were strongest in the UK, where a combination of record car sales and the closure or divestment of poorly-performing businesses produced

a doubling in operating profits to £52.8m.

The adverse effect of exchange rates left continental automotive profits little changed at £34.6m, and elsewhere they shed £3.5m to £14.8m. The impact of divesting the New Zealand subsidiary and the strength of sterling more than offset improved performances in India, Argentina and Brazil.

Acquisitions helped take North American aerospace profits from £5.5m to £18.7m, but the UK's contribution fell from £33.3m to £30.1m because of development costs, competitive pressures and higher redundancy costs.

The joint venture Thomson-Lucas operation in France cost Lucas £6.8m (profit £1.1m) but Mr Gill said an announcement about the reorganisation of the business was imminent.

The industrial division increased operating profits 87 per cent to £20.6m, aided by six acquisitions during the year. Mr Gill said one effect of these acquisitions had been to make Lucas the world's biggest individual distributor of fluid power equipment.

Research and development expenditure on products and manufacturing processes increased to £102m from £90m.

The £55m spent by Lucas on acquisitions during the year was almost outweighed by the £51m received from disposals, and the company therefore still has the proceeds of its £164m rights issue, received in May, available for acquisitions.

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Falklands pals

EX-Falkland Islanders met for a reunion over gas masks and bomb shells in Bath yesterday.

They met up for the first time since the war to launch a new exhibition on life in the islands.

The exhibition at Bath Heritage Museum, was organised by Brian Spencer and his wife Annabel, who now run the Falkland Islands Agency in Wells, selling island products and promoting tours to the South Atlantic.

Yesterday they met up with Anglia TV survival filmmaker Annie Price, who was trapped on South Georgia until 1982.

Mrs Price had known Brian as the local radio broadcaster after the war, when he became the only news contact

meet up in West

for people as far south as Antarctica.

She officially opened the exhibition which includes Argentine army equipment, wildlife pictures, woollen products and the islands' most collectable export — stamps.

"The Falkland Islands have had a bad press — they are not exactly as they seem in news pictures — I got more of a sun tan there than I ever have in Britain," she said.

"The people are the kindest and the most genuine I have ever met and the places are scenically stunning."

The Gurkhas face a battle to the last man



DAILY MAIL
24. 10. 88

By PAUL MAURICE, Defence Correspondent

THE feared Gurkhas are facing a political battle for survival. A secret Whitehall report has already recommended that the 8,500-strong force should be cut back because its role in defending the borders of Hongkong will disappear in 1997.

But this week the Select Committee on Defence starts a long range inquiry into whether the four battalions of the famed jungle fighters have any future in the 1990s.

Senior figures like former Defence Secretary Sir John Nott, an ex-Gurkha officer, and the former chief of Defence Staff Lord Bramall, will speak strongly on their behalf.

But the committee and Armed Forces Minister Roger Freeman are to visit the Gurkha homeland of Nepal to judge the economic effect of a major cutback in the force.

Mr Freeman and Defence Secretary George Younger have emphasised that the Gurkhas will have a role in the British Army after 1997 — but no-one has defined exactly what role.

Emotional

Defence chiefs have dismissed reports that the two battalions serving in Hongkong, one on contract hire to the Sultan of Brunei and one at Church Cookham in Hampshire, could be reduced to a single 650-strong unit.

But they are anxious to avoid an emotional judgment based on the 29 Victoria Crosses won by Gurkhas.

Many MPs from both sides of the House fear that as the current generation of warriors retires, it will not be replaced and their traditions will quietly be allowed to die.

The soldiers' reputation alone is as valuable as their combat ability. In the Falklands, 300 Argentine troops gave themselves up to Scots Guards rather than face a Gurkha patrol.

And as well as fighting skills, it is the loyalty of the Gurkha to his own crown and to the Queen which sets him apart.

A former senior officer said: "They are natural fighters with an immense bond of loyalty to Britain, the Queen and their officers. As soldiers they are ferocious."

In Nepal, there is no doubt loss of the regiment would mean economic hardship.

Every year between 400 and 450 soldiers are recruited and their salaries and savings are sent back to bolster the economy. In addition, thousands of old soldiers collect a pension.

Only teams of mountaineers and coach loads of tourists provide better income for the 15 million population.

Younger secures extra £800m to fund defence

Forces' manpower crisis may mean further rises in costs

By Robert Fox, Defence Correspondent

THE DEFENCE SECRETARY, Mr Younger, is understood to have won extra funding for his department of between £800 million and £1 billion ahead of the Chancellor's autumn statement due by the middle of next month. The money is to keep existing procurement projects on schedule.

However, indications of an alarming drop in recruiting and retention figures in the Army this year signal that Mr Younger is likely to need even more funds soon to tackle a serious manpower crisis by offering better pay and conditions across the board.

Some infantry units are believed to have suffered a 10 per cent fall in recruiting this year. Many units, particularly those of the Armoured Corps, are reporting difficulty in retaining married officers and NCOs to serve long tours in Germany.

Many wives established in jobs and professions have shown themselves reluctant to give up careers in Britain. The present difficulties come on top of the anticipated reduction in potential recruits as a result of the drop in the number of teenagers due to falling birth rates in the 70s.

The Army has already prepared a programme called Marilyn (Manpower and Recruiting in the Lean Years of the Nineties) to tackle such difficulties in two or three years' time.

But all three Services show signs of being faced with a crisis in recruitment and, above all, retention of key personnel.

Mr Younger is believed to have persuaded the Chief Secretary to the Treasury, Mr Major, that the first lot of extra money is necessary to avoid cuts in existing and forthcoming procurement programmes such as the order for new tanks, a replacement 155mm self-propelled howitzer, and the replacement or radical refit of the assault ships Fearless and Intrepid.

The extra money will bring the defence budget to more than £20 billion, from which the funding for procurement is expected to rise to about £8.5 billion next year.

Mr Younger was believed to be preparing to take his case to the "Star Chamber", the Cabinet committee chaired by the Energy Secretary, Mr Parkinson, which resolves disputes between big-spending departments and the Treasury.

But according to Government sources there are no plans to convene the "Star Chamber", and this is taken as evidence that Mr Younger has won a substantial part of his argument.

So grave are the problems of the defence department that some military commanders and civil servants are suggesting that Mr Younger may be forced to undertake a major defence review soon.

The last, which led to the White Paper, *The Way Forward*, was prepared by the then Defence Secretary, Mr John Nott, in 1981, only for many of its provisions to be scuppered by the Falkland conflict the following year.

Another unforeseen item of expenditure facing Mr Younger is the urgent need to find an effective battlefield anti-tank missile system to replace the Milan wire-guided weapon at present deployed by Nato infantry.

This has been rendered almost obsolete, according to some operators, by the latest improvements in explosive reactive armament (ERA) on Soviet tanks.

This form of armour protec-

tion, which detonates a charge to neutralise a missile like Milan, was at first largely ineffective.

But recent intelligence reports suggest its latest developments show a huge advance on older models.

The scheduled replacement for Milan, the missile system known as Trigat now being developed by Britain, France and Germany, is not due to enter service until the late nineties.

Already Mr Younger has on his agenda several crucial procurement decisions in the year ahead. He is expected to decide by Christmas whether to order the American M1A1 or the British Challenger 2 to replace the ageing force of 500 Chieftain tanks in Germany in a programme expected to cost around £1 billion.

And he has to choose a new 155mm self-propelled howitzer — either the American M109(HIP) or the AS-90 from VSEL in Britain — for a price of around £150 million.

The Ministry of Defence has said a decision will be taken whether to replace the two amphibious assault ships Fearless and Intrepid, at a cost of between £400 and £600 million, or give them a radical refit to "stretch" their service.

In addition the defence department has to pay for continuing major procurement programmes.

The single most expensive project of recent years, the acquisition of the Tornado aircraft in air defence and fighter ground attack versions, is soon to come to an end.

The Trident submarine programme for the next generation of Britain's nuclear deterrent, currently costed at about £9 billion, is described by the Defence Procurement Executive as "the least problematic of our programmes".

'Sick' Galtieri defies the courts in Falklands and dirty war cases

Jeremy Morgan
in Buenos Aires

GENERAL Leopoldo Galtieri, who failed to achieve glory in the Falklands, is now defying civilian courts from a sickbed at an army base.

Gen Galtieri was supposed to appear in court on human rights charges last Friday. But officers at the Campo de Mayo base, where he was in custody, announced he had developed "cardio-vascular problems" barely an hour before court proceedings were to begin at Rosario, 240 miles away.

The hearing was cancelled, and the sudden illness may also help the 62-year-old former Argentine leader avoid another court appearance today. The

Federal Appeals Court here is due to rule whether Gen Galtieri should serve a longer sentence for his part in the Falklands War than the 12 years handed down by a military tribunal in 1985.

The state prosecutor is demanding 20 years, and stiffer punishments for five other officers.

As unrepentant as ever about the Falklands, Gen Galtieri is coming under increased scrutiny for his role in the "Dirty War", a crackdown in which at least 9,000 people vanished after the military seized power in March, 1976.

The case in Rosario centres on his alleged responsibility for the death of 13 political prisoners at Margarita Belén, a small town in northern Argentina, nine months after the coup

d'état. It is a key case for President Raul Alfonsín's Due Obedience law, introduced after last year's Easter uprising to absolve most accused officers on the grounds they obeyed orders.

Senior officers who held regional powers are not covered by the pardon. Human rights activists say Gen Galtieri is in this category, as commander of the Second Army Corps when the "Massacre of Margarita Belén" happened.

So far the court has agreed, rejecting a defence plea that he should benefit from Due Obedience.

The case coincides with continued rumblings in the officer corps. Some reports, perhaps inspired by restless soldiers, say this shows fellow-feeling for 19 senior officers who may still

be tried. But with hundreds of officers no longer at risk after Due Obedience, ostensible tension over the trials may really be discontent at pay and budget cuts — and the customary jostling for position in the annual round of promotions.

Promotions are all the more sensitive this year because of a thorny issue: Navy Captain Alfredo Astiz, who has been linked to the disappearance of foreigners during the repression but was freed by the courts as a junior officer.

Almost a year ago, President Alfonsín agreed to promote Captain Astiz as long as he was retired from the navy. President Alfonsín, who is also commander-in-chief, never made it clear whether this was an order, and the Navy has yet to say whether it will comply.

U.S. Debt Policy Role Is Questioned

By Peter T. Kilborn

New York Times Service

WASHINGTON — Six years ago, when Miguel de la Madrid was approaching inauguration as president of Mexico, the United States rallied behind him with a \$1.8 billion loan to shore up the Mexican economy.

Now, Mr. de la Madrid is leaving and another president-elect, Carlos Salinas de Gortari, will take office Dec. 1. Again, the United States is preparing an emergency short-term loan — this time, of \$3.5 billion.

Much has happened in the six years since Mexico's first cry for help signaled the start of periodic debt crises in the developing world.

The big debtor countries are poorer, but some countries' finances have improved, and with that their ability to make payments on debts. Nevertheless, the debts have kept growing; they now exceed \$1.2 trillion, about \$400 billion more than in 1982.

During these years, the Reagan administration has devised a policy known as the Baker Plan, that amounts to an ideological quiver of carrots and sticks.

In exchange for new loans and easier repayment terms, it has insisted that borrowers adopt growth-oriented policies that would require such measures as changes in tax systems, selling off of government-owned companies and deregulation of their economies.

But this plan, put together three years ago by James A. Baker 3d when he was U.S. Treasury secretary, has met resistance. Many de-

veloping countries say such policies interfere with their political goals. And American banks, by and large, have failed to come up with the expanded level of financing envisioned by the administration.

Criticism from Americans and others has been rising. Senator Bill Bradley, Democrat of New Jersey, who advises Michael S. Dukakis,

The debate is still open. No big Western bank has collapsed because of client countries' difficulties in paying off debts, although they have taken losses.

the Democratic presidential candidate, on international economic affairs, is among those who have been saying that steps should be taken to forgive some of the debt.

They want to reduce the burden on borrowers, in contrast to the administration, which emphasizes minimizing the strain on lenders and the financial system.

The debate is still open. One reason is that no big Western bank has collapsed because of client countries' difficulties in paying off debts, although they have had to take some sizable losses.

At the same time, the American

efforts to rescue Mexico show that some things have not changed in six years. Both loans have been urgent restatements of the Reagan administration's theories about dealing with debtors.

And both illustrate a commitment not only to the developing countries' economies but to political systems in which the United States feels it has a stake — an element of policy evident also in Brazil, Argentina, Peru and Chile, where the United States has married its debt policies to support for transitions from military to civilian rule.

In discussing Mexico, R.T. McNamar, who was deputy Treasury secretary in 1982, said of Mr. de la Madrid and Mr. Salinas: "These are two tremendous men. We didn't want to see anything happen between the election and the inauguration in 1982. And it looks like we don't want anything happening now."

Still, the policies of the Reagan administration and its close collaborator, the Federal Reserve Board, are being challenged by prominent Democrats, by the French; by James Robinson, chairman of American Express, by a score of prominent American economists and by the chairman of the International Monetary Fund, Michel Camdessus.

Much of the debate comes down to the difference between debt forgiveness and debt relief. Under forgiveness, as seen by the Baker Plan's critics, the taxpayers of the lending countries, and not just the banks, would swallow some debt.

Argentina Trims Curbs On Imports

Reuters

BUENOS AIRES — Argentina has launched a controversial plan to open its economy through a reduction in import restrictions.

The new plan will radically alter Argentina's economy, which has traditionally favored the internal market to the detriment of foreign trade, economic analysts said. They said the plan allowed free import of products without prior authorization from the government or the industrial sector.

The business community opposed the plan, warning that foreign competition would destroy weak local industries. But the government said that the move would, in the longer term, boost exports.

President Raul Alfonsin said Friday, "We must find the means not only of producing for ourselves but of seeing the world also as an opportunity."

The Economy Minister, Juan Sourrouille, said the plan was "a new step in the country's economic integration with the world."

Business sources compared the plan with a similar one introduced by the former military government.

Through the plan, the average import tax on about 2,000 products, mostly raw materials for the industrial sector, will be 30 percent.

The government said local industries would be protected through periodic devaluations of the austral, Argentina's currency, against the dollar.

Argentine exports in the first seven months of 1988 were worth \$4.7 billion, while imports during that period totaled \$3.04 billion.

Government officials said an improved trade balance would help lessen the burden of Argentina's \$56 billion foreign debt.

Falkland troops' last picture show

FILM shows have been scrapped aboard the RAF TriStars which carry Servicemen to and from the Falklands.

A Defence Ministry spokesman in the Falklands said that 100,000 head-sets used for sound during 'in flight entertainment' have been

dumped because the cost of sterilising each one after use — thought to be around 7p — is too high.

British troops and civilians boarding a recent 18-hour flight to the Falklands from Britain were told by an official: 'We had several good films to show you, but the MoD can't afford to buy

earphones, so we won't be showing anything.'

One angry soldier said: 'The flight is boring enough, but it's even worse without any films or music.'

The Defence Ministry spokesman said it was 'not cost-effective' to clean the head-sets, bought from TWA.

Japan plans to hunt for whales again

by Simon Freeman

AS the world yesterday continued to watch the fight to save the whales trapped by ice in Alaska, it emerged that Japan is trying once again to launch its notorious whaling fleet.

Three years after an international moratorium was placed on commercial whaling, Japan is again making a determined effort to force the International Whaling Commission (IWC) to lift the ban on some species in the Antarctic.

The moratorium, imposed after a long battle between conservationists and the whaling industry, will be formally reviewed by the commission's 38 member-states in 1990. But Japanese government officials say that scientific evidence already proves that some species would not be damaged by what they call "careful harvesting".

They are particularly keen to hunt the minke whale, at about 25ft, one of the smaller species. They say the minke population in the Antarctic is between 400,000 and 500,000-strong — more than enough, they argue, to sustain hunting.

An investigation by The Sunday Times in Japan shows that the Tokyo government and the whaling lobby are

fighting harder than conservationists had imagined. As a result, a plan to resist them is being hurriedly prepared by conservationists.

Kieran Mulvaney, director of the Whale Conservation Society, said the Japanese figures on the minke whale were "demonstrably wrong".

"There may be 400,000 minke whales in the waters of the southern hemisphere, but the stocks in the areas which the Japanese want to fish are still badly depleted," he said. "Our information is that they are down by 50% from the levels in 1972, when the Japanese began hunting minke whales."

Mulvaney and other conservation groups, such as Greenpeace, allege that the Japanese regularly concoct false evidence. The Japanese government rejects these accusations. It is unjust, it says, for Japan to be blamed for the mass slaughter of whales in the first half of this century, when other countries such as the United States were even greedier.

Some right-wing Japanese MPs would like the government to ignore world opinion and resign its membership of the IWC altogether. "There are lots of whales in the ocean," said Fukijiro Kikuchi,

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Whales

Continued from page 1

president of the Parliamentary League for the Preservation of Whaling. "It is no good people in the West telling us that we are barbarians. You eat cows and pigs. It is a question of pride for us."

Japanese fishery experts are more cautious than the politicians. But they are just as sure that Japan is being victimised by the West. "Minke whales are a healthy species," said Dr Fukuzo Nagasaki, director of the pro-whaling Institute of Cetacean Research in Tokyo, which organises Antarctic "research expeditions". Last year, 287 whales were killed on such ventures, and this winter another expedition plans 300 more.

● Hope faded last night for

one of the three grey whales trapped in the Arctic ice off Alaska as rescuers continued desperate efforts to break a route for them to the open sea.

The youngest of the whales, nicknamed Bone by the rescue team, has been missing since Friday afternoon, and the assembled scientists fear it has succumbed to infection.

The skin on its snout had been rubbed down to the bone by the ice around the breathing hole that had kept it alive with the other whales, nicknamed Crossbeak and Bonnet.

But hopes for the survivors rose as Eskimos with chainsaws yesterday cut new holes in the ice in an effort to lead them towards the safety of the sea, five miles away.

On the edge of the ice pack, the crew of a National Guard helicopter punched holes through the crust with a dangling 10,000lb block of concrete.

Young stays low as MPs bay for blood

LORD YOUNG's cosy habitat in the House of Lords does not help the government at times of parliamentary attack on his Trade and Industry Department. When the balloon goes up, he is in one place, MPs in another. The result is that ne'er the twain shall meet except at angry, off-the-record meetings between him and Tory MPs. It is an unsatisfactory state of affairs, made all the more irksome to MPs because of Lord Young's golden route to high office via the prime minister's patronage. There is more than a touch of such personal resentment in the current Young-baiting.

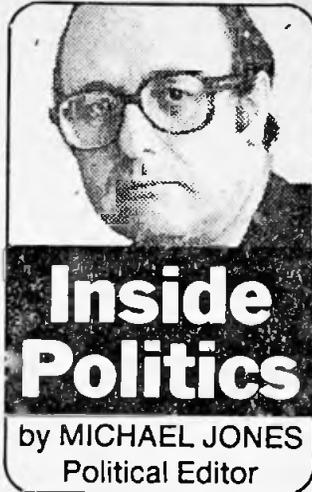
He cannot help it but it does illustrate the dangers of allowing peers, who were never in the Commons, to hold top departmental posts.

Lord Whitelaw adorned both Commons and Lords in his time and the government benefited from his elevation from lower to upper house. But he filled the role of Cabinet *grand seigneur* and trouble-shooter. The Cabinet remains the poorer without him.

For Tony Newton, Lord Young's representative in the Commons, defending the DTI's unhappy role in the Barlow Clowes scandal last week was a doomed venture. Tony Blair, the rising star of Labour's younger generation and a strong bet for the shadow cabinet, leapt to the attack with all the vigour of a man with the wind on his back and the sun on his brow.

The result was foregone. MPs knew that Mr Newton was personally blameless but they were not assuaged. Their constituents were taken for a ride while the DTI shilled and shallied over what, if anything, to do about Barlow Clowes's rip-off activities. They want cash on the nail.

The Commons row last Thursday would have been more cathartic if Lord Young, who has statutory responsibility, had stood his own ground before parliament's elected representatives. MPs baited Mr Newton but their fury remained unspent. Lord Carrington was the last peer to run a great department of state from the Lords and pay the



penalty of incurring the wrath of the Commons. Some 2,000 Argentines invading the Falklands brought him down. There are 11,000 swindled Barlow Clowes investors.

Fortunately for Lord Young, the Barlow Clowes affair is no Falklands-scale debacle, but it is not over yet. Tory MPs want blood. They are furious at Lord Young and want retribution against those DTI officials who kept quiet while investors' money vanished by the million. Far from diminishing their anger, the government's attempt to kick the issue into touch by referring compensation claims to the parliamentary ombudsman only keeps it alive. Sir William Clark, chairman of the Tory finance committee in the Commons, has already declared the responsible DTI officials guilty of a dereliction of duty. Lord Young is not out of danger yet.

Nor, on the wider economic front, is Nigel Lawson. Non-Treasury ministers have been sent a brief asking them to make the case publicly for moderation in the coming round of wage negotiations. John Patten, the home office minister, did his bit last week. The line he relayed is that the retail price index — up 5.9% on last year — is not the right basis on which to base new pay claims.

Why not? Because it's embarrassingly high. Negotiators are asked to turn instead to another more convenient Treasury table, the long-forgotten tax and prices index. That stands at a modest 3.9%

above last year, thanks to this year's income tax cuts. This means, says the government, that pay levels need only rise by under 4% this year to keep their real value. Logically sound, no doubt, but a hard one to sell.

The sight of ministers zeroing in on pay rises underlines the Bank of England's fears about the danger of resurgent inflation lasting longer than is yet admitted. High interest rates are only part of the battle. We may yet see the unofficial resurrection of an old, discarded companion in new clothes: incomes policy. If so, nobody should be too surprised. The Whitehall norm is already set at 4%. Public sector unions should take note.

Clearly, the scale of the chancellor's tax cuts in his last budget hangs heavily over the approaching winter scene. Labour quotes the last budget's upper-tax relief with mounting glee and its speakers in this week's Commons debate on the economy are likely to make much of the contrast between tax handouts for the rich and current moves to squeeze government spending, freeze child benefit and charge for eye tests and dental inspections.

A sizeable band of Tory rebels are already restive about child benefit and new health charges and moves are afoot to try to buy them off. If that happens, it will be the turn of the prime minister's hardline supporters to squeal. They think Thatcherism is already showing signs of going soft and that the government is drifting back to the bad old ways of extravagant Tory paternalism.

The growing Tory argument over the future of universal welfare benefits is central to the outcome of this return to doctrinal battle inside the governing party. Mrs Thatcher's heart is with the Tory right and they have a case. Despite all the talk about Tory cuts, the government spends more of the nation's annual product now than it did when she took office.

But the prime minister is also a realist and knows that there is no easy cutting back of state handouts. She knows the way ahead is uphill.

What England expects of President Bush

FOREIGN FILE

by John O'Sullivan

WASHINGTON

SOME years ago, at a high-powered jamboree on the "special relationship", a journalist asked one senior US official present if the United States would have given a Nato ally like France the same level of assistance as Britain had received in the Falklands War. He plainly expected the answer "yes" and, given that French officials would certainly hear the reply within hours, he should probably have received it.

Instead, the US official embarked on a eulogy of Franco-American relations since Lafayette which ended somewhat lamely with the admission that they wouldn't. Britain's treatment had been, well, special.

This reply was not welcome to all the British present. For there is a strong body of opinion in diplomacy and the higher journalism that the Anglo-American special relationship is a British delusion of grandeur blinding us to our real interests and inevitable future as a European province. Such critics regularly pronounce it dead or worthless, then a Falklands War demonstrates its value again. Whereupon a new pretext for its obituary has to be invented.

One has now come along with the forthcoming close of the Reagan-Thatcher partnership which has made the special relationship even more special than usual. Will it survive undiminished under a President Bush or a President Dukakis?

Personality plays only a limited role in international politics. The natural confluence of British and US interests, the long post-war tradition of working together, the broad cultural sympathy between the two peoples, and today the great prestige which Mrs Thatcher enjoys with American public opinion - all these would sweep the most isolationist President towards Anglo-American cooperation over time. With Mr Dukakis, however, it might take time.

Mr Dukakis is a not unfamiliar figure in New England - the puritan vote-catcher who wants to reform the world in line with his constituents' prejudices. In particular, he wants to impose comprehensive economic sanctions on South Africa and to persuade Britain to govern Northern Ireland along lines approved by the American Civil Liberties Union (a local variant of the National Council for Civil Liberties.) Neither course is likely to win the support of Mrs Thatcher.

If the polls are correct, however, that may not be a problem. It is President Bush she will be dealing with. And Mr Bush is essentially President Reagan without surprises - such as abandoning deterrence overnight at Reykjavik. Indeed, if we look only at the bedrock elements of the special relationship, a Bush administration might be closer to British policy than even

Mr Reagan has been.

Intelligence cooperation? When he was Director of the CIA, Mr Bush reached an agreement with British intelligence to supply them with important satellite surveillance not only of the Soviet Union but also of other parts of the world. According to John Ranelagh's authoritative history of the CIA, *The Agency*, his successor, Admiral Stansfield Turner, tried to back out of the deal because the material was so secret.

Nuclear cooperation? Mr Bush supports Trident which is the pre-eminent British interest here. On "Star Wars" too, where he takes the cautious view that SDI research should be continued at present funding levels with no decision on eventual deployment, he is closer to Mrs Thatcher than either is to President Reagan.

Policy toward the Soviet Union? Again, Mr Bush echoes the Prime Minister's warnings that the West cannot lower its guard until the Soviet Union reduces its forces to a defensive standard.

An open trading system?

Both favour freer trade. Both dislike the Common Agricultural Policy and Euro-protectionism in general.

On only one issue is Mr Bush likely to disappoint Whitehall's expectations. He probably will not increase taxes in order to cut the federal deficit. That is now a matter of Republican orthodoxy. Otherwise, the Thatcher-Bush partnership should be a marriage of true-blue minds.

Mrs Thatcher would gain, in addition to the specific benefits listed above, special influence in Washington both for Britain and Europe. President Bush would enjoy political support from a popular allied leader for controversial foreign policies. That is no small matter. It was Britain's decision to supply Blowpipe missiles to the Afghan rebels which made it possible for President Reagan to supply them with the more advanced Stingers which in turn forced the historic Soviet retreat.

But Mr Reagan was an easy-going, self-confident personality. Would Mr Bush be equally relaxed? Might he not want to show her just who is the Leader of the Free World?

This does an injustice both to Mr Bush's character, which is steelier than his public image, and to the respect which both leaders developed for each other during incidents like the missile installation crisis of the early eighties. But just suppose it to be true. The Prime Minister must have learned over time to protect the bruised male ego, especially in politics where the egos are so large that they cannot avoid bumping into the furniture. She can take an American Declaration of Independence in her stride.



Falklands card played in election

by Gary Mead

BUENOS AIRES

ARGENTINA goes to the polls on May 14 next year to choose a new President, and the candidate most likely to succeed is deeply hostile to Britain and determined to regain the Falklands.

Mr Carlos Saul Menem, Governor of the province of La Rioja, is effectively using both themes in his campaign, and the signs are that he will be the first Peronist to head the state since Isabel Peron was overthrown 12 years ago by a military junta.

So who is Mr Menem and why is he leading his main opponent, Mr Eduardo Angeloz, the candidate of the governing Radical Party, by more than 20 points in the polls?

The explanation for Mr Menem's ascendancy (apart from his anti-British rhetoric) is the Radical Party's dismal economic performance. Inflation hit 30 per cent in August and in desperation the Government launched an economic package designed to curb price rises.

This year Argentina is due to pay some £3 billion interest on foreign debt of £33 billion. Already more than £500 million behind on those payments, it is failing to attract the £2.5 billion worth of fresh credit it has asked for from its commercial bank creditors and the International Monetary Fund.

Mr Juan Sourrouille, the Economy Minister, hopes that he will cure inflation by a fragile pact dependent on business agreeing to hold prices down and unions limiting their wage demands. Neither business nor unions are happy.

All of that works to the benefit of Mr Menem, despite the dismal financial record of his own province. La Rioja has been reduced to printing its own paper money — which, of course, is of no use outside the province's boundaries.

Mr Menem's critics make much of the ruinous state of affairs on his own doorstep but

the Governor merely replies that La Rioja is a poor province, starved of funds by central Government.

Mr Menem has adopted the simple but crude tactic of convincing a worried electorate that he alone can solve the deepening crisis. He promises also to restore its sovereignty over the Falkland Islands.

On Anglo-Argentine relations Mr Menem's greatest contribution is to declare that as President he will impound British Crown property in Patagonia and elsewhere in order to bring Downing Street to the discussion table on the sovereignty of the Falklands.

A handful of British diplomats left in Argentina are at a loss to know what he means by Crown property in Patagonia. "There isn't any Crown property in Argentina, apart from the Embassy itself," is the laconic reply.

Least of all does the Crown own property in Patagonia, the huge semi-desert area two hours' flying time south of Buenos Aires. The only traces of Britain in Patagonia are the remnants of a Welsh community which landed at Puerto Madryn in 1865.

Despite Mr Menem's desire to use Britain's control of the Falklands as a political plank, the ties between the two countries run so deep that a mixture of envy, friendliness and curiosity are the real feelings Argentines have towards Britain.

In months of work here I have not met a single Argentine who has anything but praise for Mrs Thatcher's economic policies. Their general sentiment seems to be a reluctant "if she were in charge here..."

So for the time being, the stalemate persists, no doubt much to the relief of the kelpers in Port Stanley. Certainly nothing will change before the election next year.

Until then, Welsh teas are still available in Patagonia, and the "Crown property" — wherever it may be — is still safely in the hands of the Realm.

PROFILE: Cecil Parkinson,
shadowed by scandal



Perennial
victim of the
paparazzi

Press Cuttings

from Broad Street Associates

THE INDEPENDENT

Margaret Thatcher wants Cecil Parkinson to be the next Chancellor of the Exchequer. She intends moving him into Number 11 as her Downing Street neighbour next summer, when she will probably undertake the most extensive Cabinet reshuffle of this Parliament. She may even hope he will succeed her as leader of the Conservative Party — though, at 57, he is only six years her junior. Mrs Thatcher may fail in any or all of those aims; but her attachment to Parkinson as the most loyally reliable torch-bearer for her brand of Toryism makes him an important figure.

The fondness of one woman, the Prime Minister, and the enduring fury of another, his one-time mistress, Sara Keays, so dominate public and political perceptions of Cecil Parkinson that he seems to exist only as a reflection of other people's ambitions and emotions. The more a private life is ostensibly exposed, as with the Keays affair, the less people know. The brighter the glare of camera flashbulbs and television arc lights, the more two-dimensional the figure becomes. The more Parkinson-wife-Keays became an abstract subject of dinner-table discourse, the less Cecil Parkinson seemed able to convey an impression of real substance.

Whoever asks where Cecil stands, politically, for instance? They should. One of the main reasons why Mrs Thatcher forgives him everything, personally, is that she need make no allowances for him politically. He is with her all the way (except, it is said, on the poll tax), and that can no longer confidently be said of any other senior member of her Cabinet, bar Nicholas Ridley.

Some of Mr Parkinson's colleagues suggest that she wants him as Chancellor so she and her advisor Alan Walters can be the true Chancellor of the Exchequer, based at Number 10. But they forget that Parkinson is one of the few who are instinctively right wing on both social and economic issues, and that shortly before Cecil told Mrs Thatcher that he had made his secretary pregnant, the Prime Minister let Parkinson know that she intended to appoint him Foreign Secretary after the 1983 general election victory. He was foiled by the consequences of adultery then; the chancellorship would be complete compensation.

Friends (and enemies) assiduously foster the idea that Mr Parkinson's sole talents are smooth (or slick) presentation and irresistible (or oleaginous) personal charm. The knowledge that Mrs Thatcher has a soft spot for him, and that Ann, his wife, stayed loyal even after he admitted deceiving her on and off for more than a decade, reinforces the Parkinson image subtext: Good-looking, eager to please, needs to be loved . . . Not an original policy mind, not very decisive . . . Appealing, but vacillating . . . Heart-on-the-sleeve openness, implying lack of personal strength.

It is rarely remarked that Cecil can be is nervous in public, and is in some ways shy. An air of boyish vulnerability, rather than sleek handsomeness, is the key to his attractiveness. But he is tough and resilient, and has ridden considerable private pain aside from the Keays affair. One of his three daughters has undergone long and intensive treatment to break an addiction to heroin.

People who have worked closely with him on the privatisation of electricity have been pleasantly surprised by his determination to ensure a competitive element in the post-privatised industry. Those who wrote him off as "nothing but a good presentation man" have been impressed by his ability to lead a team that is tackling one of the most complex and contentious denationalisation projects.

Parkinson is neither weak nor dim. Even with the Prime Minister's indulgent aid, it is not easy to re-emerge from the wilderness of scandal to an acclaimed place on the Tory conference podium. And he retains the polished salesman's skills. By calling his announcement on coal privatisation at Brighton a "historic pledge", Parkinson won headlines he did not strictly deserve: in fact he said nothing in his conference speech that he had not said to the Commons four months before.

Nevertheless, his eminence now rests wholly on the Prime Minister's patronage. It is often said that Mrs Thatcher adores him because, as chairman of the party, he engineered for her a devastating victory over Labour at the 1983 general election. In truth, her attachment was fixed a year earlier, when she brought Parkinson in to the Falklands "inner Cabinet", as the Government's TV front man. The Falklands campaign remains, for Margaret Thatcher, the high point of her decade in power — the moment at which her political and emotional make-up most powerfully blended. Those who work closely with her say that any bond forged in those weeks is special to her.

Cecil Edward Parkinson was born and bred in Carnforth, Lancashire, son of a railway plater. He led, by all accounts, a contented childhood in a strongly supportive family — an uncomplicated, comfortable and respectable upbringing. His family were in the strong northern working-class Tory tradition, but for three years the teenage Cecil was an active member of the Labour Party. He was a model of the post-war generation of grammar school meritocrats, who believed that all things were possible in Attlee's New Jerusalem. Bright at school, particularly in the classics, he won a scholarship to Emmanuel College, Cambridge, and studied English Literature under F R Leavis's tutelage.

After two years of his course, Parkinson decided it might be wiser to work on a more earnings-useful subject, and switched to law. For the rest, he had fun. He took no part in university politics, but won a blue for running, sang for the college, socialised and saw lots of plays and films. He had stopped supporting Labour, but was not yet a confirmed Tory. The young Conservative students busily competing at the Cambridge Union struck him as over-assured; he was still quietly working out, not only where he stood, but his preferred destination.

Not wanting the temporary poverty of an articled clerk, he left the law after Cambridge and joined Metal Box as a management trainee. Then, contemplating emigration to Canada, he decided to train as an accountant. The Canada plan was dropped when his father suffered a heart attack, and he continued with his City firm as a partner.

Cecil married Ann — daughter of Tony Jarvis, war hero, wealthy building contractor and prominent figure in Hertfordshire life — and started to make both money and his way in society. He became convinced, during his twenties, that socialism was in practice unworkable, and therefore wrong. If he could make it in an open British society, anyone could. He felt unencumbered by envy or privilege — indeed, he regarded both as middle-class banes which he had been fortunate to escape. He did not become a paid-up member of the Conservative Party until he was 29. For someone going on to a career in politics, it was a gradual arrival.

Two of Parkinson's closest associations date from that emergent period, before selection to succeed in Iain Macleod's safe seat (now called Hertsmere). He set up his own business in partnership with Billy Hart; a subsidiary of their firm was sold in 1979 for a reputed £750,000. He is wealthy now, but not over-loaded. The second connection, formed when Cecil became the youngest-ever constituency chairman of Hemel Hempstead Conservative association in 1966, was with Norman Tebbit, his second-in-command.

Ever since, Parkinson's and Tebbit's lives have spiralled one around the other, right up to Tebbit succeeding Parkinson as both Secretary of State for Trade and Industry and party chairman. They have been simultaneously friends, rivals, mutual advocates and confidants for nearly a quarter of a century. Parkinson remembers waking up in Connecticut the day after the Brighton bomb, and switching on his hotel television set to see Norman Tebbit being dragged from the rubble. Cecil spent part of that afternoon kneeling in a church on Fifth Avenue, New York.



The publication of Mr Tebbit's biography caused further tension between them. Parkinson was angry that *Upwardly Mobile* gave Ms Keays fresh excuse to put the affair back on the front pages only days before the Tory Party conference. Relations cooled, but were restored by what amounted to a Tebbit apology. More significantly, the incident illustrated how easily Parkinson can be bruised by the continuing Keays fallout — and not just in the obvious sense that the forced resignation severely jolted his rise to power and will forever haunt his renascent career. For a man who wants nothing but to enjoy life, who is never happier than when he is gossiping and joking with companions, the imperative of keeping a public silence and an air of gravity, if not contrition, is a strain.

His desire to secure peace, privacy, and security for his illegitimate daughter, Flora, is as genuine as the depth of Ms Keays' hurt. On that, all his friends agree. Parkinson also has a self-interest in trying to still the Keays waters permanently, but he is powerless against a former lover who has nothing to lose, and feels plenty to revenge.

All Parkinson's friends know how he now feels about Sara, the Keays family and the regularity with which stories about Flora appear in tabloid newspapers. They say that at times he has been obsessed by his anger and his inability to stop Ms Keays overshadowing his life. Over the past year, as his rehabilitation has progressed, Parkinson has relaxed a little. Lord Whitelaw is no longer around to argue against his climb back. But his debt in public penance can never be fully paid. However much he strives and deserves to be a three-dimensional politician, he is doomed to be the potential victim of a paparazzi's gun. He will never be leader of the Conservative Party, never Prime Minister. But so long as his patron is both those things, he may yet win the second prize.

Sin and insincerity

A NEW survey has confirmed the truth of what students of newspapers have known for many years. It was discovered in the America of the roaring twenties that the sensationalist yellow press had low credibility but was much enjoyed as entertainment. The same holds good today for some of our own mass circulation papers. A Gallup Poll conducted for Mr Eddie Shah, who plans to launch a new daily in England on November 10 called *The Post*, finds that most people find our popular tabloid press intrusive and not to be trusted as a source of information. Two out of three people do not like the way the Royal Family is reported and most believe that stories about personalities in show business, business and sport are given too much prominence.

At one level not too much significance should be read into this. The founders of the doomed News on Sunday made the mistake of believing their own market research. People said they were against titillation but showed a remarkably persistent taste for it in the event. When people are asked if they endorse sin, they will almost invariably demur; they will with equal enthusiasm support virtue. There is a Jekyll and Hyde in everyone. We may dislike salaciousness but may not be above enjoying it if it comes our way. There is a hypocrisy here, of course: the public condemns the tabloid press but continues in large numbers to buy and enjoy its titillating stories. At least we should be grateful that it does so in search of entertainment rather than enlightenment and seems perfectly capable of distinguishing between fact and fiction. That may be of small comfort to victims of its prurience.

A more sobering conclusion comes from the survey's finding that most people, indeed almost 70% of the sample, support new laws to protect personal privacy. It is one of the ironies of life in modern Britain

that the Government has taken extraordinary steps to censor the serious press and media. The doctrine of confidentiality has been set above that of free speech to gag discussion of Mr Wright's claims in the Spycatcher affair. Although that attempt has finally failed in the courts, the doctrine itself was upheld by the Law Lords, who had little to say in favour of free speech. The Government is still trying to apply the doctrine in the case of the Cavendish memoirs, and it is likely to be entrenched in legislation to reform the Official Secrets Act. The broadcast media have, under the ban announced this week by Mr Hurd, been prevented from exploring the full extent of Ireland's tragedy. The BBC was hounded during the Falklands War for putting its duty to balanced reporting before simple and self-deluding patriotism, and the corporation has not recovered its self-confidence yet. By contrast the activities of certain newspapers and journalists go unchecked. People in public life, show business or sport have been entrapped and compromised, often in circumstances that closely resemble blackmail. The Government shows little interest in such matters, perhaps because these papers support it stridently, but opinion in the country and in Parliament is moving steadily towards legislation to protect personal privacy. Again the losers will be the serious press, for the new laws will not just protect individuals from journalists muckraking in their personal lives; it will also shield rogues and villains who enjoy public trust from the justifiable inquiries of investigative journalists. If Scottish society, in Tom Nairn's famous phrase, may be said to have come of age when the last minister is strangled with the last copy of the Sunday Post (unfair to a worthy newspaper), then Britain may be said to have matured when politicians are brought low because of incompetence in office rather than indiscretion in bed.

YOUNG SAVAGED OVER CLOWES VICTIMS' 75p

FURIOUS Tory MPs gave Trade Secretary Lord Young a mauling last night over his handling of the Barlow Clowes crash.

They attacked him for refusing to compensate 18,000 investors, many of whom have lost their life savings in the £190 million collapse of the financial empire.

Lord Young said the 7,000 investors in Barlow Clowes Gilt Managers, which crashed owing £50 million, were likely to get 75p in the pound of their savings back.

But 11,000 investors in Barlow Clowes International, based in Gibraltar, would probably get only 30p, he said.

Calls for the Government to bail them out with cash to make up their losses have been rejected by Lord Young. Fellow Tories were incensed by the fact that his Trade and Industry Department twice issued trading licences to Barlow Clowes, which investors reckoned were Government guarantees that their money was safe.

But all the time the Barlow Clowes empire was tottering, an independent report published yesterday reveals.

In 1983, the Department even considered prosecuting the firm under the Prevention of Fraud Act, but went on to issue the two licences, in 1985 and 1987. Lord Young insisted

yesterday that Ministers had no legal liability over the affair.

Nor did they have a moral obligation to compensate the 18,000 investors from the taxpayers' pocket, he claimed.

But Tory and Opposition MPs disagree. They have been bombarded with heart-breaking stories of small savers whose lives have been ruined by the Barlow Clowes crash.

Pensioners and workers made redundant ploughed their life savings into the Barlow Clowes group on the strength of the DTI licences.

Lord Young was savaged by Tory MPs at a private meeting at Westminster over his refusal to grant compensation.

One MP said: "I haven't seen anything like it since Lord Carrington met us after the Falklands invasion.

"I think Lord Young is going to have to go away and consider his position."

The Cabinet spent virtually the whole of its meeting at Downing Street yesterday morning discussing the affair, then gave reluctant backing to Lord Young.

Labour Trade spokesman Tony Blair pilloried Ministers when their decision was later announced to MPs. Investors who had suffered were not "get rich quick" City slickers, he said.

Argentine yard wins conversion contract

From James Brewer,
Shipping Reporter, Buenos Aires

PRIVATELY-owned Argentine shipyard Alianza has won its first major ship conversion contract.

The Buenos Aires yard is to enlarge and modify two containerships for Norwegian owner Ivarans Rederi, with an option to convert two further ships in the same fleet.

The contract, estimated to be worth more than \$5 million if the options are declared, relates to the West German-built *Holstencruiser*, *Holstentrader*, *Holstensailor* and *Savannah*, which range between 580 to 600 TGEU capacity.

The deal was won in competition from yards in West Germany, Poland and Yugoslavia and is an important boost for domestic shipbuilding, which faces a severe shortage of orders.

The contract was negotiated with the assistance of Robinson Fletamentos of Buenos Aires, with work of around 40 days' duration to commence in February 1989.

The vessels will be increased to 820 TEU capacity with a 14.4 metre hold section inserted in each, and there will be a new bridge and cranes.

Enlargement of the vessels is seen as a means of increasing their competitive position in the South America-US Gulf and east coast trades, where freight rates have been sluggish.

The relative attractiveness of Argentine yards in world markets is said to have improved. Most of Alianza's recent work has concerned Panamax bulk carriers, with Polish authorities understood to have extended earlier this year a letter of intent to contract some five such vessels.

BankAmerica Profit Tripled In 3rd Period

By G. CHRISTIAN HILL

Staff Reporter of THE WALL STREET JOURNAL

SAN FRANCISCO — BankAmerica Corp.'s third-quarter earnings more than tripled, as tight cost controls and strong growth in high-earning loans continued to fuel the once-troubled banking giant's strong recovery.

The company, which posted losses of \$1.8 billion from 1985 to 1987, said third-quarter net income surged to \$190 million, or 97 cents a share, from \$54 million, or 25 cents a share, in the year-earlier period. The earnings were 17% above the second quarter's net of \$162 million, or 85 cents a share.

The results exceeded analysts' expectations. "They were fantastic," said Thomas K. Brown of Smith Barney, Harris Upham & Co. He had expected earnings of 90 cents a share and said the consensus was in a range of 80 cents to 85 cents.

"They seemed like the best yet, a very solid performance," said Donald Crowley, an analyst for Keefe, Bruyette & Woods Inc. "If anything, I think the results are understated" because the earnings jump was achieved despite putting Argentine loans on non-accrual and despite a \$48 million decline in non-interest income from the second-quarter level.

Indeed, BankAmerica indicated that the outlook for the fourth quarter is even more robust, because the completion of a restructuring of Brazil's debt is expected to add \$320 million of deferred and current interest income to the period's net.

Mr. Brown predicted that BankAmerica will earn about \$2.40 a share in the fourth quarter. He estimated BankAmerica's 1989 earnings at \$1.04 billion, or \$5.15 a share, which he said would suggest a stock price of \$24 to \$26 a share. Mr. Crowley was more restrained, predicting earnings of \$4.50 a share.

For the nine months, BankAmerica reported net of \$461 million, or \$2.40 a share, compared with a loss of \$1.02 billion in the year-earlier period.

The magnitude of BankAmerica's recovery was somewhat exaggerated by U.S. tax credits from previous losses. Without a \$45 million tax credit, the company's return on assets in the third quarter would have been a mediocre 0.6%, mainly because of high costs and non-performing assets.

Separately, Bank of Boston Corp. said its third-quarter net income rose 7%, reflecting higher net interest revenue and venture-capital profits. The bank-holding company reported net of \$79.2 million, or \$1.14 a share, up from \$74 million, or \$1.09 a share, in the year-earlier period.

A 6% increase in net interest revenue, to \$299 million from \$282 million, came despite the effects of an accounting change and narrower margins. The accounting change, which affected certain loan fees, reduced earnings by eight cents a share for the quarter and by 20 cents a share for the nine months through Sept. 30, the bank said.

Navy killed Falklands soldier, jury rules

A WIDOW yesterday won a six-year battle to uncover the "lies and deception" surrounding the death of her soldier son, killed in the Falklands just a week before the conflict ended.

An inquest jury returned a unanimous verdict of accidental death on L-Cpl Simon Cockton, after hearing how he and three other soldiers were killed when their Gazelle helicopter was shot down by a British ship.

An initial inquest ruled that L-Cpl Cockton (22) had died from enemy action.

His mother, Mrs Winifred Cockton (64), fought a long and



Mrs Winifred Cockton arriving at yesterday's inquest

expensive battle for the second hearing when she learned that the helicopter was not shot down by the Argentinians.

She said yesterday: "It's been very hard to have to do this, but I was determined that I would wipe away the lies."

Mrs Cockton spent £3,000 in her attempt to quash the first verdict and expects a further bill of up to £4,000 to pay for her counsel at the hearing in Southampton.

The jury took just eight minutes to return the accidental death verdict.

They heard that the Gazelle was fitted with an Identification Friend or Foe (IFF) system — but that night it was not switched on.

As the helicopter failed to give a friendly signal, it was thought to be an enemy aircraft and was shot down by a Sea Dart missile fired from HMS

Cardiff on June 6, 1982, said the coroner.

Afterwards Mrs Cockton, of Aylesbury, Buckinghamshire, said: "I am very pleased, if pleased is the right word.

"Perhaps it is better to say satisfied — that at last I've got a correct verdict. It's what I've been fighting for."

The verdict of the first inquest in December 1982 was quashed in February this year by the High Court, after new evidence about the shooting down of the helicopter.

Mrs Cockton is not planning to try to win compensation. "Money does not do you any good," she said. "It was not the Navy's fault.

"Accidents happen in war. One thing I would like to know, is why did they cover up my son's death? Why the deception?"

"The Ministry of Defence does have a duty to protect people who have duties in war. But surely we have a moral right to know how our men are killed and to know at the time."

The jury, sitting before the deputy coroner for Southampton and New Forest District, Mr Thomas MacKean, was told that the Gazelle was hit as it flew equipment to a signals station at Mount Pleasant.

Mr McKean said an Army officer had called on Mrs Cockton in May 1986 and said there had been an unfortunate mistake and her son was probably killed by a British missile.

Feeling that the first verdict was improper and unjust to her son's memory, she obtained a court order cancelling the first verdict and ordering a new inquest, he added.

Lt-Col Colin Silburn — who sent L-Cpl Cockton on the mission — said he was told that IFF identification should not be used as it interfered with other weapons systems.

Lt-Commander Andrew Welch, who was on HMS Cardiff that night, said every request to the helicopter for identification was ignored and two Sea Dart missiles were fired. The first missed — but the second struck the Gazelle.

The inquest heard that L-Cpl Cockton left for the war on the day of his wedding.

Yesterday, his mother disclosed that his young wife remarried on December 31, 1982 — three weeks after his military funeral.

"My son's widow has not kept in touch with us and did not tell us about her second marriage. But she was very young. We hope she's happy."

Earlier, the coroner directed the jury not to return a verdict of unlawful killing, saying the crew of HMS Cardiff had acted properly.

Justice for a son



Mrs Cockton: Brave

Navy error killed Falklands soldier

A BRAVE widow today finally saw justice done for her Falklands soldier son, killed by a Royal Navy missile.

Winifred Cockton, aged 64, battled for a new inquest after the original one said that Lance Cpl Simon Cockton was "killed by enemy action."

Her persistence led to the discovery of vital evidence and today's second inquiry into the death.

L Cpl Cockton, aged 22, was in a helicopter hit by one of two Sea Dart missiles fired from HMS Cardiff in June 1982.

The destroyer, supporting forces on

shore on the Falklands, believed the helicopter was an enemy, as it failed to give a friendly signal, said Mr Thomas McKean, deputy coroner for Southampton.

He outlined the circumstances surrounding the death of L Cpl Cockton to the opening of the second inquest into his death.

At the first hearing on December 14, 1982, evidence was given that fragments of a missile were found in the wreckage of the helicopter which, after close examination, led investigators to believe had been fired by the enemy, said Mr McKean.

Matters would have rested there but

for the tenacity of L Cpl Cockton's mother. She got hold of information that indicated the helicopter was not shot down by the Argentinians.

"It was struck by a missile in fact fired by one of Her Majesty's ships," said Mr McKean.

"On May 23, 1986, an Army officer called to see her and told her that there had been this unfortunate mistake."

Mrs Cockton, of Aylesbury, Bucks, obtained a court order cancelling the first verdict and ordering a new inquest.

(Proceeding)



L Cpl Cockton: Victim of mistake

Falkland hero's mother wins fight for new inquest

Soldier 'killed by British blunder'

AN INQUEST on a Wiltshire-based soldier killed in the Falklands will re-open in Southampton today — because his mother has uncovered dramatic new evidence that he was killed by a British blunder.

Lance Corporal Simon

Cockton, 22, was one of four servicemen on board an Army Air Corps Gazelle helicopter shot down in the early hours of June 6 1982.

Co-pilot Simon, together with the pilot and two signal officers, were on a special mission over Mount Pleasant.

Simon's mother, Mrs Winifred Cockton of Rowland Way, Aylesbury, Bucks, says

Western Daily Press Reporter

she was originally told by the Ministry of Defence that the crash was due to bad weather.

Outraged

But an inquest in Southampton in 1982 recorded a verdict that Simon was killed due to enemy action — and she became suspicious when she received a letter from an Army comrade of Simon at the

Netheravon air base which said that members of 656 Squadron were "shocked and outraged" at his death.

Then, on May 23, 1986 she says she was telephoned by an officer in Simon's squadron who said he would tell her the truth about the crash.

After meeting him she is now convinced the helicopter was shot down by a British-fired Sea Dot, a ship-to-air missile.

Mrs Cockton claimed there were no Argentinian ships in the area at the time the helicopter was shot down.

Argentina pays \$100m as debt talks begin

By Stephen Fidler, Euromarkets Editor

ARGENTINA, in arrears on interest payments to its commercial bank creditors since April, made an interest payment of about \$100m yesterday as its debt negotiators settled down to talks with bankers in New York.

In what could prove a controversial move, the payments relate only to new loans granted by commercial banks in big rescheduling packages in 1985 and 1987. The country's total arrears to creditors are estimated at \$1.2bn.

The payment was announced in a joint statement yesterday from Mr Daniel Marx, director of the Argentine central bank who is heading the Argentine team in New York, and Mr William Rhodes of Citicorp, chairman of the bank working committee for Argentina.

The payments are understood to cover almost all interest arrears on a new loan granted in 1987 for the country, and something less than half of those on a loan made in 1985.

Argentina's interest arrears

constitutes a significant obstacle to the country's efforts to persuade banks to provide new financing. Yet, this move, characterised by senior bankers as being an Argentine initiative, has the advantage that it rewards those banks that participated in the recent financings and addresses the problem of the so-called "free riders". These are banks that refuse to participate in new money packages yet continue to reap the interest payments on the older debt.

Nevertheless, the decision may be challenged by some of the free riding banks which may argue that the older financings are being subordinated, contrary to loan documentation which says that all banks financings should rank equally.

It is not clear how the payment will affect the judgment of US bank regulators which meet later this month to judge on the quality of developing country loans in bank portfolios.

Press Cuttings

from Broad Street Associates

FINANCIAL TIMES 20 OCT 1988



"I see the Argies are still trying to pick a fight."

ARGENTINA, which has foreign debt arrears of \$1.8bn (£1bn), controversially made \$100m interest payments on recent rescheduling loans dated from 1985 and 1987 - a move not likely to please older creditors. Page 8

Britain cool on offer of fresh Falklands talks

By Robert Graham, Latin America Editor

BRITISH officials yesterday reacted warily to suggestions from Argentina that the time was ripe to establish a proper dialogue.

Mr Dante Caputo, the Argentine Foreign Minister, said Argentina was willing to begin a dialogue "without pre-conditions". Since the 1982 Falklands conflict, Argentina has insisted that any discussions with Britain on normalising relations must contain at least a formal reference to Buenos Aires' claim of sovereignty to the islands.

Although the Argentine Government has hinted in recent weeks that it was preparing a more flexible position, officials at the Foreign Office are still waiting for concrete evidence. Hence the coolness of their reaction. "Sovereignty is not for discussion," a spokesman said.

This underlines Britain's unwillingness to accept any formula which might permit Argentina to raise the sovereignty issue later.

● President Raúl Alfonsín has confirmed that Argentina will go to the polls on May 14, 1989 to elect a new president. The newly-elected head of government will take office on December 10.

The announcement ends speculation that the President's Radical Party may have sought to advance or delay elections in order to enhance its own chances.

President Alfonsín said it was the first time since 1951 that an Argentine president had called elections, and that he would be the first democratically-elected president to hand over office to an elected successor since Marcelo de Alvear in 1928.

Falklands victim ruling

A Southampton inquest returned a verdict of accidental death on one of four soldiers killed when his helicopter was shot down by HMS Cardiff during the Falklands war. The decision overturned an initial inquest ruling that Lance-Corporal Simon Cockton died from enemy action. **Falkland talks, Page 8**

High-tech breeders strike it rich in sheep market

Chris Sherwell explains why several records are being shattered in Australian sale rings

THATCHER IS a high performer, has good structure and fine fibre. So does Reagan. Unlike the politicians, however, they are selected, not elected. For they are rams. And thanks to modern breeding technology, their prowess will surely outlast them.

Home is a green paddock at Collinsville stud, outside the old South Australian mining centre of Burra. Just as the town's copper brought fame in the 1850s, Collinsville's Merino sheep are rekindling its reputation.

The stud is not the country's largest in terms of ram sales. That title goes to Mr Rupert Murdoch's Boonoke property in New South Wales. But when it comes to prices, Collinsville takes some beating.

The astonishing figures its stock can command in the sale ring are partly a product of the extraordinarily vigorous world wool market, where prices have reached unheard-of levels over the past year. Wool has regained its once-customary status as Australia's number one export, earning A\$6bn (£2.7bn) last year, and the country is once again "riding on the sheep's back."

The ram prices also reflect Collinsville's long and close association with the ancient and mystical Australia art of sheep breeding. Some 40 per cent of Australia's total flock of 150m-odd sheep are genetically connected with Collinsville.

But there is a third important reason for the remarkable trend in Collinsville ram prices. This is the fact that, three years ago, it fell into the hands of Mr Neil Garnett, from a Western Australian sheep breeding family. He says it was "like a mouse biting an elephant." He is estimated to have paid A\$10m for the place and spent another A\$5m on it since.

It is his quick introduction of new techniques to Australian sheep breeding which has changed the face of the market. In the process he has antagonised the traditionalists by debunking some of their mythology and methods. And he has provoked a huge row over the export of rams and ram semen to other wool-producing countries.

In technical terms, what he is doing is adapting the methods of artificial insemination and embryo transfer long known by cattle and horse breeders.

The techniques involve obtaining the semen of selected rams, synchronising the fertility cycles of hundreds of ewes, injecting the semen into eggs

of selected ewes through in vitro fertilisation, flushing the new embryos from the uterus, and transferring them to surrogate ewes.

Further revolutionary changes are on the way. New techniques which allow the multiple splitting of embryos at an early stage are also being developed, so that particular desired traits, as shown through extensive progeny testing, can be replicated. And there is talk of "sexing" embryos.

Thus, where before a ram could sire 300 lambs in its lifetime, now it might be 30,000, continuing long after its death. Not only that. It is also becoming possible to repeat almost infinitely the crossing of a particular ram's semen and ewe's egg.

The value in all this is plainly considerable. What is more, it is directly realisable through the ram auctions and semen sales.

Indeed, the principal reason for the rise in ram prices over the past three years is the value of semen. A ram can deliver enough in a single year for up to 20,000 doses, making it possible for a buyer to recover his costs quickly.

The trouble is, it is an international market, and that has meant the revival of an old and fierce argument about ram exports in which passions run extremely high. The issue is simple: is Australia undermining the future of its wool industry by exporting its very heritage? Or should it move quickly to dominate a worldwide market worth an estimated A\$500m?

Back in 1929, when the Australian Government slapped a ban on all ram exports, the answer seemed clear. Then in 1970 the ban was partly relaxed, and the Govern-

ment allowed the export of 500 rams a year. Now the question is whether there should also be restrictions on semen, which at present can be freely exported, or no curbs at all.

The industry's establishment is opposed to the export of genetic material, but somewhat inconsistently is not campaigning for tighter restrictions on ram exports.

The argument is that the Soviet Union and China, which have similar-sized flocks to Australia's, and other producers like Argentina, should not be offered Australia's hard-won genetic material for the sake of a few million dollars.

Mr Garnett takes the opposite view. Fundamentally he is against any restrictions, but says that if some are demanded, they should be on semen, not rams, and should include ewes as well.

His case for unfettered trade is simple. Modern techniques mean a breeder can now achieve in a few years what used to take more than a hundred. So, he says, any country which wants a wool industry can have one, with or without Australia.

Finally, no other country can produce the same quality of wool as Australia because no other country has the environment and climate Australia's sheep areas enjoy.

It is a battle he stands a good chance of winning. In July Mr John Kerin, the Minister of Primary Industries and Energy, showed his inclinations by suggesting that Australia could no longer afford trade restrictions on merinos and supporting the export of male embryos.

If the existing curbs are removed, it will mean Australia can export to the world its own versions of Thatcher and Reagan - courtesy of studs like Collinsville.

A BREATHTAKING world record price of A\$330,000 (£150,000) was paid in Australia yesterday for a merino ram, utterly eclipsing the previous record of A\$215,000 set last year.

The buyer was Mr Mike Gore, a colourful businessman from Queensland, and the ram came from Collinsville stud, north of Adelaide, which also produced the previous record-setter.

The transaction unfolded at an auction held in Dubbo, New South Wales, one of four major ram sales held around the country each year.

Yesterday's price, which exceeded most expectations, confirms that a quantum leap has occurred recently in ram

values as a result of new breeding techniques.

These techniques, developed principally at Collinsville by Mr Neil Garnett and Mr Peter Veitch, involve the use of artificial breeding technology alongside traditional methods.

The result is that rams are now valued mainly for the semen they can produce, which can be kept in frozen form over a long period and, through in vitro fertilisation, produce larger numbers of progeny.

The scale of the record is nevertheless a surprise, since Collinsville recently imposed a condition under which it insisted on receiving half the net proceeds of the future semen sales from its rams.

Peronist leads in race for Alfonsín's mantle

From Michael Llanos, Buenos Aires

President Alfonsín has officially started the race to elect his successor by announcing that the poll will take place on May 14. On that day 19 million Argentini-ans will choose between two different political styles — the populism of Señor Carlos Menem, the front-runner, or the capitalism of Señor Eduardo Angeloz.

In a televised speech on Tuesday, Señor Alfonsín emphasized the historical importance of what is to be Argentina's first transfer of power from one civilian President to another in 61 years. Military coups and regimes have interrupted civilian rule during most of this century.

In New York, the Argentine Foreign Minister, Señor Dante Caputo, told British television on Tuesday he hoped that, before Señor Alfonsín's term ends, Argentina and Britain would sit down for talks without preconditions on the Falklands.

Observers here said Señor Caputo's statement was ambiguous and seemed aimed at gaining United Nations support for Argentina's annual Falkland resolution.

Señor Rosendo Fraga, the director of the Centre For the New Majority, a conservative think-tank, saw Señor Caputo's views as a "personal policy" aimed at increasing further the minister's stature before President Alfonsín leaves office.

But one Western diplomat said if the Argentine Government were willing to put sovereignty aside, the likeliest scenario would be bilateral talks on fisheries in the South Atlantic. "If the Government does its homework right, it could even produce a political coup" in the run-up to the elections, he said.

Barring a military coup, President Alfonsín will hand over power on December 10,

1989, to either Señor Menem, of the opposition Peronist movement, or Señor Angeloz of the ruling Radical Party. Argentina's Constitution does not allow for re-election.

The two leading candidates are both governors: Señor Menem in small, rural La Rioja, and Señor Angeloz in industrialized Córdoba, but the similarities end there.

On the Falklands issue, Señor Menem, the son of Syrian immigrants, has shown a populist flair which contrasts with the business-before-politics philosophy of his main rival. Señor Menem, aged 53, has repeatedly prom-

the race. The most recent poll, taken last month, gave the Peronist 34 per cent of the vote, compared with just 13 per cent for Señor Angeloz.

The main reason for the huge gap appears to be the mental association between Señor Angeloz, the ruling party's candidate, and the country's economic crisis, reflected by a 30 per cent fall in the purchasing power of workers over the past four years. An anti-inflation package has reduced the cost of living increases from 25 per cent a month, but prices are still rising at 10 per cent monthly.

Señor Fraga has predicted that the lower middle class, and how the course of the economy affects them, will determine who wins the presidential elections. "These are the fixed income groups — the teachers, the pensioners, the state employees — who voted for the Radicals in the past but who now have doubts because of the economic problems", he said.

A poll taken by the Centre in August found that one out of every five Argentini-ans who planned to vote for Señor Menem had voted for the Radicals in last year's congressional polls.

● LONDON: Responding to Señor Caputo's offer of talks without preconditions, the Foreign Office said yesterday: "If Argentina genuinely wishes to improve relations with Britain, she could do so by responding to the large number of British proposals already on President Alfonsín's table" (Andrew McEwen writes).

The Government's reluctance to accept Señor Caputo's offer stems from fears that it is little more than a new way of expressing Argentina's long-standing position that ultimately sovereignty will have to be discussed.



Señor Alfonsín: First civilian power handover in 61 years.

ised to "expropriate British assets in southern Argentina" because of the Falkland conflict and has made sovereignty a pre-condition for talks.

Señor Angeloz, aged 57, has not made a Falklands policy statement, but his promise to take Argentina out of the Third World and into the "First World", through stronger trade ties with the West, suggests he would put the country's commercial interests ahead of the issue of sovereignty.

Opinion polls give Señor Menem a comfortable lead in

Navy shot down Army helicopter in Falklands

By Colin Randall

THE MOTHER of an airman killed in the Falklands won a six-year campaign yesterday to prove that her son and three colleagues died when their helicopter was shot down by a Royal Navy warship and not by the Argentinians.

An inquest jury at Southampton took only eight minutes to return a verdict of accidental death on L/Cpl Simon Cockton.

He died on June 6, 1982, a week before the Argentine surrender and only a month after leaving his wedding reception to go to the South Atlantic.

L/Cpl Cockton was the observer aboard a Gazelle helicopter which was struck by a missile, now believed to have been one of two 1,300mph Sea Darts fired from the Type 42 destroyer Cardiff.

The helicopter was mistaken for an Argentine Hercules aircraft by weapons officers on board Cardiff, operating 20 miles away, south of Port Stanley.

Yesterday's verdict reverses a 1982 inquest decision of death by "enemy action", based on evidence that the Gazelle had probably been hit by an enemy Sidewinder missile.

The earlier verdict was quashed by a High Court judge last February, 20 months after Mr John Stanley, then Armed Forces Minister, told the Commons that a Sea Dart fired by the destroyer was "adjudged the probable cause" of the tragedy.

The soldier's mother, Mrs Winifred Cockton, 64, from Aylesbury, Bucks, has persistently accused the Ministry of Defence of surrounding the circumstances of her son's death with a "web of lies".

Lt-Cdr Andrew Welch, one of two weapons specialists in the Cardiff, said a message indicating his concern had been sent to the Task Force commander in the carrier Hermes, and "almost certainly" to the commander of

Army forces ashore, about two hours after the incident.

However, he had heard nothing more officially about the matter until the Ministry ordered a board of inquiry four years later.

The Army initially told Mrs Cockton that her son's helicopter had "crashed in bad weather". In fact it was shot down on a dark but clear night with moonlight and a fresh breeze.

Mrs Cockton, who estimates that her campaign to establish the truth has cost her up to £7,000, said: "I do not blame the Navy. Accidents happen in war.

"What is more distressing is that the correct missile fragments were not provided to the Royal Aircraft Establishment at Farnborough for the diagnosis on which the first inquest was based."

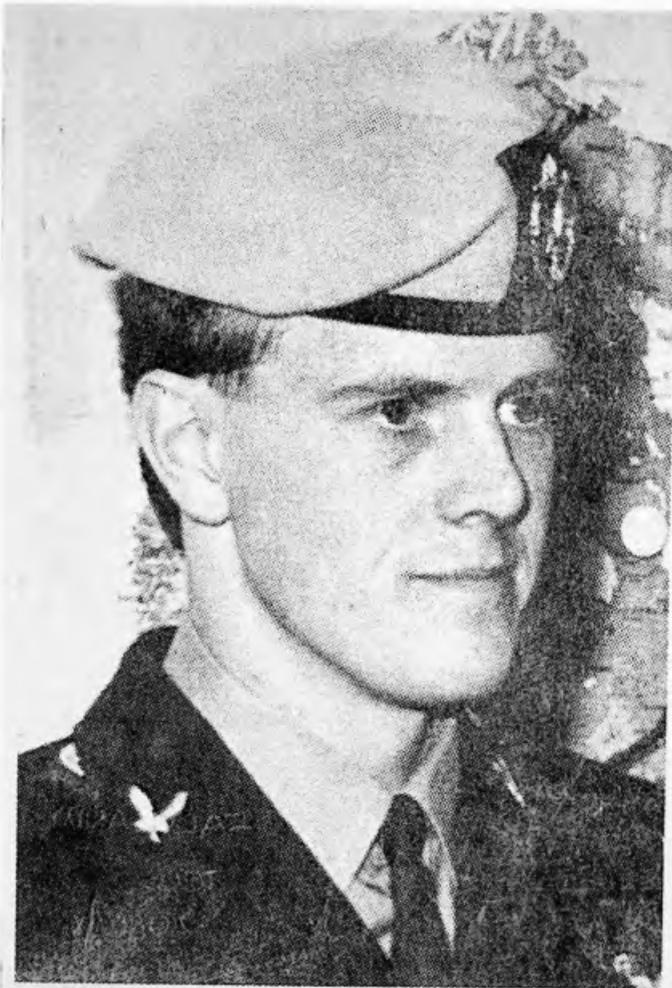
Mr Anthony Jones, a Farnborough metallurgist, told yesterday's inquest that when he made his first analysis in 1982 he had asked repeatedly but in vain for fragments of a Sea Dart missile which was deformed after having been fired.

Mr Jones told the court he had been "pressurised" to complete an early report.

He agreed with Mr Allan Mains, counsel for Mrs Cockton, that he had "some reluctance" about writing his report without complete evidence.

In subsequent analysis, when all the necessary samples were available to Mr Jones and his superior, Mr John Peel, they found that the fragments could have come from either a Sea Dart or a Sidewinder.

However, Lt-Col Colin Sibun, who commanded the lance corporal's squadron in the Falk-



L/Cpl Simon Cockton and his mother, Winifred, who fought to know how he died

lands, told the inquest that the Argentinians were now known to have had no Sidewinders of the type examined at Farnborough.

Col Sibun said L/Cpl Cockton and three colleagues—Major Michael Forge, Staff Sgt John Baker and Staff Sgt Christopher Griffin—had been sent on a night flight to supply radio equipment to a signal station on Mount Pleasant, west of Port Stanley.

When the station reported hearing an explosion and seeing two flashes, contact with the Gazelle was lost. He assumed it had either "flown into the ground" or, much more likely, been hit by enemy fire.

Lt-Cdr Welch, now serving in the destroyer Manchester, told the inquest that the Cardiff had been providing gunfire support for land forces advancing on Port Stanley and attacking Argentine supply aircraft.

The Gazelle was spotted on

radar moving on the same track and at the same speed in the direction of Port Stanley as was the practice of enemy Hercules aircraft.

When no response was received to the destroyer's "computer interrogation" of the aircraft, he and the captain decided to open fire on what they believed was an enemy plane.

Two hours later, the destroyer intercepted a message on general signals traffic referring to the cancellation of a planned Harrier attack on Port Stanley which made them think there had been some "friendly aircraft activity".

"We sent a signal saying we were a bit alarmed because we had been sent to do gunfire support and shoot down stuff going into Port Stanley and had just shot something down."

A signal in reply informed the Cardiff that the Army Air Corps had lost a helicopter "in that

vicinity around about that time".

In his summing up, Mr Thomas MacKean, deputy Southampton and New Forest coroner, said that a great deal of cross-examination had sought to establish that the MoD "to put it mildly" suspected that the helicopter might have been destroyed by a British missile before relatives were told.

There might have been "good human reasons" for not wishing to cause relatives further grief by telling them their bereavement had been caused in this way. But what was relevant to the inquest was to decide which missile had brought down the Gazelle.

Outside the court, Mrs Cockton said she had no intention of seeking compensation, though she was sure the military authorities knew immediately after her son's death that it had nothing to do with enemy action.

Mother wins fight

The mother of a Falklands war casualty won a six-year fight to prove her son was killed by a Royal Navy missile Page 3

Mother wins six-year battle to reverse verdict

on death of son in Falklands conflict

Briton died in missile attack by Royal Navy

THE MOTHER of a Falklands war casualty has won a six-year fight to prove that her son was killed in action by a missile fired from a Royal Navy destroyer.

The persistence of Winifred Cockton, 64, resulted yesterday in the overturning of an earlier inquest verdict that Lance Corporal Simon Cockton, 22, died in June 1982 from "injuries received as a result of enemy action".

At a new inquest in Southampton, a jury returned a unanimous verdict of accidental death after hearing how L/Cpl Cockton and three other soldiers were killed when their Gazelle helicopter was shot down by a Sea Dart missile fired from HMS Cardiff, a week before the Falklands war ended.

The coroner had directed the jury not to return a verdict of unlawful killing, saying the crew of HMS Cardiff had acted correctly.

Mrs Cockton, a widow, spent £3,000 in her fight to reverse the initial inquest verdict, returned in December 1982, after she learned that the Army helicopter was not shot down by the Argentines.

She expects to receive a further bill for £4,000 to pay the costs of yesterday's hearing before Thomas MacKean, the deputy coroner for the Southampton and New Forest district.

Mrs Cockton, of Aylesbury, Buckinghamshire, said afterwards: "I am very pleased, if pleased is the right word. Perhaps it is better to say satisfied — that at last I've got a correct verdict. It's what I've been fighting for.

"It has been very hard to do this but I was determined to wipe away the lies," she added.

The jury took just eight minutes to return its verdict.

Opening the inquest, Mr MacKean told the jury that the Gazelle was fitted with an Identification Friend or Foe (IFF) system, but on the night of 6 June, 1982, it was not switched on.

As the helicopter failed to give a "friendly" signal, it was thought to be an enemy aircraft and was shot down. It was flying equipment to a new signals station at Mount Pleasant, he said. Naval commanders on HMS Cardiff had been warned to look out for Argentine aircraft flying in supplies to Port Stanley.

He said that evidence was given to the first inquest that fragments of a missile were found in the wreckage of the helicopter which, after close examination at Farnborough, had led investigators to believe that it had been fired by the enemy.

The matter would have rested there but on 23 May, 1986, an Army officer called on Mrs Cockton and said there had been this unfortunate mistake and that the death of her son, who left for the war on the day of his wedding, "probably resulted from the destruction of the helicopter by one of our own missiles".

Mrs Cockton launched a campaign which led to an inquiry into the shooting down of the helicopter. It was not known what the conclusions of that inquiry were but a statement was made in 1987 disclosing different facts behind the incident.

"As a result of that, it is very difficult to know what I would have done if I had been the par-



Lance Corporal Simon Cockton, who died in a missile attack, and his mother, Winifred Cockton.

ent," Mr MacKean said. One option was to leave things as they were, but Mrs Cockton chose another path.

Feeling that the first verdict was improper and "unjust to her son's memory", she obtained a court order cancelling the first verdict and ordering a new inquest, he said.

The verdict of the first inquest was quashed by the High Court last February after new evidence about the shooting down of the helicopter.

Lt Colonel Colin Silburn, who sent L/Cpl Cockton on the mission, said that he was told the IFF identification should not be used as it interfered with other weapons systems.

He first heard that the helicop-

ter might have been hit by a British missile when the ship's newsletter used the Navy term "blue on blue". He thought it was "an unsubstantiated rumour which I did not want to get loose in my squadron".

Lt Commander Andrew Welch, one of two anti-warfare experts who were on HMS Cardiff that night, said that every request to the helicopter for identification was ignored and two Sea Dart missiles were fired. The first missed — but the second struck the Gazelle.

"There was no doubt in my mind that I had shot down a target. I did not know what, but I was satisfied I had hit something," he said.

He believed that the target had

been an Argentine fixed-wing plane flying in supplies to Port Stanley.

Mrs Cockton is not planning to try to win compensation.

"Money does not do you any good," she said. "It was not the Navy's fault.

"Accidents happen in war. One thing I would like to know is why did they cover up my son's death? Why the deception?

"The Ministry of Defence does have a duty to protect people who have duties in war. But surely we have a moral right to know how our men are killed and to know at the time."

At the end of the hearing, Robert Jay, counsel for the Secretary of State for Defence, offered his "sincerest condolences".

General election for Argentina 'historic' move

By Cristina Bonasegna in Buenos Aires

PRESIDENT ALFONSIN of Argentina has announced a general election for next year, the first to be called by an elected head of state in the country for 37 years. The election would be held on May 14 and power would be transferred seven months later on Dec 10, he said.

Señor Alfonsin, who took office on Dec 10, 1983, for a six-year term after nearly eight years of military rule, said on Tuesday night that the call was "historic" and "a victory for democracy".

Under the present constitution he cannot seek re-election.

Repeated military coups have interfered with Argentina's democratic institutions since 1930. The late Gen Juan Peron was the previous elected president to call general elections, in 1951.

He was re-elected under a reformed constitution later annulled by the regime that cut his second term short in 1955.

Argentina's main parties have already launched their election campaigns.

The ruling Radical party's candidate is Señor Eduardo Angeloz, 57, the pro-business Governor of Cordoba, one of the nation's richest provinces. The Opposition Peronist party's candidate is Señor Carlos Menem, 56, Governor of La Rioja.

Despite a lack of clarity in

Señor Menem's proposals, opinion polls indicate he might win amid widespread discontent with Señor Alfonsin's economic policies.

Meanwhile, trials arising from human rights crimes committed by the military regimes between 1976 and 1983 are dragging on.

Ex-President Galtieri, who led Argentina into battle against Britain in 1982, is waiting for an appeals court to decide whether he will have to appear in court concerning one of eight allegations still pending.

He is serving a 12-year sentence for "negligence" during the Falklands conflict and still faces charges of violating human rights.

The Rosario Appeals Court yesterday suspended a hearing due on Oct 19, pending a court ruling on a defence petition to apply the so-called "full-stop law" providing a deadline for human rights prosecutions.

Gen Galtieri, who ordered the invasion of the Falklands, told another court reviewing sentences this week that he "would do the same thing again".

20 OCT 1988

Press Cuttings

from Broad Street Associates **THE GUARDIAN**



Argentine poll

President Raul Alfonsin has officially announced presidential elections for May 14 next year, the first time an elected Argentine president has called elections since 1951. — Reuter.

Mother wins struggle to expose army missile blunder

Falklands death 'lies' laid to rest

A MOTHER yesterday won a six-year battle to uncover what she called the "lies and deception" surrounding the death of her soldier son in the Falklands a week before the conflict ended.

An inquest jury in Southampton returned a unanimous verdict of accidental death on Lance Corporal Simon Cockton, aged 22, after hearing how he and three other soldiers died when their Gazelle helicopter was shot down by HMS Cardiff on June 6, 1982. An initial inquest ruled that he died from enemy action.

His mother, Mrs Winifred

Cockton, aged 64, of Aylesbury, Buckinghamshire, fought a long and expensive battle for the second hearing when she learned that the helicopter was not shot down by Argentinians.

She said yesterday: "It's been very hard to have to do this, but I was determined that I would wipe away the lies."

The jury heard that the Gazelle's Identification Friend or Foe system was switched off because it interfered with other weapons systems. As the helicopter failed to give a "friendly" signal, it was shot down by a Sea Dart missile.

Lieutenant Commander Andrew Welch, who was on

HMS Cardiff, said every request to the helicopter for identification was ignored. Commanders on the vessel had been warned to look out for Argentine aircraft flying in supplies to Port Stanley.

The first inquest verdict in December 1982 was quashed in February this year by the High Court after fresh evidence about the incident.

Mr Thomas McKean, the coroner, said an army officer told Mrs Cockton in May 1986 that there had been an unfortunate mistake and her son was probably killed by a British missile.

Mr McKean directed the jury not to return a verdict of unlawful killing, saying the crew of HMS Cardiff had acted properly.

At the end of the hearing, Mr Robert Jay, counsel for the Defence Secretary, offered condolences to the family.

Mrs Cockton is not planning to sue for damages. She said: "Money does not do you any good. It was not the navy's fault. Accidents happen in war."

However, she added: "One thing I would like to know is why did they cover up my son's death? Why the deception?"

"The Ministry of Defence does have a duty to protect people who have duties in war. But surely we have a moral right to know how our men are killed and to know at the time."



Simon Cockton ... Killed by British Sea Dart missile



Winifred Cockton ... 'Determined to wipe away the lies'

INSIDE

Falklands inquest overturned

A mother whose son was killed in the Falklands War yesterday won a six-year battle to prove he had been killed by the Royal Navy and not by enemy action.

A Southampton inquest recorded a verdict of accidental death on Lance Corporal Simon Cockton, aged 22, whose helicopter was shot down by a Navy missile. Mrs Winifred Cockton had taken her fight to the High Court to overturn a 1982 inquest verdict that he was killed by an enemy missile..... Page 3

£190m Ordnance sell-off was twice estimate of stock market flotation

DAILY
TELEGRAPH
20.10.88

By Peter Pryke
and Nigel Reynolds

MR YOUNGER, Defence Secretary, yesterday vigorously defended the sale of Royal Ordnance to British Aerospace by revealing that the sale price of £190 million was almost double what Rothschilds, the Government's merchant bankers, had suggested for flotation on the stock market.

He dismissed as "wild allegations" claims that the Government had sold the company at a fraction of its real value. Reports have suggested that British Aerospace could make more than £500 million in property deals if it sold some of Royal Ordnance's 16 sites for property development.

Faced with a Labour demand for a parliamentary inquiry into the sell-off, because it had failed to give the taxpayer a fair price, Mr Younger said the price was "a very fair one". British Aerospace had bought the company as a going concern "with its weaknesses as well as its strengths".

Mr Younger was accused of having endangered the lives of British servicemen by allowing the privatisation to go ahead.

As Labour MPs at the start of a two-day debate on defence spending called on the Defence Secretary to resign,

Mr MARTIN O'NEILL, Mr Younger's new Shadow, claimed that the privatisation deal he had approved would lead to "reduced capacity" in producing munitions for the services, as the buyers, British Aerospace, sold off factory sites.

"You were responsible for the whole deal which enables the company to reduce capacity and sell off the land," he said.

"You will be responsible for the lives of servicemen who could be in danger if the forces do not get the munitions they require in a time of hostility."

Mr YOUNGER argued that any profits to be made from property development would depend very heavily on whether planning restrictions were relaxed.

He said the company had embarked on a major rationalisation programme which would involve it in significant equipment and redundancy costs. Many of the sites being disposed of would need a good deal of decontamination before they could be developed.

BAe had also taken on existing contracts on Royal Ordnance, whether profitable or not. "All these factors have to be weighed together," he said.

Returning to the attack on the first day of a two-day defence debate, Mr O'NEILL dismissed Mr Younger's remarks about the doubt on obtaining planning per-



Mr Younger: Rather wild allegations



Mr O'Neill: Taxpayer not given a fair price

mission for the sites as "feeble," challenging him to give more than 10 instances of the present Environment Secretary, Mr Ridley, refusing to allow change of land use.

"This is a Government which has been a soft touch for property developers," he said.

Mr YOUNGER, backed by Tory backbenchers, sought to embarrass Mr O'Neill on the occasion of his first major defence speech by drawing attention to the discrepancy in the official Labour amendment.

While calling for the cancellation of Trident, this said that the resources should be used to strengthen conventional defences.

A Left wing amendment, echoing the words of the motion passed at the recent Labour conference, said the money saved from cancelling Trident should be diverted to spending for health, education and housing.

Mr Younger declared: "There is a large unilateralist policy on the Left of the Labour party, but there is still unilateralism by stealth in the leadership of the party, which Mr Kinnock represents.

"Neither of these policies provides Britain with a credible defence policy in a changed world."

Calling attention to the absence of an amendment setting out Democrat policy, Mr Younger said: "Only the Government has any sound defence policy at all, which balances the opportunities and risks so that we can meet the challenges of the '90s effectively."

Mr O'NEILL ducked a straight challenge from a Conservative backbencher who asked if he favoured a nuclear unilateralist policy, but went on to acknowledge his differences with Left wing Labour MPs.

Claiming that spending on Trident would have produced a "crisis" in the level of conventional weapons by 1992, he told them: "You are deluding yourselves that cancellation would release

millions of pounds for social expenditure."

Little of the money could be spared from the defence budget in the early years of a Labour government, he said, because of the effect Trident would have had on conventional forces.

Calling for a comprehensive defence review, Mr O'Neill claimed that the Government's policy of competitive tendering was damaging British defence manufacturers and the long-term interests of defence.

Mr KEITH SPEED (C. Ashford) who resigned as a junior Defence Minister over Navy cuts, said Britain was not "entirely fulfilling" its Nato commitments, and neither was any other Nato member.

Referring to reports that Mr Younger was demanding extra money from the Treasury for his defence budget, and supporting this, Mr Speed said: "I do not wish there to be unilateral disarmament by stealth from the Treasury benches."

Mr DICK DOUGLAS (Lab. Dunfermline W) criticised his party's leaders for trying to sell a "wishy washy in-between" defence policy to the public.

It was not credible to say you would tell the Russians that the deterrent was some kind of negotiating ploy, particularly when your leader said he would not press the nuclear button anyway, he said.

Sir GEOFFREY JOHNSON SMITH (C. Wealden), backing Mr Younger's reported demands for more money for defence, said he was not asking for anything extravagant from the Treasury. Essential equipment needed to keep our forces up to date could not be allowed to fall behind.

Mr TIMOTHY SAINSBURY, Parliamentary Under-Secretary, Defence Procurement, said that some of the prices quoted in the media for the redundant Ordnance sites were highly speculative and took no account of major off-setting costs.

The debate was adjourned until today.

Marxist leader goes free to take on the mantle of Allende

DAILY TELEGRAPH
29. 10. 88

By Imogen Mark in Santiago

CHILE'S leading Marxist and heir to the political legacy of the late President Allende, Señor Clodomiro Almeyda, has been freed from jail. Cheering crowds from his Socialist party and other political groups greeted him on Tuesday night outside the Santiago prison where he has spent the past year.

Raising his voice above the cheers, he said: "This was a court decision, not a goodwill gesture from the government."

Chile's Supreme Court had ruled by three votes to two to cut his 18-month sentence by six months.

He had been found guilty under anti-terrorism laws of advocating terrorist acts, and of entering the country illegally in March 1987, just before the Pope visited Chile.

The government lifted the decree of exile on its political opponents only last month.

Señor Almeyda, 65, a pragmatic Marxist, presents a major problem for President Pinochet, leader of the 1973 coup in which Señor Allende was killed.

There is speculation that he may be able to reunite the Socialist party, bringing in the Social Democrat wing under Señor Ricardo Lagos. The party would then become a major political force.

Señor Almeyda, who was foreign minister and vice-president under Señor Allende, is the only person to have been tried and deprived of his political and civic rights—for 10 years—under the notorious Article Eight of the constitution, which outlaws Marxist parties.

This is one of the items in the constitution which the opposition wants reformed, and which even the main Right-wing party, National Renovation, agrees is unworkable.

Señor Almeyda is in favour of finding some way around the constitution which will allow the Socialists to register as a political party, under a different name, and take part in congressional elections.

He is a key political figure, even though the ban on Marxist parties prevents him from giving interviews or appearing on television.

His faction of the Socialist party is the larger of the two main claimants to the title, and he is certain to overshadow Señor Lagos, the leading figure in the other grouping.

Señor Almeyda inherits the mantle of Señor Allende—a potent symbol of the Left in Chile—with whom he worked closely in government.

"Don Cloro", as his friends and supporters call him, will now act as a powerful counterweight to the Communist party, with



Señor Almeyda leaves jail

whom the Socialists have in the past formed a close working alliance.

The Communists are still publicly reluctant to take part in the elections, which are required under the constitution following General Pinochet's defeat in the Oct 5 referendum.

The government has not commented on the release of Señor Almeyda.

Gen Pinochet, 72, returned to his desk this week, after spending a week in retreat in his country home in Bucalemu, brooding on his defeat.

Looking visibly older and more bowed, he has been conferring with the army high command on next year's promotions, retirements and postings, which are expected to be made public early next month.

Cabinet changes, expected this week, now appear to have been postponed until the end of the month.

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THE COURIER

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DAILY TELEGRAPH

20. 10. 88

Japan spends millions to preserve two isolated rocks

ABOUT 200 people using helicopters and ship-mounted cranes have been hard at work since April around two rocks, barely big enough to sleep on, far out at sea.

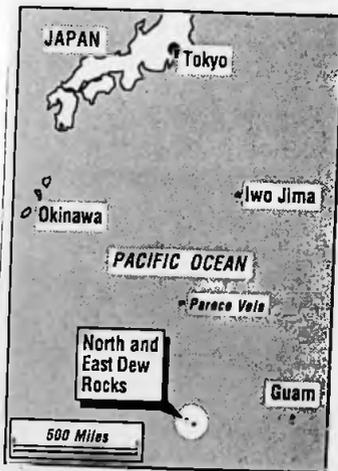
North Dew Rock and East Dew Rock are the southernmost points of Japanese territory, and the government is anxious to protect them, because if they disappeared Japan would lose valuable fishing and undersea mining rights in 155,000 square miles of the Pacific Ocean.

It is costing about £135 million over three years to fortify the rocks against erosion. The workers have surrounded them with thousands of four-pointed, anchor-like steel blocks.

These form 164ft-diameter protective circles sitting on a coral reef that lies 10ft below the ocean's surface. This first phase, completed in October, had cost around £31 million, said Mr Haruo Aoki of the Construction Ministry's coastal department.

It is planned to start filling in the circles with concrete next year.

North Dew Rock is about 15.4ft in diameter, and East Dew Rock is slightly more than half that size. Both are mushroom-



shaped, with a thin stem anchoring them to the submerged reef, which measures 2.8 by 2.9 miles.

At high tide the rocks extend between 3ft and 10ft above sea level. If the tide were to cover them, the coral reef would no longer meet international legal definitions of an island, and Japan could no longer claim a 200-mile economic zone around it.

According to the most recent Agriculture Ministry figures, 2,577 tons of bonito, tuna and other fish worth about £4 million — one tenth of Japan's total catch — were caught in 1985 in the economic zone.

No signs of oil have been reported in the area. But metal surveys are continuing. — AP

Battle won over Falklands death

A WIDOW yesterday won a six-year battle to uncover the "lies and deception" surrounding the death of her soldier son, killed in the Falklands just a week before the conflict ended.

An inquest jury returned a unanimous verdict of accidental death on Lance Corporal Simon Cockton after hearing how he and three other soldiers were killed when their Gazelle helicopter was shot down by a British ship.

An initial inquest had ruled that Lance Corporal Cockton (22) died from enemy action.

However, his tenacious mother, Mrs Winifred Cockton (64), fought a long and expensive battle for the second hearing when she learned that the helicopter was not shot down by the Argentinians.

She said yesterday, "It's been very hard to have to do this, but I was determined that I would wipe away the lies."

Mrs Cockton spent £3000 in her bid to quash the first verdict and expects a further bill of up to £1000 to pay for her counsel

at yesterday's hearing in Southampton.

They heard that the Gazelle was fitted with an Identification Friend or Foe (I.F.F.) system, but that night it was not switched on.

As the helicopter failed to give a "friendly" signal, it was thought to be an enemy aircraft and was shot down by a Sea Dart



Lance Corporal Cockton.

missile fired from H.M.S. Cardiff on June 6, 1982, said the coroner.

Mrs Cockton, of Aylesbury, Bucks, said yesterday, "I am very pleased, if pleased is the right word.

"Perhaps it is better to say satisfied—that at last I've got a correct verdict. It's what I've been fighting for."

The verdict of the first inquest in December 1982 was quashed in February this year by the High Court after new evidence.

Mrs Cockton is not planning to try to win compensation.

"Money does not do you any good," she said. "It was not the Navy's fault.

"Accidents happen in war. One thing I would like to know is why did they cover up my son's death? Why the deception?"

The jury, sitting before the deputy coroner for Southampton and New Forest District, Mr Thomas MacKean, was told that the Gazelle was hit as it flew equipment to a new signals

station at Mount Pleasant.

Mr McKean said an Army officer called on Mrs Cockton in May 1986 and said there had been a mistake and her son was probably killed by a British missile.

Feeling that the first verdict was "unjust to her son's memory," she obtained a court order cancelling the verdict and ordering a new inquest.

Lieutenant Colonel Colin Silburn, who sent Lance Corporal Cockton on the mission, said he was told that I.F.F. identification should not be used as it interfered with other weapons systems.

The coroner directed the jury not to return a verdict of unlawful killing, saying the crew of H.M.S. Cardiff had acted properly.

The inquest heard that Lance Corporal Cockton had left for the war on his wedding day.

Yesterday, his mother disclosed that his young wife remarried on December 31, 1982—three weeks after his military funeral.

**Mother's battle to prove her
son was killed by his
own side**

FALKLANDS MY SIX YEAR WAR

Victory at last over tragic blunder

By JOHN PEACOCK

THE Falklands Conflict lasted 25 days. Mother Winifred Cockton's lone battle against the might of the Ministry of Defence has lasted six years and four months.

It is a remarkable campaign to expose the cover-up; to officially set the record straight — that her son Simon was killed by his own side.

And now she has finally cleared "the web of lies under which my son is buried", she says:

"Never in my wildest dreams would I have thought that a Government department could be so deceitful."

Yesterday a second inquest decided that 22-year-old co-pilot Simon's horrific death was accidental and not a result of enemy action.

It is the verdict 64-year-old Mrs Cockton wanted.

But her victory is not one she will celebrate.

For this was a real tragedy. A tragedy which was followed by her husband's death from a heart attack, brought on partly by his devastation at the loss of Simon, who went off to war on his wedding day.

A tragedy which was followed by lies.

Mrs Cockton was originally told that Simon and three others perished when their Gazelle helicopter crashed in bad weather.

She first became suspicious when she received a letter of sympathy from one of his comrades in 656 Squadron, Army Air Corps.

Outraged

It included the words "we at the squadron are very much shocked and outraged".

The phrase haunted her.

She recalled:

“I wondered then if the British had shot it down.

But I couldn't discuss it with my husband. He was so shocked he cried every time Simon's name was mentioned.

I lay awake at night. I wondered if Simon had done something wrong to cause the crash.

Her worries grew when none of Simon's friends in the Falklands came to see them.

“Then I started researching. Almost every incident in which men were killed was recorded.

“But there was only a sentence about this one. It



THE TRUTH: The Mirror in May, 1986

was as though this helicopter had not existed.”

Mrs Cockton's one-woman war had begun.

“It was difficult to find things out by myself, but the more I became involved the more I was determined to establish what had happened.”

And it was not until after the Daily Mirror repeatedly asked the MoD in May 1986 if British forces had shot down the helicopter — which was at first totally denied — that she began to win.

Bitter

An officer at Simon's squadron telephoned wanting to see her urgently.

Mrs Cockton, of Aylesbury, Bucks, said: “I told my friends that he was coming to tell me the British had shot down that helicopter.

“He told me that he did

not want me to be upset by reading it anywhere else first. I knew then that it was about to be published in a newspaper.

“But even then the deception continued. That is what makes you so bitter.”

At the first inquest on Simon, on December 14, 1982, the cause of death was given as “injuries as a result of enemy action” — the same wording which appeared on his death certificate.

The coroner was told that the helicopter had been shot down by a missile, a Sea Dart, “known to have been possessed by the enemy”.

Mrs Cockton said: “The Sea Dart is a ship-to-air missile and the Argentine navy was not within 200 miles of the Falklands.”

Within hours of Simon's helicopter being shot down on June 6, 1982, an officer on the submarine Conqueror

patrolling under the Atlantic wrote in his private diary:

“The only news of our own forces is that Cardiff shot down an aircraft yesterday and it turned out to be one of our own helicopters — I bet they're feeling sick.”

Mrs Cockton said: “The boys out there knew. So many people have since said they knew.”

Sorrow

The captain of HMS Cardiff reported it “as soon as it became apparent what had happened, expressing my great sorrow. Beyond that, I have had to live with it.”

Mrs Cockton wrote to Mrs Thatcher appealing for help and pointing out that if it had been her son she would have wanted to know the circumstances.

The MoD decided in June 1986 that a Board of Inquiry into the deaths was not necessary.

Mrs Cockton fought on and got a Board of Inquiry. And in February, 1987, came the “first total admission” that the helicopter had been shot down by its own side.

The Board decided that the “loss of the Gazelle was caused by an accumulation of adverse factors and errors among naval and military staffs at all levels”.

Mrs Cockton got the inquest verdict quashed by the High Court.

Then she obtained the Attorney General's consent for a new inquest.

“Never in my wildest dreams did I think that a Government department could be so deceitful”

Her legal expenses and other costs had reached £3,000. But Mrs Cockton is not looking for compensation. And she blames no one.

She is simply angry about the lies.

● The MoD should have told the coroner that wrong information had been given at the first inquest. It is difficult to believe it took them years to discover the truth when everyone knew.

The navy was not told the helicopter would be flying that night. The helicopter was sent out unprotected virtually on a suicide mission. One wonders if this was why there was a cover-up, because of the embarrassment.

There were tremendous blunders and mistakes, amounting almost to negligence, but this was a war. I am not blaming anyone for what happened.

Now Mrs Cockton can write the final chapter to her book about her six-year conflict.

And she will continue to visit Simon's grave at the church where he was married in Frimley, Surrey.

Simon's widow, Lindsay, has since wed the chief usher.

Unknown people leave flowers below the headstone.

It says: "To the world he was a soldier. To us he was the world."



**MUM'S
HERO**

Widow
Winifred
Cockton
with
son
Simon's
medals



NEWLYWEDS: Simon went to war on the day he married Lindsay



FAREWELL MY SON: Simon, 22, leaves for the Falklands

Mum's victory on son killed in war bungle

By JOHN PEACOCK

A TRAGIC mother finally won her six-year battle yesterday to prove her son was killed by his own side in the Falklands war.

An inquest in 1982 found that helicopter co-pilot Simon Cockton was shot down by the Argentines.

But the evidence given then was wrong — as the Mirror later revealed.

And yesterday a jury at a new hearing decided that 22-year-old Simon was accidentally shot down by HMS Cardiff — not the enemy.

Injuries

Simon's 64-year-old mother, Winifred, who accused the Defence Ministry of a "web of lies" over his death, said after the inquest:

"I am satisfied that at last I have got the correct verdict. It is what I fought for."

● First she was told that the helicopter crashed in bad weather.

● Then his death certificate said the cause of death was "injuries as a result of enemy action".

● That verdict was repeated by the first inquest which was told that the copter had been shot down by a Sea Dart missile "known to have been possessed by the enemy".

● In May, 1986, the Mirror asked the

Mum's victory

■ From Page One

Ministry of Defence if British forces had shot it down, which was at first totally denied.

We persisted and exposed the cover-up.

Mrs Cockton, of Aylesbury, Bucks, fought on and got a Board of Inquiry which brought a total admission that the British were to blame.

Then she won consent for yesterday's new inquest in Southampton.

Mrs Cockton, whose husband died from a heart attack partly caused by grief over Simon, got the verdict she wanted.

But she was far from

pleased with what the MoD had to say — that the Secretary of State wanted to express his sincerest condolences to the bereaved relatives.

"He has only increased my anger," she said. "Relatives have a moral right to know how their sons died."

Last night the MoD denied that there had been a lie or a cover-up.

It said that original forensic evidence ruled out a Royal Navy missile.

But later it was found that the missile could only have come from HMS Cardiff.

● My Six Year War —
Pages 18 and 19

Victory for a grieving mum

BRITISH soldier Simon Cockton was killed in the Falklands War.

It has taken a six-year fight by his mother to prove that he was killed not by the Argentines but through a mistake by the Navy.

We have every admiration for Mrs Winifield Cockton, a 64-year-old widow.

Only through her stubborn courage was the truth finally established at a Southampton inquest yesterday on how her son and three other servicemen died.

She should never have had to wage her lonely battle.

In the chaos and the fury of war, there are bound to be tragic mistakes.

For morale, there is perhaps a case for keeping them secret at the time. But not for **SIX YEARS** after the war.

The Ministry of Defence made themselves liars.

And callous liars at that.

FALKLANDS DEATH 'LIES'



Simon . . . shot down
in Army helicopter

A WIDOW yesterday won her six-year battle to nail the "lies and deception" over the death of her soldier son, killed in the Falklands a week before the war ended.

Lance-Corporal Simon Cockton, 22, was one of four soldiers in an Army helicopter shot down in 1982.

An inquest later the same year ruled that he died from enemy action.

But yesterday a second inquest, at Southampton,

STAR REPORTER

heard that the Gazelle helicopter was shot down by a Sea Dart missile from a ROYAL NAVY ship.

Cockton's tenacious mother Winifred, 64, had fought a long and expensive battle for the second hearing after learning that the helicopter was not hit by the Argentinians.

Mrs. Cockton, of Aylesbury, Bucks, who spent £7,000 on her legal fight, said: "I was deter-

mined to wipe away the lies.

"Accidents happen in war —but why did they cover up my son's death? Why the deception?"

The jury heard that HMS Cardiff shot down the helicopter after it failed to give a "friendly" signal.

Verdict: Accident.

THE BIG COVER UP

**Mother proves
our side killed Falklands hero**

**I KNEW
IT ALL
ALONG**

JUBILANT Mrs Cockton trembled as she said after the hearing: "I'm just satisfied at last to have exposed the lies and deception I've been shown since 1982.

"I knew all along they were covering up Simon's death and at last they've been finally forced to come out and admit it." She said her campaign for the truth had cost her £7,000.

Determined

But she added: "Money isn't important. I've fought through gritted teeth all the way, but I was determined to win for Simon's sake. "My son is dead and this has all been very hard on an old lady. "I will try and put all this behind me and start my life anew."

By JAMIE PYATT

A COVER-UP over how an Army helicopter was downed by a BRITISH ship in the Falklands War was finally blown apart yesterday — thanks to the dogged determination of a grieving mother.

A second inquest into the death of Lance Corporal Simon Cockton and three comrades decided that their copter was hit by a Sea Dart missile fired from a Navy destroyer.

The verdict was a triumph for Simon's mother Winifred, 64.

She had fought lies, half-truths and Ministry of Defence stone-walling for **SIX YEARS** to uncover the truth about her only son's death.



Mrs Cockton... campaign

FIRST, she was told the Gazelle helicopter in which the four died had crashed in bad weather — even though the night on which it went down was clear.

THEN, she was told that scientific investigations showed the copter had been blitzed by an Argentinian Sidewinder missile.

This version of events was "confirmed" by the first inquest into the quartet's death, held soon after the 1982 South Atlantic conflict.

But Mrs Cockton was not convinced.

The tenacious widow, of Aylesbury, Bucks, ferreted out information that the helicopter was **NOT** hit by the Argies.

Alone

In 1986, an Army officer admitted to her there had been an "unfortunate mistake."

But she was still left to fight alone.

She launched a campaign which forced an inquiry — and pushed on to win a High Court action cancelling the verdict of the first inquest and ordering another.

The result was yesterday's hearing, in which the truth about the fiasco finally emerged.

The four doomed soldiers were sent up in the helicopter on June 6 1982.

They were flying from Darwin to Mount Pleasant to set up a signal station as our Paras moved in on Port Stanley.

They had been forbidden to use IFF "friend or foe" transmitters identifying them to other British forces for fear the equipment would interfere with other weapons systems.

But off the coast, the Navy destroyer HMS Cardiff was looking out for

enemy aircraft flying supplies.

Lieutenant Commander Andrew Welch, the Cardiff's anti-air warfare officer, told the inquest a radar blip appeared showing an object flying along the normal Argy route.

He added: "The captain of the ship and I decided it was a possible target."

"We tried to contact the blip, but got no reply."

The lieutenant commander said he was "not aware" of any friendly aircraft movements — and attacked with Sea Darts.

He added: "Two were fired and the second disintegrated the helicopter."

Doubts

"There was no doubt we had made a hit — but to be honest we didn't know what we had hit."

The first doubts came with a signal saying a Harrier attack on Port Stanley planned for that evening had been cancelled.

He told the Southampton inquest: "We didn't even know the attack was on, so a signal was sent expressing our alarm to commanders saying we didn't know friendly aircraft were expected in the Stanley area."

"We said we had shot something down in the Stanley area and received a signal back saying an Army Air Corp helicopter had been lost in that area at that time."

"But that was the last I heard of the affair until the board of inquiry in 1986."

The commander of Simon's helicopter squadron, Major Colin Sibun, now a lieutenant colonel, said he did not know the destroyer was there.

The first he heard that the helicopter might have been hit by a British missile was in a ship's newsletter which used the Navy term "a blue on blue."

He added that he thought it was "an unsubstantiated rumour, which I did not want to get loose in my squadron."

He agreed that he gave scientific evidence at the first inquest saying the Gazelle had been brought down by an Argie Sidewinder missile.

But he found out after the 1986 inquiry that fragments found in the helicopter wreckage were in fact from a Sea Dart.

Metal expert Anthony Jones, who investigated the fragments, told the in-

quest he felt "severely hampered" by samples supplied by the Army.

He wrote a report saying the fragments were similar to those of a Sidewinder missile normally fired by Argentine forces.

But he added that he had been **RELUCTANT** to reach that conclusion — and had done so after being subjected to "pressure."

Marriage

The three who died with Simon were:

Major Michael Forge, a bachelor of Rochester, Kent; Staff Sergeant John Baker, of Rothwell, Northants, married with two children; and Staff Sergeant Christopher Griffin of Great Yarmouth, Norfolk, married with one child.

The inquest jury recorded an official verdict of accidental death.

Simon left for the Falklands on the day of his marriage to his 18-year-old sweetheart Lindsay.

She remarried three weeks after his burial in 1982 — and now has no contact with his mother.

The Sun Says — Page 6



Doomed love — Simon and Lindsay on wedding day

The Falklands Fiasco

THE GAZELLE Lance-Corporal Cockton's aircraft was shot down after being forbidden to identify itself

SIDEWINDER At first it was said that Lance-Corporal Cockton's helicopter was shot down by an Argentinian Sidewinder, but the claim was false

SEADART Fragments of one were found in the helicopter wreckage

HMS CARDIFF An unidentified blip seen on the destroyer's radar was thought to be an enemy aircraft, but it turned out to be the tragic Gazelle

A favour to a neighbour

There is a rule of thumb that the best time to extract concessions from the US Government comes once every four years. During the presidential election campaign, domestic politics traditionally exercises a paralysing impact on US foreign policy. The value of that tradition has not been lost on Latin America's debtor nations.

In August, Argentina secured the promise of a \$500m bridging loan from Washington. Over the weekend, it was the turn of Mexico, the country which triggered the Third World debt crisis in 1982.

On Friday, Mexico's debt negotiators, Gustavo Petricoli and Angel Gurria, flew into Washington. By Monday, they had secured the promise of \$3.5bn from the Federal Reserve and the US Treasury. This is a bilateral bridging loan of unprecedented proportions - and one agreed without either party knowing precisely what is going to prop the bridge up.

From the perspective of the Reagan Administration - and that of Vice President George Bush who may be only three weeks away from the succession to the White House - both the Argentinian and Mexican deals can be welcomed with a sigh of relief.

The last thing Mr Bush (and his campaign manager the former US Treasury Secretary James Baker) needed before November 8 was a new Third World debt crisis.

The Mexican government was also playing for time. It badly needs a breathing space during which the incoming government of the newly elected President, Mr Carlos Salinas de Gortari, who takes office on December 1, can formulate its economic policies.

In the last few weeks, Mexico has been haemorrhaging foreign reserves at an alarming rate. Reserves reached a high point of \$16.2bn at the end of May. On September 1, President Miguel de Madrid put them at \$12bn, a figure inflated by the inclusion of several contingency lines of credit including one swap facility with the US Treasury. Subsequently, another line of credit made available by Washington for \$940m for financing the purchase of agricultural products went largely unnoticed.

When Mr De la Madrid spoke foreign exchange reserves had almost certainly dropped below \$11bn and now are reckoned to be \$10bn or less.

One factor in this fall had been a surge in capital flight. Mexico's domestic political situation has rarely looked more uncertain than since the election in July. It signalled the weakening of the grasp of the ruling PRI party and the opening of a new and unpredictable era in Mexican politics.

In the wake of the general election, capital flight reached about \$400m a week. One reputable independent economist estimates that the outflow could have amounted to about \$5bn from April to September. That outflow has slowed, but, recently, company treasurers are said to be eyeing the dollar again.

Politics was not the only factor contributing to an erosion of confidence in Mexico's economic management. Another was the plunge in world oil prices. By early October, Mexico's average export oil prices were down to \$8-\$9 a barrel, raising the prospect of huge losses of export earnings.

The trade deterioration implicit in the trend in oil prices came on top of a severe loss of export competitiveness. On some calculations the Mexican Government's decision to hold its exchange rate stable this year as part of its anti-inflation policy has resulted in a real appreciation of the peso by around 20 per cent.

And the anti-inflation policy led to shortages of consumer goods which were met by a flood of products from abroad. Imports rose by more than 50 per cent in the first half of 1988, compared with the same period of 1987; exports were only up 5 per cent. Mexico's current account began to show a deficit in June.

It did not take the financial markets long, once the oil price decline set in, to come to the conclusion that a major devaluation of the Mexican currency was beginning to look inevitable. Taken together, all these factors raised the possibility of a repeat of the crisis of 1982. Rather than risk waiting, as in 1982, until its foreign exchange reserves and its bargaining power were exhausted, Mexico turned, apparently within the last two weeks, to the US for financial support to try to shore up confidence.

This was a second-best choice, given Mexico's traditional resentment of any dependence on the US. The Government's preferred solution would, it appears, have been a broad-based facility provided half by international commercial banks and half by multinational institutions.

It is widely believed in financial circles in Mexico City that Dr José Cordoba, President-elect Salinas's special adviser, floated the idea of such a loan, for \$6bn, when he was in New York towards the end of September.

That got nowhere; with the threat of further capital outflows the government turned to the US - and there is now unabashed relief in government circles in Mexico City over Washington's quick response.

The US had every incentive to help its southern neighbour. The incoming Salinas administration is working out its policy toward the debt issue. Recent statements seem to indicate that the Mexicans are leaning towards co-operation, rather than confrontation, and the US was keen to encourage this.

It was also keen to encourage the progress made since 1982 in diversifying the Mexican economy. Non-oil exports have risen by 45 per cent since 1986, according to one US official, so that today they comprise 75 per cent of total exports compared with 35 per cent in 1985.

Inflation has been reduced dramatically, rising by only 0.6 per cent in September. And the Solidarity Pact, between government, employers and unions, to hold down wages and

The most remarkable aspects of the agreement are its size and the uncertainty about how it will be repaid.

prices, has been renewed till the end of the year.

After the bridging loan was announced, US officials stressed the importance of Mexico's economic policy reforms. "This is a vote of confidence in the outgoing Government and the incoming Government," said one official.

If the two sides are lucky, the bridging loan itself should help to discourage capital flight; in an ideal world, indeed, Mexico might never actually need to draw on the US financing. In contrast with 1982, the Mexicans and

Americans have acted before the problem has got desperate. The move is a pre-emptive one.

The two most remarkable aspects of the Mexican agreement are its size, many times larger than any previous bridging loan for a debt-burdened developing country, and the uncertainty about how it will be repaid.

A large chunk of the loan is coming from the US Treasury's exchange stabilisation fund. Private experts are speculating that a significant proportion will be made available from the Federal Reserve, perhaps through the swap agreements Washington has had with its southern neighbour since 1967, the only such agreement the Fed has with a developing country. Neither source of funding requires Congressional approval before being disbursed.

As for the repayment of the loan, the expectation is that the World Bank may provide between \$1.5bn and \$2bn of funds and the International Monetary Fund perhaps up to \$600m under the new Compensatory and Contingent Financing Facility, awarded to countries which suffer from a sharp price drop in a key export commodity. Because it is a new type of facility, it may take some months to work out, which suggests that the World Bank financings will be in place before any IMF loan, as appears to be happening in the case of Argentina. The World Bank is already engaged in negotiating a series of major new project loans for Mexico, and it is expected that the Bank will make new structural adjustment

loans to Mexico too. No conventional standby IMF programme appears to be envisaged at this stage.

The precedents that are being established by Mexico and Argentina are not being lost on observers of world financial markets.

Those precedents now include decisions by the US to mount major bilateral rescue agreements in a way which, some bankers fear, is weakening the traditional discipline which the IMF, and to a lesser extent the World Bank, has exerted over its customers.

This type of procedure differs from the new money packages which were put together at earlier stages in the debt crisis because it does not directly exert pressure on the commercial banks to make large new commitments to Third World debtors as part of the lending consortium.

This leaves doubt over what role the commercial banks will play. There was a lot of bad feeling among the banks over the previous loan package to Mexico signed last year, which took around nine months to arrange. (It was originally for \$7.7bn; in the event banks lent less than \$6bn because part of the money was linked to the behaviour of oil prices, which performed better than expected.)

Resistance from banks arose for two reasons. Many non-US banks objected to the way US Federal Reserve Board chairman Paul Volcker was railroading them into the financing, while the package itself was simply unattractive to banks, in contrast with that worked out this year for Brazil.

While many bankers praise Mexico for sticking to its economic policies in the face of strong political pressure to abandon them, they nevertheless will not be eager to lend it still more new money. Some will almost certainly want the protection of an IMF standby programme which does not currently seem to be under consideration. Others will ask whether with reserves of \$10bn, Mexico needs the funds from the banks anyway.

In fact, resistance to lending new funds will partly arise from the fear that new bank lending to countries with relatively strong reserves will only be used to buy the debt back from the banks at a discount in the secondary market. Indeed, before the recent deterioration of reserves, Mexico had been actively considering a second issue of so-called Aztec bonds which would be used to buy back debt.

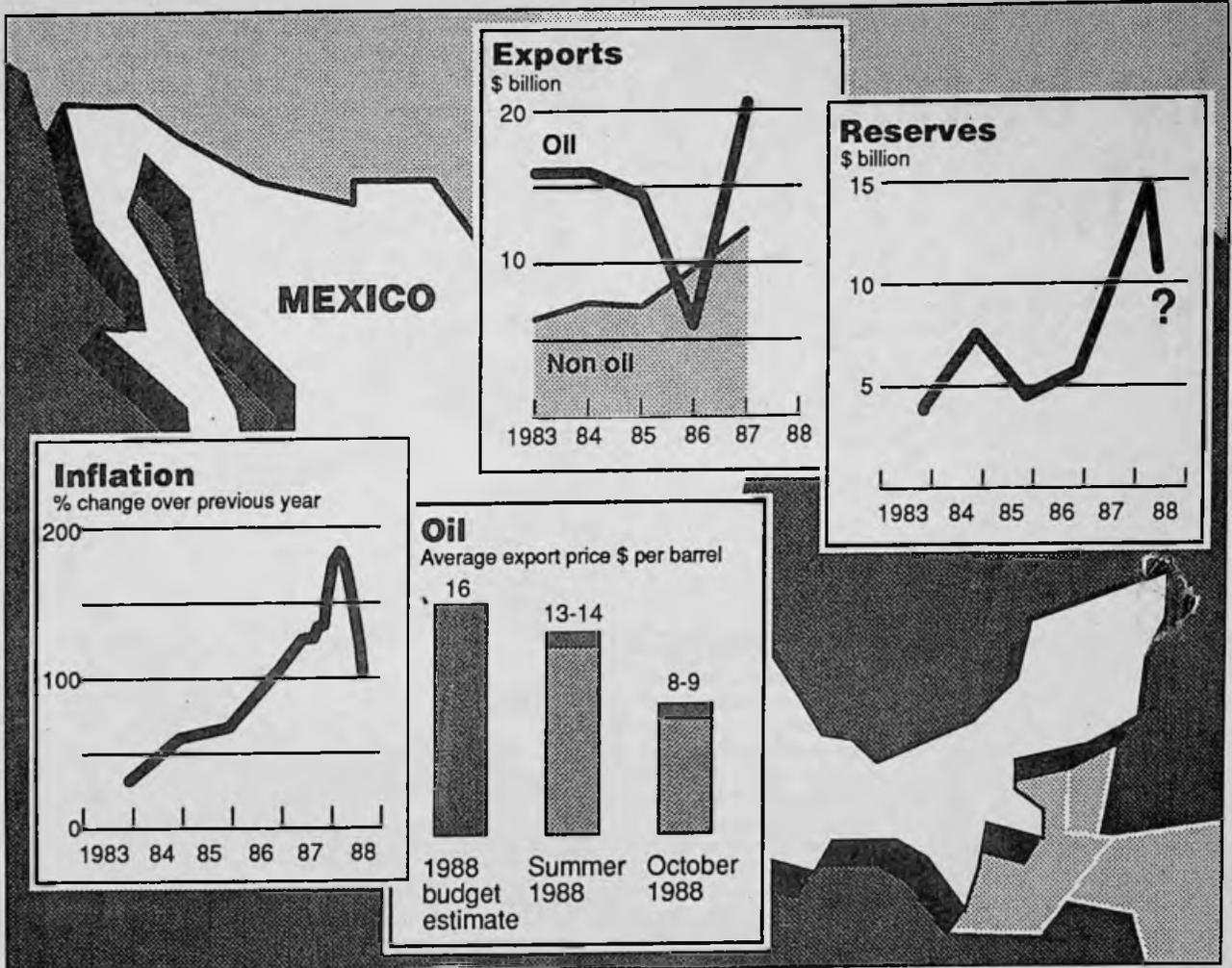
The argument that the old rescue procedures have been overtaken by events is widely accepted. Austerity policies in Latin America have already squeezed domestic economies to such an extent that, as in Mexico, political stability is being brought into question.

But what is missing from the kind of ad hoc approach to the debt problem which has been evolving this year is any clear sense of a long term strategy, and the financial commitments to back it up by the lenders.

The sudden eruption of the Mexican debt problem again is a reminder of just how fragile the Third World debt situation remains. It also highlights the fact that, although the so called Baker Plan for tackling the continuing debt crisis has been overtaken by events, an alternative has not yet emerged to replace it.

The issue of a new approach to the debt problem will come back again next year - posed once again by Mexico. For Mr Salinas, the major issue in the longer term is to obtain a reduction in debt service payments so that, after six years of stagnation, Mexico can enjoy renewed growth. The indications are that he is seeking a reduction of 30 per cent in the \$9bn (8 per cent of GDP) paid out annually to service Mexico's debts. This week's bridging loan, by making the US administration the central player in resolving Mexico's short term problems, may reduce Washington's ability to escape such a role in the search for a longer term solution.

Stewart Fleming, Richard Johns and Stephen Fidler report on the US loan to Mexico



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Americans have acted before the problem has got desperate. The move is a pre-emptive one.

The two most remarkable aspects of the Mexican agreement are its size, many times larger than any previous bridging loan for a debt-burdened developing country, and the uncertainty about how it will be repaid.

A large chunk of the loan is coming from the US Treasury's exchange stabilisation fund. Private experts are speculating that a significant proportion will be made available from the Federal Reserve, perhaps through the swap agreements Washington has had with its southern neighbour since 1967, the only such agreement the Fed has with a developing country. Neither source of funding requires Congressional approval before being disbursed.

As for the repayment of the loan, the expectation is that the World Bank may provide between \$1.5bn and \$2bn of funds and the International Monetary Fund perhaps up to \$600m under the new Compensatory and Contingent Financing Facility, awarded to countries which suffer from a sharp price drop in a key export commodity. Because it is a new type of facility, it may take some months to work out, which suggests that the World Bank financings will be in place before any IMF loan, as appears to be happening in the case of Argentina. The World Bank is already engaged in negotiating a series of major new project loans for Mexico, and it is expected that the Bank will make new structural adjustment

loans to Mexico too. No conventional standby IMF programme appears to be envisaged at this stage.

The precedents that are being established by Mexico and Argentina are not being lost on observers of world financial markets.

Those precedents now include decisions by the US to mount major bilateral rescue agreements in a way which, some bankers fear, is weakening the traditional discipline which the IMF, and to a lesser extent the World Bank, has exerted over its customers.

This type of procedure differs from the new money packages which were put together at earlier stages in the debt crisis because it does not directly exert pressure on the commercial banks to make large new commitments to Third World debtors as part of the lending consortium.

This leaves doubt over what role the commercial banks will play. There was a lot of bad feeling among the banks over the previous loan package to Mexico signed last year, which took around nine months to arrange. (It was originally for \$7.7bn; in the event banks lent less than \$6bn because part of the money was linked to the behaviour of oil prices, which performed better than expected.)

Resistance from banks arose for two reasons. Many non-US banks objected to the way US Federal Reserve Board chairman Paul Volcker was railroading them into the financing, while the package itself was simply unattractive to banks, in contrast with that worked out this year for Brazil.

While many bankers praise Mexico for sticking to its economic policies in the face of strong political pressure to abandon them, they nevertheless will not be eager to lend it still more new money. Some will almost certainly want the protection of an IMF standby programme which does not currently seem to be under consideration. Others will ask whether with reserves of \$10bn, Mexico needs the funds from the banks anyway.

In fact, resistance to lending new funds will partly arise from the fear that new bank lending to countries with relatively strong reserves will only be used to buy the debt back from the banks at a discount in the secondary market. Indeed, before the recent deterioration of reserves, Mexico had been actively considering a second issue of so-called Aztec bonds which would be used to buy back debt.

The argument that the old rescue procedures have been overtaken by events is widely accepted. Austerity policies in Latin America have already squeezed domestic economies to such an extent that, as in Mexico, political stability is being brought into question.

But what is missing from the kind of ad hoc approach to the debt problem which has been evolving this year is any clear sense of a long term strategy, and the financial commitments to back it up by the lenders.

The sudden eruption of the Mexican debt problem again is a reminder of just how fragile the Third World debt situation remains. It also highlights the fact that, although the so called Baker Plan for tackling the continuing debt crisis has been overtaken by events, an alternative has not yet emerged to replace it.

The issue of a new approach to the debt problem will come back again next year - posed once again by Mexico. For Mr Salinas, the major issue in the longer term is to obtain a reduction in debt service payments so that, after six years of stagnation, Mexico can enjoy renewed growth. The indications are that he is seeking a reduction of 30 per cent in the \$9bn (8 per cent of GDP) paid out annually to service Mexico's debts. This week's bridging loan, by making the US administration the central player in resolving Mexico's short term problems, may reduce Washington's ability to escape such a role in the search for a longer term solution.

Mexico given access to US bridging loan without conditions

By Peter Norman, Economics Correspondent

MEXICO will be able to draw upon the bridging loan of up to \$3.5bn (£2bn) offered to it by the US earlier this week without first having to reach agreement on loan programmes with the International Monetary Fund and World Bank.

A US Treasury official said yesterday that if Mexico needed the funds, it would be able to draw "sizeable" amounts of the loan, which will be provided roughly equally by the Treasury and the US Federal Reserve System.

It is extremely unusual for a debtor country to obtain bridging finance without the provider of the funds having a clear assurance that the borrower will introduce economic reform measures under the supervision of the IMF or the World Bank.

The willingness of the US to provide what could amount to \$1bn for Mexico in an emergency with the minimum of delay is a sign of the political importance which Washington attaches to maintaining the economic and social stability of its southern neighbour.

It also shows that the US Administration believes the Mexican economy has undergone radical structural improvement in the past two years and is threatened now by external and unforeseen factors such as the recent sharp drop in the oil price.

Officials said yesterday that the IMF and World Bank had initiated talks on financial support packages for Mexico.

An IMF official in Washington said a fund mission team would travel to Mexico "in the next several days" to discuss providing finance under the IMF's compensatory and contingency financing facility. The facility is intended to help countries which experience a big external shock such as the decline in oil prices.

A World Bank team, headed by Mr Shaid Husain, the bank's vice-president for Latin America and the Caribbean, has been in Mexico since the weekend. The bank is understood to be discussing granting Mexico at least three large loans worth at least \$1.5bn in the present World Bank fiscal year that ends next June 30. However, World Bank finance for Mexico in 1988/89 could eventually exceed \$2bn.

The US said on Monday it was "prepared to develop a short-term bridge loan of up to \$3.5bn, depending on the development of loan programmes by Mexico with the World Bank and the IMF." It emerged yesterday that if Mexico uses the IMF contingency facility and the World Bank as its sources of finance, it may not have to submit to a tough IMF economic adjustment programme.

Officials from both the IMF and the World Bank stressed

that the separate discussions between the two institutions and the Mexican authorities were at an early stage, so it was impossible to say what conditions would be attached to the finance for Mexico.

IMF officials estimated that Mexico might obtain between \$300m and \$900m from the IMF, depending on how the talks progressed and how far it was judged that the oil price fall had hit the nation's economy.

The possibility of Mexico obtaining finance from the IMF and the World Bank without submitting to rigorous economic reform has prompted concern among European IMF members that debtor nations are able to obtain finance on terms which are too easy.

These fears surfaced at the recent annual meeting of the IMF and World Bank, when Argentina obtained World Bank loans without having to agree to an IMF programme.

The US, however, takes the view that the European fears about weaker conditions are misplaced. It argues that Mexico is a different case to Argentina. Mexico has been a model pupil of the IMF, modernising its economy by privatising and diversifying its exports away from oil and fulfilling its promises to the fund. **Background to US loan, Page 4; Editorial comment, Page 28; A favour to a neighbour, Page 28**

Argentina offers talks

Argentine Foreign Minister Dante Caputo said his government was prepared to talk to Britain about the Falkland Islands without conditions, dropping its insistence that sovereignty must be on any agenda. The two countries have not had diplomatic relations since the Falklands War in 1982.

19 OCT 1988

Press Cuttings
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 THE INDEPENDENT

Falklands offer

The Argentine Foreign Minister, Dante Caputo, said on *Channel Four News* last night that Buenos Aires was ready to open a dialogue with Britain "without preconditions". He hoped talks could begin before President Raúl Alfonsín's term expired at the end of next year. The proposal was immediately rejected by the opposition Peronist presidential candidate, Carlos Menem.

19 OCT 1988

Press Cuttings
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THE INDEPENDENT

Argentina costs: The non-payment of interest on \$566m of loans to Argentina reduced Citicorp's after-tax profits for the third quarter by \$22m. In total America's biggest bank made net profits of \$394m.

New inquest in Falkland death after army admits blunders

Richard Norton-Taylor

AFRESH inquest will open in Southampton today into the death of Simon Cockton, a 22-year-old lance corporal in the Army Air Corps whose helicopter was shot down during the Falklands conflict after what the Ministry of Defence now admits was a series of blunders.

At the original inquest in November 1982, the coroner said he died from "injuries sustained as a result of enemy action". It was not until 1986 that the ministry finally acknowledged that his helicopter had been hit by a Sea Dart missile from the destroyer HMS Cardiff.

Mrs Winifred Cockton, Simon's mother, succeeded in getting the verdict quashed in the High Court in February. She has accused the ministry of persistently misleading her and of covering up the true circumstances surrounding her son's death.

The helicopter was shot down in the early hours of the morning of June 6 1982. The army said in a statement that the missile was of a type known to be in possession of the enemy.

It emerged later that all units on the Falklands had been informed that no friendly aircraft would be flying that night, and the helicopter's "friend or foe" identification system had been switched off.

Argentine poll

Buenos Aires (AFP) — Argentina is to hold general elections on 14 May, 1989, the government announced.

Falkland talks plea

ARGENTINA is prepared to postpone its demands for sovereignty over the Falkland Islands to coax Mrs Thatcher to the negotiating table.

President Alfonsin's insistence on keeping ownership of the islands on the agenda has been scuppering

hopes for peace talks since the war in 1984.

Last night the Foreign Office was unimpressed by the move. Britain had already made several approaches on talks, said a spokesman, but sovereignty was not for discussion in any circumstances.

New ship for Ciamar

ARGENTINIAN owner Ciamar has taken bareboat charter delivery of a modern multipurpose ship for its Buenos Aires-Europe service. The vessel was bought by Liberian associates at a price reported to be close to \$10 million.

Ciamar is operating the 13,315 tons gross *Multitrader*, formerly the Nigerian-controlled *Atinuke Abiola*, under Liberian flag with Argentine crew. The 1986-built vessel is of 600 TEU, but can be adapted

up to 900 TEU.

The *Multitrader* is replacing the 400 TEU *Patricio Murphy*, which will be the first ship in a new Ciamar venture. The owner has won official authority to participate in liner trades to west coast ports in North and South America from January 1989.

Ciamar will now be permitted to call at Peru and the US. Its officials are sounding the market for another new ship to join the west coast trade early next year.

Galtieri trial

AT his trial for "wartime negligence" former Argentine president Leopoldo Galtieri, defended the Falkland Islands war as a "glorious act" even though Britain defeated Argentina, blamed his defeat on bad luck and said history would absolve him.

ARGENTINA WANT TALKS

ARGENTINA wants to talk to Britain about the Falklands **WITHOUT** preconditions, dropping its insistence for the first time that sovereignty must be on the agenda.

Foreign Minister Dante Caputo declared the about-turn yesterday to Channel 4.

Last night the Foreign Office said the Government is determined to seek more normal relations with Argentina but would uphold its commitment to the Islanders.

US offers \$3.5bn surprise loan package to Mexico

By Stewart Fleming in Washington, Stephen Fidler and Peter Norman in London

THE US GOVERNMENT yesterday launched a surprise \$3.5bn (£2.1bn) emergency loan package for Mexico which is facing severe liquidity problems as a result of a sharp drop in export earnings, capital flight and heavy imports of consumer goods.

The bridging loan is the largest offered to a debtor country since the start of the Latin American debt crisis in August 1982.

It comes as the Mexican presidency is about to change, and the incoming administration of president-elect Mr Carlos Salinas de Gortari is under pressure to adopt a more radical debt policy.

The loan surprised bankers and officials in other western countries and was viewed last night as a "dramatic confidence building gesture" at a time of extreme political sensitivity in Mexico.

The package has been negotiated in secret within the past 10 days in Washington with Mr Salinas's representatives present. The accord was hammered out at the weekend.

"Mexico has suffered a sharp external shock," a senior US Treasury official said yesterday. The official maintained, however, that economic conditions in Mexico were better than in 1982 when Mexico's loss of reserves triggered the Third World debt crisis.

"They still have substantial revenues. This is completely different from 1982," the official said.

Mr Salinas is due to take over from President Miguel de

la Madrid on December 1 following the most controversial presidential elections in recent Mexican history. The election saw the first serious challenge to the ruling Institutional Revolutionary Party (PRI).

Mr Salinas is inheriting the presidency, as the PRI's candidate, at a time of unprecedented opposition strength and amid suggestions from some political analysts that the US's southern neighbour is entering a period of radical and unpredictable political change.

Mexico is the US's third-largest trading partner: there has always been extreme sensitivity in Washington over its affairs.

The US Treasury and the Federal Reserve Board yesterday issued an unusual statement which began by praising Mexico's economic reforms, including the austerity programme announced by President de la Madrid on Sunday, saying that Mexico "has established the basic conditions for the renewal of sustained economic growth."

"In the context of normal consultations between countries with close economic relations, US and Mexican authorities have agreed that Mexico's strengthened economic policies merit support.

"Accordingly, the US Treasury and the Federal Reserve are prepared to develop a short term bridge loan of up to \$3.5bn depending on the development of loan programmes by Mexico with the World Bank and the International Monetary Fund," the statement said.

Mexico has no loan negotiations under way with the IMF. US officials expect talks to begin, although monetary sources in Washington expressed doubts about Mexico's willingness to enter discussions with the IMF.

Mr Adolfo Aguilar, a senior associate at the Carnegie Endowment for International Peace, yesterday cited increased consumer goods imports, related to the Government's efforts to offset shortages stemming from its anti-inflationary policies, as another factor behind the sudden deterioration in its external finances. "Mexico is in a deep emergency right now," he said.

US officials say, however, that compared with 1982 the Mexican economy is much more diversified and less dependent on oil revenues for exports.

The sharp fall in oil prices, which has taken prices for Mexican oil down to just more than \$9 a barrel, has raised the possibility that Mexico's export earnings will be much lower than anticipated. Oil prices account for about 40 per cent of its exports.

It had been anticipating an oil price of around \$13-\$14 a barrel and each one dollar fall below this could cut as much as \$500m-a-year of oil revenues.

Mexico has also suffered from higher interest rates on its foreign debt.

Furthermore, nervousness about the handover to Mr Salinas and an overvalued currency have combined to encourage capital flight.

While these factors have depleted reserves, estimates suggest Mexico has \$10bn in reserves.

Unusually, the US is going it alone with the emergency loan: other western countries have not been asked to participate. Member states of the Bank for International Settlements have agreed to participate this year in much smaller bridging loans for Brazil and Argentina, although the Argentine loan has not yet been drawn.

The Bank for International Settlements in Basle, Switzerland, which acts as a co-ordinating centre for the world's central banks, said it was not involved in yesterday's US decision.

The BIS was informed, an official added, but received no request from the US administration to join the credit.

The agreement between the US and Mexico was, therefore, in marked contrast to events in 1982 when Mexico announced it could not service its foreign debt. At that time the BIS joined the US authorities in arranging bridging finance for the country.

Mexico has foreign debt of about \$100bn. Unless the US were to depart from previous practice, it would not disburse its bridge loan until after the IMF or World Bank funds had been given final approval.

It appears likely that further

Continued on Page 28

Bridging loans ease the path for Salinas, Page 3; Mexico sets mine sale deadline, Page 36

Mexico

Continued from Page 1

attempts would be made to raise money from commercial banks, after drawing down earlier this year the last of a \$7.7bn loan it signed in 1987.

Mexico has made progress in the past two years in its efforts to diversify its exports away from oil.

Yesterday's news is a sign that the process had not gone far enough to cope with the sudden oil price fall.

Besides the political uncertainty following its recent election, Mexico also faces the intractable problem of a rapidly rising population.

According to Gerald Holtham, chief international economist Shearson Lehman Hutton Securities in London, yesterday's events also give a clue to future US monetary policy. "The news suggests that the Fed is going to keep US monetary policy tight against the background of a declining oil price," he said.

Press Cuttings

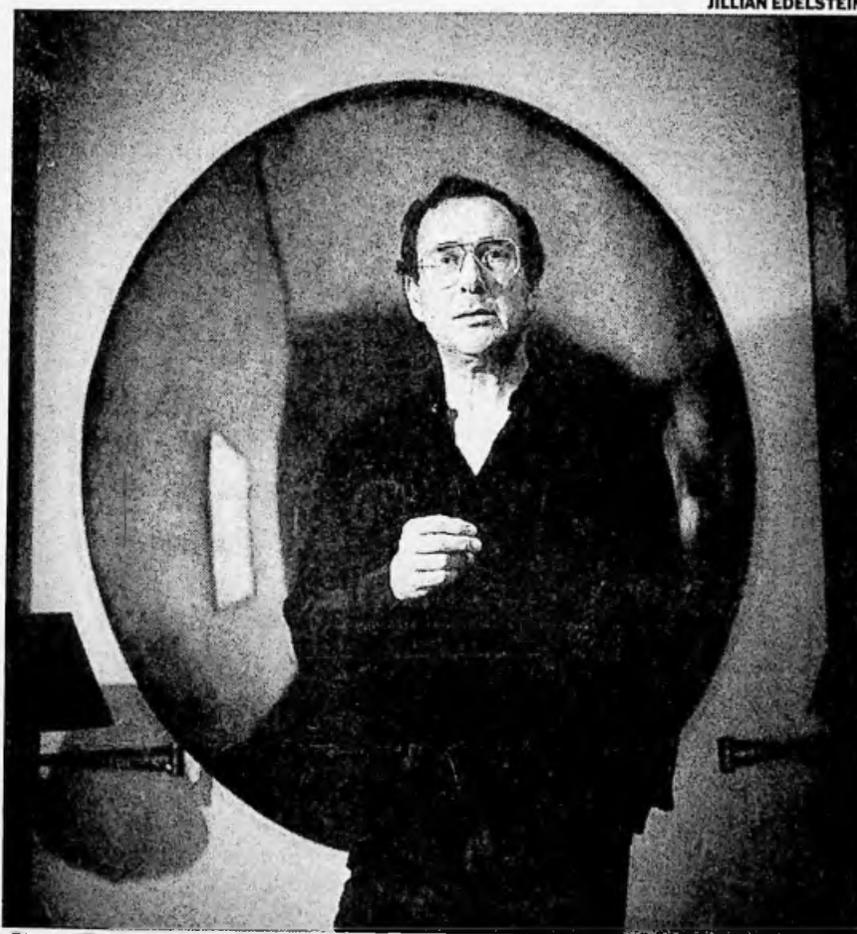
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THE INDEPENDENT

A conscientious objector

JILLIAN EDELSTEIN



Pinter: "I'm not alone, surely, in acknowledging that thousands of people are almost dispossessed"

Harold Pinter, whose plays have often dealt with powerlessness, tells **Sue Summers** about his obsession with the state of Britain

Press Cuttings from Broad Street Associates

THE INDEPENDENT

Harold Pinter's latest political act, the formation of a literary discussion group to counter the ideas of Mrs Thatcher, was the subject of more newspaper column inches than the average South American revolution. His first political act went unremarked by everyone except his parents, the Army and Moishe Wernick.

It was 1948 and the 18-year-old Pinter refused to be called up for military service, on the grounds that he was a conscientious objector. "I disassociated myself from preparations for another war," he says. "It seemed to me that since the war which had cost millions and millions of lives had just finished, this Cold War stuff was crap." The future playwright conducted his own defence at two civil trials and two tribunals in Fulham Town Hall, which he attended with his toothbrush in his pocket, fully expecting to go to prison for six months.

At the second tribunal, Pinter produced a character witness — Moishe Wernick, a friend of his own age from Hackney Downs Grammar School. "I know Harold, and you don't," Moishe told the assembly. "He's very obstinate. If he says he won't do it, he won't."

Pinter admits that he probably would have done better to bring along a rabbi. Despite Moishe's assessment of his character, being a conscientious objector cost him £80 in fines. "My father had to pay," he says. "God knows where he got the money. He wasn't too pleased."

Harold Pinter tells the story to illustrate that politics is not something he has discovered in middle-age. "It could even be said my early plays like *The Birthday Party* and *The Dumb Waiter* were political in a way," he says. "But they were sort of metaphors." In the past 10 years, however, politics has become one of his major concerns, and at 6.15pm on Thursday at the première of *Mountain Language* — his first new play since the short work *One for the Road* four years ago — audiences at the National Theatre will see him attempting political theatre of a far more direct kind.

He does not care to discuss the details of *Mountain Language* in advance of its opening, in case he gives away too much to the critics. But the first thing to say about the play, which Pinter has directed himself, is that it is short — only 17 pages of script, about 25 minutes of performance. "It's probably the shortest play that's ever been done at the National Theatre," he says.

This has not prevented the National from giving it a full-scale production in the Lyttleton Theatre, with a cast which includes Michael Gambon, Eileen Atkins and Miranda Richardson. "It's a short piece but it's a quite considerable piece," says the NT's creative director, Richard Eyre. "What function do we have if not to present plays by our leading writers?" The production marks Pinter's return to the theatre after his celebrated rift with Sir Peter Hall five years ago — a breach which was healed just before Hall's departure.

The springboard for *Mountain Language* was Pinter's concern with the political persecution of the Kurds in Turkey (which he visited with Arthur Miller two years ago), but it is not a polemical play. It takes place in an unspecified country, inside a prison

whose inmates are prohibited from speaking their own language. "The idea of language being proscribed is, I think, a potent metaphor for tyranny," says Eyre.

Pinter's last full-length original work was *Betrayal* 10 years ago. Since then he has not been able to write a full-length play. "The fact is I haven't been able to liek that," he says. Some of his critics blame this on his politics. Pinter himself feels that there is a dichotomy between political involvement and the writing of fiction.

"The great thing about writing plays is you don't think," he says. "I'm putting it quite badly, but the fact is in order to write what's called imaginative literature, you have to let something go, you have to release the imagination. If you think too much you are simply not going to do that, you are going to inhibit the imagination. There is a tension between being creative — ie, not thinking — and living your life as a citizen in which you are obliged to think. It can sometimes be exhausting."

He also finds a problem in the actual writing of political drama. "The problem is that you know where you are before you start. A play is essentially a voyage of discovery, and so if you get it all worked out before you start, the danger is that the play is redundant.

"When I started becoming involved in politics, I found I wasn't able to construct a framework in terms of a full-length play which would satisfy me and be of interest to anyone else.

"The first things I ever wrote were poems and I've been writing poems all my life. I'm not saying *Mountain Language* is a poem, but perhaps it evokes by its images states of affairs which are not analysed but merely stated. The scenes are so short, the play is so short, it looks perhaps to a poetic economy. So it doesn't become a dissertation. It doesn't analyse anything. It simply does something.

"I have a funny feeling now that the audience and certainly the critics will not be asking for more of it. I think it's quite enough. It will all be over by 6.45, so they can go out and have a nice little drink and think: 'Thank God we don't have to go back for the second half.'"

Pinter is having a busy autumn. Next month he will direct *Mountain Language*, with its National Theatre cast, for BBC TV. A master of screenwriting, he currently has three film scripts at various stages of production, including an adaptation of Elizabeth Bowen's *The Heat of the Day* for director Christopher Morahan, and one of Margaret Atwood's *The Handmaid's Tale* for German Volker Schlöndorff. "I don't feel a blocked writer," he says. "I feel pretty energetic."

At 58 (his birthday was last week), Pinter is still a striking figure. He could sit back and enjoy his status as Britain's most celebrated living playwright. But thanks to his politics, he is as controversial a figure today as he was when he first began writing plays 30 years ago.

His political reawakening came in 1973 with the overthrow of the Marxist Allende government in Chile. An Argentinian writer friend of his disappeared in Chile during the military coup. But it was the coup itself which made him think. "I started to investigate what the role of the USA was in all this and I found it really stinks to high heaven all along the line," he says. "It's not a popular view to hold here. It seems to me that we are as much a satellite of the USA as Czechoslovakia was of Russia. There are emergency plans for America to take over this country. I'm not talking wildly. If you don't believe me, ask Duncan Campbell."

It is the state of Britain which now obsesses him. "A great deal of my life, and certainly my private life, is conducted in an extremely even manner and is deeply enjoyable," he says. "But I do feel a quite palpable depression about the way we live in this country. And it never goes away."

It was the desire to focus this feeling which was behind the formation of the 20th June Group, a high-intellect forum for anti-Tory opinion, which has so far been held twice in the Campden Hill drawing-room of Pinter and his wife, Lady Antonia Fraser.

Pinter is angry about the "rhetoric of dismissal and contempt" with which the group has been almost universally disparaged in the press. "But if you are ridiculed by people like Peregrine Worsthorne, what's the significance and value of that ridicule?"

"I think it's considered in many ways jejune or naïve actually to care about what goes on in this country," he says. "But I'm not alone, surely, in acknowledging that there really are thousands upon thousands of people who are almost dispossessed. I'm talking about the old, the disabled, the unemployed.

"We are trying to talk seriously about what is a serious state of affairs — the plight of the country and its values. All these things serious people used to talk about, though now I believe it's quite unfashionable because all you are asked to do is go along with the status quo and make as much money as you can.

"One of the charges made against this group is: 'How can you lot, who have done well, justify discussing the state of the country and the future of others?' It doesn't occur to these people that one is obliged to think about others. We have a precise agenda and we are going to meet again and again, until they break all the windows and drag us out."

Galtieri's defence

Buenos Aires — Former President Galtieri of Argentina told the Falklands War hearing here yesterday that Argentina lost the war “by a narrow margin” and praised the Argentinian armed forces for having faced a “colonialist empire ready to do battle” (Michael Llanos writes). The former Army Commander-in-Chief was testifying in the civilian Federal Appeals Court, reviewing a military tribunal's 1986 verdict which found the general, in addition to Admiral Jorge Anaya and Air Force General Basilio Lami Dozo, guilty of negligence in occupying the islands but then failing to defend them. The three men were sentenced to jail terms of up to 12 years but the state prosecution is pressing for stiffer sentences to be imposed.

Press Cuttings

from Broad Street Associates

Daily Express



18 OCT 1988

Galtieri's war boast

ARGENTINIAN ex-President Leopoldo Galtieri said yesterday that he was proud of having led his country into the disastrous Falklands War in 1982. "It was done and done well," he told a Buenos Aires court reviewing his 14-year sentence for negligence. "In the same circumstances I would proceed in the same way."

Galtieri 'would start war again'

Buenos Aires (Reuter) — Former president Leopoldo Galtieri said yesterday that he was proud of having led Argentina into the 1982 Falklands war against Britain and that he would do the same again if given the chance.

"It was done and done well," Galtieri told a civilian court reviewing the 14-year jail sentences imposed on him and the former navy commander, Isaac Anaya, for negligence and lack of foresight during the conflict.

"I am at peace with my conscience, and proud of having been able to defend my fatherland. If asked whether I would do the same, if in the same circumstances I would act in the same way, the answer is yes. I, Lieutenant-General Galtieri, would proceed in the same way," he told the hearing.

Met Office predicts global-scale floods

THE WORLD will become 5.2 degrees centigrade warmer in the next 50 to 100 years, according to new forecasts from the Meteorological Office. Winter air temperatures in the Arctic and Antarctic will rise by up to 12 degrees centigrade, they add.

Under such conditions, the polar ice caps would melt rapidly, the oceans' circulatory system would be disrupted and increases in sea level would cause extensive flooding of coastal areas on a global scale, Sir John Mason, the former director-general of the Met Office, warned.

The prediction, which takes into account the interaction between the atmosphere and the ocean, is based on calculations made for 350,000 points on the earth's surface. The forecasts are the most detailed undertaken by the Met Office. Scientists said these temperatures were among the highest yet predicted and were cause for great concern.

The 5.2 degree average rise in global temperatures is based on a doubling of the carbon dioxide in the earth's atmosphere, which at the current rate should take between 50 and 100 years. Forecasts

By Mary Fagan
Technology Correspondent

for global warming have ranged from 1.5 to 5.5 degrees.

Sir John, the chairman of the Government's committee on marine science technology, unveiled the unpublished predictions of the Met Office's global climate model at the third annual Plymouth Marine Lecture, which dealt with the effect of the oceans on climatic change.

According to Professor Brian Bayne, the director of the Plymouth Marine Laboratory of the National Environment Research Council, the predictions represent a "striking and dramatic new advance" because the Met Office has linked its world-leading atmospheric modelling skills with modelling of the activities of the ocean. "It's not until these are linked that we can hope to get a reasonable prediction of the greenhouse effect," Professor Bayne said. "I hadn't realised they had managed to run these models for the periods of time they have achieved."

Special report, page 17

TELEVISION
Thomas Sutcliffe

A game of I-Spy

THE LATEST breed of spy satellites can detect an object the size of a grapefruit, we were told in *Equinox* (C4). The Russians, not having been born yesterday, take all their secret grapefruit-sized objects indoors when they know the satellites are overhead. Worse than that they have realised that any route for information can also conduct disinformation — they recently inflated a gigantic submarine to frighten the Americans, an engaging and practical joke which was only spoiled when a storm turned it into a giant banana.

"Spytech" was about the continuing debate over the relative values of micro-chip gadgetry and small gloomy men like Ian Holm, wearing Eastern European duffle-coats. Satellites don't often betray you but they can be indiscriminate in their supply of information (the Americans had so much information about Argentine troop dispositions just before the Falklands War that they didn't get round to processing it until after the invasion). Information from human spies has the advantage of pre-processing but the activity can be dangerous — in Operation Redsocks the CIA discovered the hard way that undercover operatives need the help of a supportive population — something the young Americans parachuted into Russia just after the war did not find.

Such human costs straightened your face for you, countering the ludicrous aspects of a leap-frogging race of measure and counter-measure. *Equinox* had a taste for the comic side of spy technology but didn't forget that intelligence wasn't always simply stupid — the breaking of the Enigma codes and Hitler's continuing confidence in them, almost certainly shortened the Second World War and may have won it.

The Natural World (BBC 2) went out on a limb, one that was purportedly very hairy and around four feet from groin to toe. Making a natural history programme about the Yeti presents you with some obvious problems — all you can legitimately film are holes in the snow. You can't even rely on the appeal of baby yetis, as they are simply smaller holes in the snow with smaller intervals between them. Instead Chris Bonington assembled witnesses of varying persuasiveness — the most convincing being Reinhold Messner, a converted sceptic who had photographed quite clear tracks in mud, but who, in his hairiness, himself bore a disturbing resemblance to the legendary beast.

You also got some odd point-of-view scenes, shot through a pink filter and accompanied by a muttering soundtrack, which left you with the impression that the yeti was a furry Himalayan tramp, wearing a cast-off pair of climbing glasses, and grumbling about the state of the world.

The subject of *Everyman's* three-part series about Pope John Paul II actually agreed to be interviewed but was no less elusive. His own remarks were hardly revealing, those of others, despite their sincerity, lit by the faint glow of retrospective hagiography. But the strength of the programme was its depiction of the grandeur of the church. In one of its many temporal jumps the film cut from Karol Wojtyla's early days when "he was still planning a theatrical career" to the epic spectacle of his enthronement. The "instead" they interpolated seemed ingenuous in view of the man's ability to perform on a world stage.

And for those who thought this it was all a bit uncritical there was a Professor Nicholas Lash in the tail — the film closed with his suggestion that there might be costs to the church in having a star as Pope and promised more incisive matter next week.

The Falkland Islands Co-op is all ready to claim its dividend

Martyn Halsall
Northern Industrial
Correspondent

THE Falkland Islands have joined the Co-op, with which they have traded for 35 years. The interim report of the Co-operative Wholesale Society, published at the weekend, said the Stanley Co-operative Society had become eligible to join its suppliers, "following changes in local legislation".

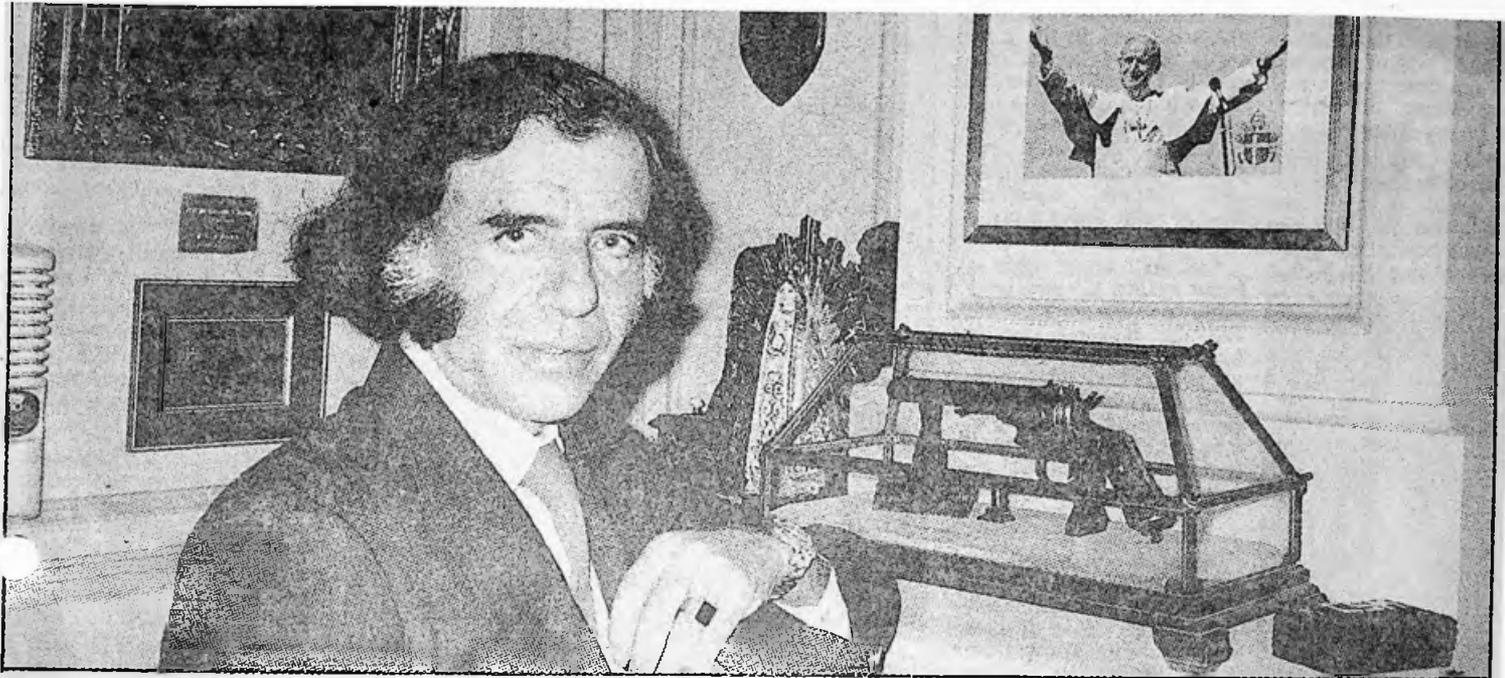
The Falklands' Co-op became one of three new organisations to join the CWS during the first half of 1988, during which a recruiting drive added a further 5,000 individual members.

Board chairman, Jim Mason,

welcomed a rise in consolidated trading profits from £9 million to £12 million as "a strong sign of positive progress". Turnover rose slightly to £1,108 million.

Retail sales increased by 15 per cent to £240 million, with particularly strong improvements in the south-east of England and in Scotland, where new stores had been opened and refurbished.

Chief executive, Sir Dennis Landau, underlined the Co-op's commitment to green economics, claiming the CWS was the first of the major retail groups to begin removing chlorofluorocarbons (CFCs) from aerosol products, following evidence linking them to damage to the Earth's ozone layer.



Front-runner for the presidency of Argentina, Carlos Menem: Hero of the people — or the thuggish face of Peronism?

IT WAS with every sign of elation that the man at the airport declared: 'The Turk is going to win! The Turk is going to win!'

He was talking about Carlos Saul Menem, 53, the noisy Peronist governor of this remote northern province of Argentina, who launched his campaign for the presidency yesterday and is seen even by his fiercest opponents as the front-runner to succeed President Raul Alfonsín

People's choice for the new Peron

HUGH O'SHAUGHNESSY □ La Rioja

next year. As a Peronist, he has great appeal for millions of poorer Argentines.

Alfonsín, widely admired abroad, is losing the battle on the home front as infla-

tion soars and living standards drop catastrophically. His defeat by Menem would complicate British relations with Argentina enormously after five years of Alfonsín's quiet but fruitless diplomacy over the Falklands.

The Turk—a name Argentines attach, with greater or lesser degrees of affection, to all people of Arab extraction—sits quietly in his ornate office overlooking the square in this small city, surrounded by his flags and crucifixes, statues of the Virgin and pictures of the late General Peron, Evita Peron and Pope John Paul II.

'I want the best relations with the British people and I think that talks about the Falklands could be much easier with any other British Prime Minister than Mrs Thatcher,' he says peaceably.

But many, not least within the Peronist movement, distrust his outward appearances, even though still believing that he will crush Eduardo Angeloz—the sound but dull presidential candidate of Alfonsín's Radical Party—in

next May's elections.

La Rioja, capital of the province of the same name, is where Menem holds court.

As seen by his opponents, Menem's two periods as governor of the province have been the peak of a frivolous demagoguery and financial irresponsibility which, if he were indeed to reach the presidency, would make Argentina a laughing-stock and bring it to bankruptcy.

The Radicals pour quiet scorn on his Syrian roots and on the fact that, they say, he converted from Islam to Roman Catholicism because the provincial constitution demands that the governor be a Christian.

His enemies mock the emergency provincial currency he has issued, which bears the portrait of a 19th-century bewhiskered local hero who could at first glance be taken for Menem himself. They allege that the currency is used for buying votes, in helping to finance government jobs for no fewer than

38,000 of the province's 200,000 inhabitants. One Socialist opponent says of Menem: 'In the big political mess that is present-day Peronism, he represents the most violent, thuggish streak.'

He may have been born a Muslim but he takes Argentina's highly conservative Catholic Church very seriously and opposes any moves to legalise divorce or abortion.

Returning to the hated British presence in the Falklands, Menem asserts: 'The English are making a fortune licensing people to catch our fish round the islands. That's economic aggression.'

'I will embargo all land in Argentina belonging to the English Crown. Not seize it, mind, embargo it. There's about 350,000 or 400,000 hectares (1,350 to 1,540 sq miles), mostly in Patagonia.'

'The British flag is raised there. It was used to help the British in the war and the owners were decorated by the Queen after the war. It speaks for itself.'

As President, would Menem go ahead with the production of a nuclear bomb?

'We are not in an aggressive mood. I see no need for it at the moment,' he says.

What does 'for the moment' mean? 'Well, if nuclear weapons were needed tomorrow or the next day...'

World at their wingtips

THE FALKLANDS conflict highlighted the problems facing Britain's attack and defence air forces in reaching and holding the front line. Now the RAF believes it can reach any part of the world rapidly and efficiently.



To prove it to any possible aggressor, Strike Command has sent four Tornado fighters around the world. Sunday Express reporter ALFRED LEE is the only newspaperman on operational duties with this special force...

IT REPRESENTS one of the RAF's proudest peacetime achievements. For the first time, our fighter planes are encircling the world in an historic flight codenamed Operation Golden Eagle.

The exercise will demonstrate to all nations, friend and foe alike, that Britain's Strike Command is now able to fly its front-line attack and defence jets to anywhere on earth with swift efficiency.

I am the only newspaper man on operational duties with the four F3 Tornados as they started on their 66-day mission. I am witnessing the RAF's expert pilot technique, ground handling and the logistical support needed to accomplish such a challenging feat.

The round-the-world journey is made possible by mid-air refuelling of the fighters, capable of speeds of 1,500mph, from the newly-converted TriStar tankers.

To accomplish the longest

and most complex mission ever undertaken by the RAF in peacetime, the Tornados must be refuelled 55 times in mid-air on their 28,000-mile journey.

I witnessed the daring refuelling manoeuvre from the cockpit of an RAF TriStar flying four miles above the paddyfields of Borneo.

To my left, only 100 feet away, were the four jets, flying wingtip to wingtip and thirsty for fuel.

Throttles

Over the radio headset came the voice of the captain of the TriStar, Squadron Leader Peter Young: "Trailing the hose. Zero One, you are clear to go astern."

The pilot of the lead Tornado, Wing Commander Lloyd Doble, turned his head towards us and gave us the thumbs-up sign as he fingered the throttles of his 16-ton fighter back, slowing it by just one mile an hour.

The Tornado's refuelling pipe clicked into the hose snaking out from the Tri-Star and the tanker captain reported: "Fuel is flowing."

In under five minutes, pressure pumps pushed 680 gallons of fuel into the plane.

The round-the-world flight

took the Tornados to Thailand, where they flew over the site of the World War Two prison camp immortalised in the film, *The Bridge On The River Kwai*.

The Tornados, from 29 Squadron, started from their base at RAF Coningsby, Lincolnshire, with a nine-and-a-half-hour leg to Oman.

Each had to be refuelled seven times in the air and after just 13 hours in Oman, came another seven-and-a-half-hour flight—to Butterworth in Northern Malaysia.

Flight Lieutenant Martin Willcox, 26, from Norfolk, said: "When we reached But-

MoD hunts for £600m to replace Falklands ships

by Simon O'Dwyer-Russell Defence Correspondent

THE Ministry of Defence will this week ponder how to find more than £600 million to replace the Royal Navy's two ageing amphibious assault ships which proved vital during the San Carlos landings in the Falklands War six years ago.

Although Defence Secretary George Younger has committed the Government to maintaining an amphibious capability when HMS Fearless and Intrepid become obsolete within the next five years, doubt remains over how this will be accomplished.

A question mark also hangs over whether sufficient funds can be found within the hard-

pressed £19.2 billion defence budget for the project.

Three of Britain's leading shipyards, Vickers Shipbuilding, Scott Lithgow and Swan Hunter, last week submitted detailed proposals to the MoD for new ships to replace Fearless and Intrepid.

These designs will be considered over the next few months by the Ministry's Procurement Executive alongside a previous study by Swan Hunter which looked at how the existing

assault ships could be updated to extend their lives.

The future of the Navy's amphibious ships, and with them the long-term future of Britain's 7,000-strong Corps of Royal Marines, has been under consideration since the 1981 Defence Review by John Nott announced the Government's intention to scrap Fearless and Intrepid.

But this decision was overturned after the Falklands War and the Ministry said the ships would continue in service until "the end of their useful lives".

While navy staff acknowledge the Government's desire to maintain an amphibious fleet as well as providing two vital aviation support ships for troop-carrying helicopters, the issue hinges on how far available cash will fund the two projects.

It is seen as extremely unlikely, even if George Younger manages to get an increased defence budget next year that

the Ministry can afford both projects.

MoD sources say it is inevitable that an "unashamed compromise" of one new assault ship, with either Fearless or Intrepid being updated, and the conversion of two merchant containers to aviation support ships is the likely outcome of the Ministry's study.

While the Navy's amphibious fleet is seen as a necessary element of Britain's "out-of-area" forces the ships are also vital to Nato's reinforcement plans.

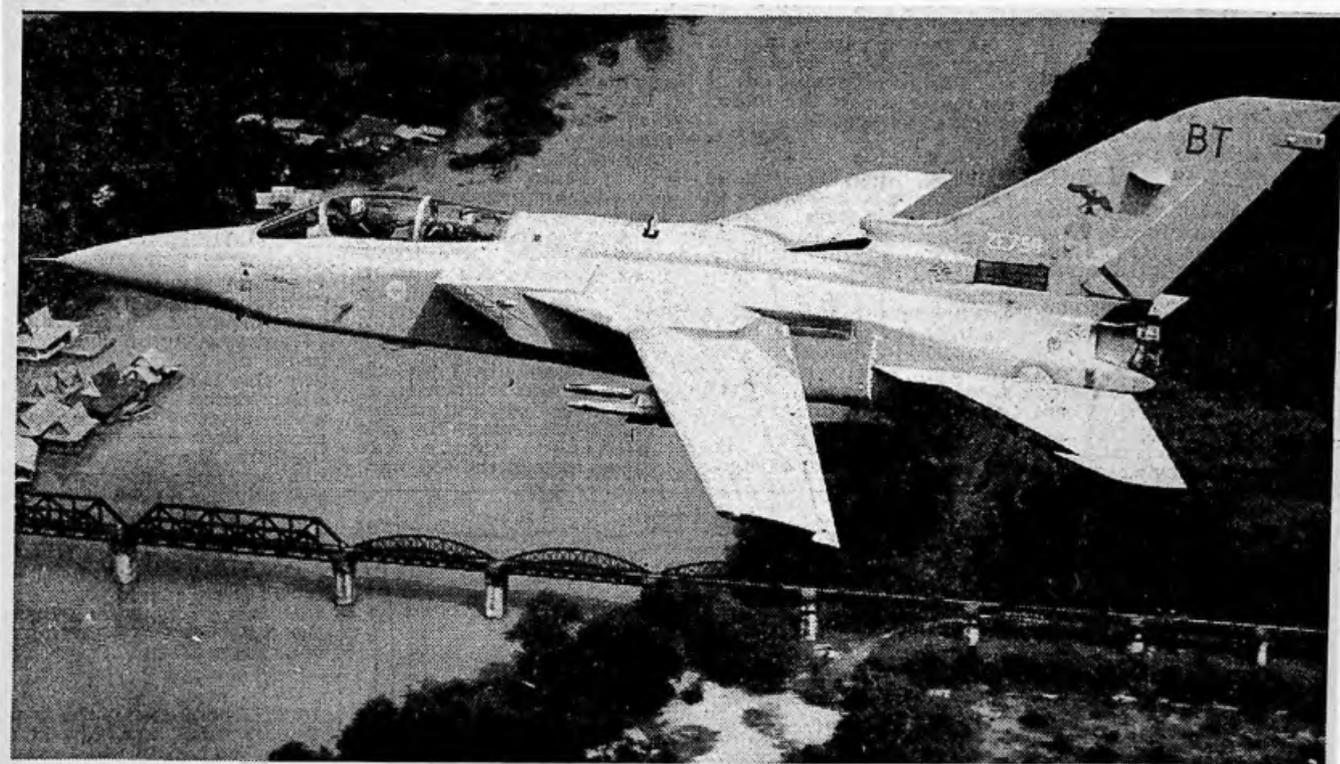
The so-called United Kingdom-Netherlands Amphibious Force, made up of British and Dutch Marines and earmarked for emergency deployment on Nato's northern flank in Norway, is a key to the West's defence of the Northern Atlantic in a major European War.

At a time when the Canadians have just withdrawn the brigade Ottawa had promised to send to Norway in wartime, Britain's reinforcement of Norway is seen as all the more important.

BIRTHDAYS

Lord Maclehoze of Beoch, Governor and C-in-C of Hong Kong from 1971 to 1982 is 71 today. Other birthdays: Max Bygraves, entertainer, 66; Robert Urquhart, actor, 66; Angela Lansbury, actress, 63; Lord Adrian, Professor of Cell Physiology and Master of Pembroke College, Cambridge, 61; Günter Grass, writer, 61; James Lockhart, conductor, 58; John Grant,

former Labour MP for Islington who defected to the SDP and lost his seat, 56; Peter Bowles, actor, 52; Simon Ward, actor, 48; Emma Nicholson, Tory MP for Devon West and Torridge, 47; Terry Griffiths, former world professional snooker champion, 41; Robert Falcao, Brazilian footballer, 35; Michael Forsyth, Tory MP for Stirling, 34; Gary Kemp of the pop group, Spandau Ballet, 29.



Memories: An RAF Tornado flies past the notorious bridge over the River Kwai in Thailand

terworth, I was absolutely shattered.

"It was before dawn when we left Britain and the temperature was 5 degrees C. When we reached Oman, it was 32C.

Missiles

"The sweat was pouring off me like rain. Over my clothes I had to wear a flying suit, a G-suit, a life jacket, close-fitting helmet and leather gloves.

"On the flight to Oman, all we had to eat was some chicken sandwiches.

"But hunger wasn't the main problem. It was dehydration."

"This leads to loss of efficiency at a time when maximum pilot and navigational precision are needed.

At Singapore, stern-faced armed youngsters—doing compulsory national service for their country—guarded the fighters, worth £15 million

The Tornados are each equipped with four Skyflash medium-range missiles, four Sidewinder air-to-air missiles and a powerful cannon.

It is hoped the round-the-world trip will generate foreign sales of the aircraft, made by a European Consortium including British Aerospace.

And the RAF is keen to build

up contacts with friendly, foreign airforces. At Butterworth, the Tornados took part in exercises with aircraft from Malaysia, Singapore, New Zealand and Australia, all parties to a joint defence treaty.

At Richmond air base, near Sydney, this weekend the Tornados and TriStar—from 216 Squadron, based at Brize Norton, Oxfordshire, along with 12 parachutists from the crack Falcon display team—are taking part in Australia's Bicentennial air display.

From Sydney, the Tornados fly to Pago Pago, Hawaii and the U.S., returning on October 25.

NATURAL SELECTION

Cindy Buxton, film-maker, and her father, environmentalist Lord Buxton, talk to Christine Eccles. Photograph by Martin Dunkerton

Former chief of Anglia Television, Lord Buxton is chairman of *Survival*, its wildlife unit. He has served on many environmental organisations and is a vice-president of The World Wide Fund for Nature (formerly the World Wildlife Fund) and the Wildfowl Trust. He is involved in the European Year of the Environment, the Nature Conservancy Council and the Royal Society for the Protection of Birds. He farms in Norfolk and has six children. His daughter Cindy is 38, was educated at St Mary's, Ascot, and made her first film for *Survival* in 1971. She spent nine years in Africa and then made world news when she was stranded in South Georgia at the start of the Falklands war. She has recently returned from New Zealand.

Cindy Buxton We had perfect parents, slightly Victorian, perhaps. But they both made a huge effort to make life enjoyable for us, as long as you toed the line. Pa has a wonderful sense of humour and loves having his leg pulled. We used to call him The Government, it summed him up exactly.

Once he wrote to me at school from the office and his secretary typed it up. Obviously at the end of the day all the letters went to Pa for signing. My letter began "Darling Cindy, How are you? All the dogs are well" and ended "Yours sincerely, Aubrey Buxton". I've never let him forget that.

He's totally ambidextrous and can write backwards with his left hand. He'd write to me like that and I'd have to decipher it in the mirror. And he'd decorate his letters to me with little drawings - he's very good at that.

I loved going for walks with him and as a child I was riveted by the early *Survival* programmes. I had a passion for Africa and can remember thinking I want to go there, it's all I want to do. I spent three months doing the Season and hated it, so I took a secretarial course and learnt to fly. But being a secretary and flying an aeroplane don't go together so I grabbed the opportunity to join a *Survival* crew as a Girl Friday in the Galapagos Islands. There I discovered an enormous patience for wildlife which I don't have for the human race - humans are not nearly as easy to get on with.

When I returned I showed Pa the stills I'd taken and we talked about photography. One of his strengths is that he'll listen to any idea and within reason he'll say give it a go. So I bought a camera and 500 feet of film and filmed the ducks at



Cindy Buxton has inherited her passion for the natural world from her father's family, but not her practical streak - Lord Buxton 'can hardly mend a fuse'



home. Pa had it processed and I couldn't believe that it had actually come out.

Pa encouraged me to go off to Africa but my mother wasn't so sure about the whole adventure. She felt that a 19-year-old young lady should finish the Season and find some lovely husband. I stayed with friends in Africa and my filming was still a continuation of the family ducks but I developed little stories and ended up with a half-hour film which I sold for £2000. Unbelievable!

I was sensitive about being his daughter

and it took several years to get over that. It worried me that people on *Survival* might not tell me if I was doing something wrong. I feared they wouldn't in case I got upset and went running to Pa. But you don't go to the chairman about a programme you're making. I've never dealt with him direct. We do talk over ideas as he's been in the game a long while. Pa visits me on location and in fact had joined me in South Georgia shortly before the invasion.

Naturally he was worried. Which father wouldn't be if his daughter was in the middle of nowhere, minding her own business filming king penguins, elephant seals and albatrosses, when an army comes along and invades? The real fear came from the cold. We were running out of fuel and could have been stuck there for the winter. It got to the stage where I was looking at

an elephant seal with its blubber and working out how to kill all three tons of it with my Swiss Army knife.

I'd hidden all the film because if the Argentines had messed with that, I really would have lost my temper. There was absolutely no point in thinking I'd never see my family again.

We have a funny relationship because we're so alike. We think the same way and are working in the same area. We love each other dearly, and it goes without saying that we'd defend each other to the last dying breath, but tiny things can make us spark. He does tend to have a terribly straight line, although as he approached 70 it started to broaden out.

I have a little cottage in Norfolk about four miles from him which I hardly ever see. The two years I've spent in New Zealand have seen a great change in Pa. My mother's death in 1983 affected

him quite badly. She was the anchor. As the oldest unmarried daughter I felt very protective about him at the time and thought perhaps I should stay at home. But Pa didn't want to cut me short and stop me filming. Now he's bowling along very happily once again and it's rather comfy knowing that he's there if you need him.

Lord Buxton When she was quite a tiny girl, Cindy was mad about Africa. For more than a century there have been members of the family keen on travelling. In every generation there's always been a woman, usually a gaunt, grey-haired missionary, stamping around the world and Cindy just happens to be the one in the current generation.

The children acquired their interests themselves, although because my daily life in Norfolk is centred in a coastal environment it's true to say that Cindy must have picked up a lot from my example.

I was probably a bad father because I did with them only the things that I wanted to do. I can't remember their ages or when their birthdays are. They tell me now that being brought down to see me at teatime was like being on parade, poor things.

Cindy's first film was a murder story shot in Scotland. I played a female entomologist and had two enormous glass buoys under my sweater. I chased the Missing Link (played by Lord Caithness) over a hill and fell flat on my face, breaking two ribs. The glass buoys nearly went through me. Cindy caught it all on film. It's very good. Worth seeing.

I encouraged her to learn to fly. I had both girls taught. The youngest is a fully qualified commercial pilot. But it came as a surprise when Cindy took up wildlife photography. I've never taken photographs, I prefer to paint. Probably for ethical reasons she should have gone to the BBC but sensibly she sent her first film to Colin Willock, senior producer on *Survival*, and he was delighted.

Cindy doesn't get her competence with equipment from me. I can hardly mend a fuse. She is a very practical person. Not only can she fly a plane, she also services her own Range Rover in the wilderness.

It doesn't surprise me that she's never married – no man could stand it. All the children are regarded by others as great individuals. None of them wanted to go to university. They all wanted to get on with what they were

going to do.

If Cindy's frustrated, it's better to keep out of the firing line. In the Falkland Islands she desperately wanted to film a seal chasing a penguin – something she'd never managed to see. Suddenly we saw it.

Cindy made a dash for the camera but the penguin was caught and killed before she could reload. During the six-mile walk back across the island, I didn't dare go within 50 yards of her.

I've visited her on location many times and that probably means I've spent more time with her than with the others.

Obviously we were worried when Cindy was stranded in South Georgia. The Argentine ambassador was an old friend and I told him to be sure to tell the troops not to confiscate Cindy's film because there'd be another war.

The press stories were all fabrication. She was never in a blind panic. In fact she had the Union Jack flying from the top of the hut the entire time. Cindy was better adapted to life on South Georgia than the Argentines were. They were a load of conscripts from Buenos Aires who had never been out of the city before and were far more frightened. We had great jollifications on her return.

Cindy is a Buxton and not a Birkin. My wife's father was the famous motor racer, Sir Henry Birkin, a national hero of the Thirties in those huge, thundering green Bentleys. To be a brilliant racer you've got to be a bit taut and tense. My son Tim is a Birkin. Cindy and I are the opposite. We're more phlegmatic and our faces don't reveal what's going on in our minds.

Whenever I'm at conferences abroad, people tell me how wonderful Cindy is. She's practically a patron saint in the Falkland Islands.

I've travelled the world on business and if I want to irritate people I'll boast that I haven't had a holiday in 25 years but I've been everywhere.

I've been so lucky to have a business based in Norwich and then as a sideline to be able to make programmes about natural history – my main interest. Birds are a speciality but conservation is the only thing now that makes sense. That's why I serve on committees that protect habitat. There's been a naturalist in the family since 1835, and you'd need a very large bookcase indeed to hold all the books by Buxtons on natural history.

Press Cuttings

from Broad Street Associates *The Daily Telegraph*

15 OCT 1988



A cross of nails from the old Coventry Cathedral roof, given to the former Coventry and retrieved by divers after she was sunk during the Falklands conflict, was handed to the commander of the new ship, Capt Ted Hackett, left, by Capt David Hart-Dyke after she was commissioned at Portsmouth yesterday. It carries an inscription of remembrance for the sailors who died



Tears for 'Falklands' ship

RELATIVES of sailors who died aboard the destroyer Coventry, sunk in the Falklands War watched as her successor was commissioned yesterday.

The ceremony, in Portsmouth brought tears from retired sailor Leslie Stockwell, 75, and wife Pat, 70, as they remembered their lost son Geoffrey.

The 25-year-old petty officer was among the 19 who died when the destroyer was hit by three bombs. Mr Stockwell,

EXPRESS REPORTER

from Herne Bay, Kent, said: "It has taken a long time to come to terms with the loss.

But my son was so proud to be in the Navy that I know he would have wanted us to come to the commissioning."

A cross of nails retrieved from the wreck by divers was handed over to be installed in the new £150 million frigate. On part of the cross—made of nails taken from the roof

of the old Coventry Cathedral roof and presented by cathedral authorities—an inscription has been added remembering the dead from both sides.

It reads "This cross went down into the depths with HMS Coventry.

"In its presence remember all who died at that time, British and Argentine, and all grieve for them."

The 4,800-ton frigate, built by Tyneside's Swan Hunter, should go into service in March.

Halmatic launch for Falklands

HAVANT-based Halmatic has completed a 12.29 metre launch, named *Speedwell* for the Falkland Islands Company.

The vessel has been designed to meet the requirements of the expanding agency market in the Falklands serving fishing vessels and factory ships based in the waters around the islands.

She joins a Halmatic 9.9 metre GRP agency launch built and supplied by the company in 1985 and, having an increased carrying capacity for both cargo and passengers, has therefore considerably increased the operational capability of the Falklands Islands Company.



Reagan to back £50m jets order

By PETER HITCHENS Defence Correspondent

BRITAIN'S defence industry was yesterday given a £50 million boost by President Reagan.

He backed a three-year plan to supply 72 Harrier jet fighters for the U.S. Marines. The contract had been put in doubt because of spending cuts at the Pentagon.

The aircraft are mainly built by McDonnell Douglas in America, but a sizeable part of the work—including the engines and much of the airframe—will be done here.

It will allow British Aerospace, Rolls-Royce and other firms to cut costs by stocking up in advance on raw materials and components.

The Mark 2 Harrier is a faster and heavier version of the British vertical take-off plane which proved so successful during the Falklands war.

It is known to the U.S. Marines as the AV8B, and to the RAF, with whom it is entering service, as the GR5.

The development programme was delayed last year after a test pilot died when his ejector seat malfunctioned and dragged him from the cockpit.

The plane flew on straight and level for several hundred miles, watched and filmed by an American aircraft, before plunging into the Irish Sea.

Falkland cross of nails to be carried on frigate

By Jonathan Petre, Religious Affairs Correspondent

A CROSS of nails retrieved by divers from the wreck of the destroyer Coventry after it was sunk during the Falklands conflict is to be installed in the ship's replacement today.

At a ceremony in Portsmouth, Coventry Cathedral authorities led by Canon Paul Oestreicher, an outspoken pacifist, will hand the cross back to Capt David Hart-Dyke, who commanded the sunken ship.

He in turn will hand it to Capt Ted Hackett, commander of the new Coventry.

The canon, a vice-president of

CND, yesterday defended the decision to return the cross to a ship which is part of Britain's nuclear defences.

"Some of my personal friends have already disagreed with my decision to get involved," he said.

"My public opposition to nuclear arms is well-known, but I have respect for those who go to sea and I do not want to stand in judgment over them."

The cathedral's Provost John Petty, a former serving officer in the Royal Engineers, will accompany him at the ceremony, which will follow the commissioning of the frigate and its "blessing" by a naval chaplain.

HOW I'D BEAT CRIME BY HANG 'EM JUDGE

WHEN the Chief Constable of Sussex stands up and states that he is short of police officers to carry out his orders, ordinary people should sit up and take notice.

They can be damned sure that all the male and female criminals will! And when the Chief Constable of the West Midlands reports that four or five of his officers are being assaulted on duty EVERY DAY, clearly there is something seriously wrong.

One of the main planks in the Tory platform for the last election was "Law and Order."

There is not too much wrong with our criminal law, except for the lack of the death penalty.

It is in the field of order that things have been drastically wrong for at least 25 years.

But in the hope that Mrs Thatcher will announce at the end of the Tory Conference this week that she is going to re-work the Falklands spirit in the field of order, I venture to make a few suggestions...

ONE: Most criminals are tried by magistrates—more than nine out of every ten. Magistrates' powers are strictly limited by law.

What often makes their position intolerable is when, having decided upon the appropriate sentence, they are told by

MICHAEL ARGYLE, QC

■ JUDGE Michael Argyle QC retired in July after 18 colourful and controversial years at the Old Bailey.
Here the 72-year-old

legal eagle, who is an outspoken supporter of the death penalty, gives his solutions to Britain's growing crime problem.



their clerk to think again because the proposed sentence cannot be implemented for lack of custodial places or some other resource

This is not a new problem—it has been with us for years. It is particularly serious because magistrates deal with nearly all juvenile crime—the main breeding ground of more serious criminals later on.

By the time these juveniles reach the Crown Court, they have already, understandably, developed an unhealthy contempt

for the forces of order.

TWO: Every single case of unlawful violence against a policeman or policewoman doing his duty **MUST** be regarded as a case requiring very speedy trial, with the Crown using only its best practitioners and all its resources.

Conviction should automatically result in an immediate custodial sentence.

When under the old pre-1970 system I was Recorder of Birmingham, this was the rule both for

me, my assistants and any deputy, and it had the blessing of Lord Parker, the Lord Chief Justice of that time.

The result was that police assault in all its forms became almost non-existent.

THREE: The Crown must be given the right to appeal against too lenient sentences and must have a direct voice in all considerations of parole and licence.

The new Crown Prosecution Service has fallen almost flat on its face

from lack of staff, underfunding and too much Civil Service bureaucratic influence.

But when it gets into its stride, as it soon will, the CPS can strike mighty blows for us in correcting soft sentences.

FOUR: We owe it to a lot of innocent people to save them in the coming months by restoring the only penalty which will deter criminals.

I am not talking about domestic murders, which will always happen. Nor am I talking exclusively about murder.

I would like to save lots of victims (even possibly their lives) in future by making the death penalty—it need not be hanging—available in cases of murder, kidnapping, terrorism, hostage-taking, drug-trafficking, armed robbery and blackmail.

I would not leave the responsibility of passing the death sentence to any one judge, but to a panel of five, one of whom would represent the prosecution.

Let those who disagree protest—they have strong arguments, too, and are entitled to put them.

Then let us all have a vote on it!

Japan: the dog that didn't bark

Hamish McRae and Peter Rodgers

IF YOU wanted to make a fast buck, the Taiwan and (amazingly enough) the debt-ridden Argentine stock markets would have been your best bet in the 10 months after the crash.

You would also have done better putting your money into the tiny Zimbabwe market, which hardly anybody knows exists, than into London. But if you really wanted to establish tax losses, you should have put your money into Turkey.

The chart, based on a data compiled by the International Finance Corporation in Washington, compares what would have happened to an adventurous investor who picked little-known markets. It shows that while New York and London have moved almost in unison, that is not true of much of the rest of the world. The database also shows that the secret of investment is timing. The league table has changed dramatically in the last six months and will change again.

The huge gains in Taiwan, for example, have been vanishing rapidly in the last few days, as a speculative bubble has burst.

Hongkong was battered more than any other major market by the crash and the web of corruption which it subsequently revealed. The market closed while a rescue was arranged, and many senior figures have been arrested. But in the 10 months after the end of the week of the crash, Hongkong also did rather well.

But among the rivals to London and New York in the world securities markets, it is Tokyo which is pre-eminent, the third corner of the golden triangle. The Japanese stock market reached a new peak this summer and is almost back at that level.

Indeed in the whole saga of the crash and its aftermath, the Japanese market is the

dog that didn't bark. In the summer of 1987, most commentators were more concerned about the heady level of Japanese equities, than they were about the price of US or European shares.

If there was to be a collapse of share prices, it would start in Japan, where on the traditional measurement, the price/earnings ratios, Japanese companies were valued far more highly than their equivalent in Europe or the US. When the crash came, international investors were the first to sell.

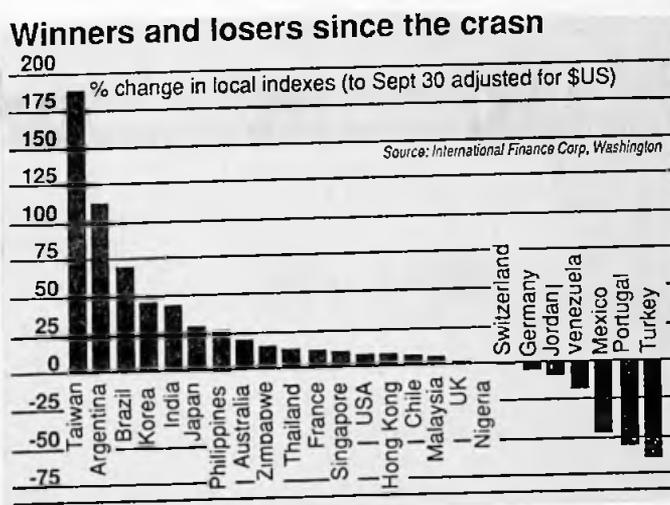
That view, and that reaction, could hardly have been more wrong. True, the Tokyo market fell by more than 20 per cent. But it recovered more quickly and more thoroughly than any other major market. Why?

There are several different answers. One is that the Japanese securities houses and investment institutions are able to manage the market more effectively than their counterparts elsewhere because of the high level of savings there. Another, that the much lower level of interest rates means that low dividend yields are more acceptable in Japan.

Another is the asset values, from land and property, underpin the share price of Japanese enterprises to a much greater extent than elsewhere. Yet another is the excellent performance of the Japanese economy.

Nevertheless there is concern even in Japan about present values. Within Japan there is little talk of a further leg to the bear market, let alone another crash. But the professionals admit that any further recovery in share prices will have to wait for a fall in interest rates.

Forget Zimbabwe, Taiwan and even Hongkong, and sideline Frankfurt, Paris and Montreal. If the Japanese market were to collapse, it would provoke as fierce a reaction round the world as Meltdown Monday. The big money now comes from Tokyo.



When leading is believing

THE TIMES PROFILE

MARGARET THATCHER

You do not, by crying cock-a-doodle-doo at first light, cause the sun to rise; and some complain that Margaret Thatcher's role as bringer of the new dawn has been exaggerated. She was only its harbinger, they say. She noticed that the nation's mood was changing, and voiced it before the others. But it would have happened anyway, for Britain was impatient with welfare and disenchanted with the state. The tide was going out for the big battalions and no Tory Prime Minister could have resisted the economic shake-out. With the current running strongly, Mrs Thatcher's skill (they conclude) lay in running just ahead of it. Thus, she was enabled to pose as author, not beneficiary, of circumstance.

Her supporters would deny that her success was inevitable. They accept that the climate was right; but a less shrewd or bold leader, they say, could have delivered the country into a decade of stalemates. It is all too easy, they add, to take as inevitable changes in attitude which were fiercely resisted at the time: to forget how evenly balanced the arguments once seemed.

That debate continues. Meanwhile, those propagandists whose aim is to prolong tomorrow's standing ovation beyond even existing records will claim the moon and the stars for her, as they always have. But those who wish to press Margaret Thatcher's case for a chapter in the history books will do better to accept, before they start, that the times have been auspicious for her and that some of what is trumpeted as her personal achievement would have

been within easy grasp of any Tory Prime Minister.

They might go on to say this: that there have been just a handful of occasions when her intervention has been decisive and brave. And that throughout she has set a certain tone which, by characterizing the era and articulating its spirit, may have lent it identity, and — through identity — strength.

Critics say that improved industrial relations owe more to fear of unemployment than to Tory legislation and that it was the decline of manufacturing which tamed the union giant. Maybe so. But who has tied him down while he slumbers? It was she who insisted on not letting well enough alone. As the economy and employees' expectations grow, the opportunity she took to get those laws in place may be judged well-seized. It is said that the humbling of the NUM was more by Scargill's folly than her skill: but who picked Ian MacGregor? Anybody but he might have found an honourable escape-route for the union. It did not bring quick popularity. But it broke a myth, snapped a tendon in the labour movement which will never be repaired.

Critics say that Denis Healey, not Margaret Thatcher, brought the curtain down on state spending. The figures support him. The popular perception supports her. The gap is instructive and reveals a key to her methods. Healey did much, all the while wringing his hands and blaming the IMF. She has done less, all the while boasting about it. It misses the point to complain that she made herself look unnecessarily ungenerous. She intended to look ungenerous. It was part of a climate of restraint that she

wanted as part of a process of changing attitudes within our political economy.

That is why she is not removed from her pedestal by any demonstration that she is not the author of the world-growth in which we are sharing; that the difference between the inflation rates experienced in the Seventies and the Eighties is not Mrs Thatcher: that her tax-cuts have played a secondary role in regenerating enterprise; that her privatization programme was an accident which she turned into a political philosophy; or that burgeoning revenue (not restrained expenditure) is what really sustains her Government's health.

Her claim on history is subtler. It is that between these odds and ends of politics and economics she has woven a strong web of ideas and prejudices which has proved intelligible to ordinary people. It is a crude, compelling alloy of conservatism with radicalism. When did a British Prime Minister last set out a philosophy you could hold on to? And because ordinary people can hold on to it, her party wins elections. More important, because she can hold on to it herself — at those crucial times when a Prime Minister's hand at the tiller makes a difference — she finds the strength and the compass-bearings to steer. We merrily discuss "whether the party is getting its message across" to the people: but remember the importance of first getting your message across to yourself. She is among the few who have. A clear approach understood by friend and foe; a vulgarly straightforward rule of promoting friends and punishing foes — these simplicities have devastated more complicated men.

Mrs Thatcher does not engage with contrary argument: it would be a waste of time. Years ago,



BIOGRAPHY

October 13, 1925: Born in Grantham, Lincs., the daughter of Alfred Roberts. Educated at Kesteven and Grantham Girls' School; Somerville College, Oxford, Master of Arts, Bachelor of Science

1947-51: Research chemist

1951: Married Denis Thatcher, became the mother of twins, one son, one daughter

1954: Called to the Bar, Lincoln's Inn

1959: Elected Conservative Member for Finchley

1961-64: Joint Parliamentary Secretary, Ministry of Pensions and National Insurance

1970-74: Secretary of State for Education and Science

1970: Privy Counsellor

1975-79: Leader of the Opposition

1979: elected Prime Minister

April, 1982: Argentinians invade the Falklands

June, 1982: Argentinians defeated

1983: Conservative General Election victory

1983: Fellow of Royal Society

March, 1984: Miners' strike called

October, 1984: IRA attempt to wipe out Cabinet with Brighton bomb

March, 1985: Miners' strike ends

June, 1987: Conservative General Election victory

when it was my task to answer the Leader of the Opposition's letters from the public, I noticed her habit of returning to me those with which she agreed, heavily underscored. Those with which she disagreed were returned unmarked, to be politely acknowledged. But the approved letters were — as often as not — to be sent "to Jim Prior" (her emphasis) — or "to Willie Whitelaw", or whoever was at the time suspected of not being in touch with the grassroots. "I hate the closed shop," I remember her scrawling all over a careful draft that the Conservative Research Department had submitted as her suggested re-

sponse to workers who wrote complaining about closed shops. CRD were horrified. But the impression was of a woman appealing from within the walls of a hostile political establishment, right over its head to "the people" (or her conception of them) "out there". They would support her; they would prove her right.

The hostile establishment included much of her own party, and it certainly included Parliament. She does not enjoy the House of Commons. There is a revered place for it in her constitutional theory but that does not oblige her to like it, for there is about the place the aura of a

complicated, male game: and Mrs Thatcher is not playing.

Like many African statesmen, she has never entirely reconciled the word "loyal" with the word "opposition" — and to say so is far from suggesting that she wishes to attack our constitution. It is just that the idea of having a political party set up with the express aim of obstructing the Government would strike her (if she could bring herself to admit as much) as a bit silly. In this, her instincts are — yet again — much closer to those of ordinary people than many of us care to admit. She is a fervent democrat — but in the special sense that she draws legitimacy

from her belief that the people are with her, or would be if they knew the truth. When that belief falters (as it did over Westland), she loses her spark.

Her intelligence is undoubted. It is easy to sneer that it is a narrowly directed and unreflective sort of intelligence, lacking any fluency in the world of ideas, or humour. But I fancy she would reply that there is no shortage at the dinner tables of Belgravia – or under the arches at Charing Cross – of humorous men fluent in the world of ideas. And there is little evidence that the electorate yearn for more Prime Ministerial jests. Some of her advisers' time, today, will be being spent drafting jokes for tomorrow's speech. Some of her time this evening will be spent deleting them.

Airey Neave once said he thought the greatest of all her qualities was luck. Others say it is courage. Perhaps, though, it is nerve. Courage in its fullest sense is to go voluntarily into danger. I think Margaret Thatcher would. But beyond the terrorist threat that faces all Prime Ministers, this is not a sacrifice her political career has yet asked of her. The "courage" with which she is commonly credited has in every case been the courage to back her own calculation of the odds, and in every case the calculation has been right: the decision has proved to be in her interests, and that is best called nerve.

She showed that nerve in the 1981 budget – but the alternative, a U-turn, looked politically suicidal. She showed nerve when she threw her hat into the ring for the leadership – but what had she to lose? She showed it again when she sent the task-force to the Falklands – but the alternative was the effective end of her leadership. Her sorties into brinkmanship with our EEC partners are backed by the calculation that none of this will lose her votes. Nerve (which she has) is what you need to jump from a four-storey building when there is no other escape from a fire. Courage (for which she has yet to be tested) is when you go back for a friend.

Margaret Thatcher has so far enjoyed the sort of good fortune that comes to very few in politics: an almost complete coincidence of her convictions with her electoral interests. She has always suspected that the voters shared her instincts and beliefs; and that her party could therefore be bounced into line behind her. She has had the nerve to back those two judgements. And every time, she has been proved right.

Matthew Parris

Gatt dispute mechanism may be speeded up

By William Dullforce in Geneva

THE MECHANISM for settling trade disputes under the General Agreement on Tariffs and Trade (Gatt) is likely to be substantially improved next year following the tabling yesterday by 13 countries of substantive proposals.

The whole process would be speeded up by fixing stricter time limits. These would apply to the bilateral consultations between contending governments which have to precede a Gatt investigation, to the establishment of a panel to investigate a complaint, and to the deadline for publication of the report.

Disputants would no longer be able to block adoption of the panel's recommendations by the Gatt council. They could either join or abstain from the consensus by which Gatt decisions are traditionally reached.

The proposals were submitted to the group negotiating on improvements to dispute settlement under Gatt's current Uruguay Round by Canada.

They had been worked out in consultation with Argentina, Australia, Hong Kong, Hungary, New Zealand, the three Nordic countries, South Korea, Switzerland and Uruguay. They recommended that the proposals come into effect on January 1.

None of the three major trading blocs, the European Com-

munity, the US and Japan, immediately responded but they are unlikely to object to the main proposals.

The 13-nation paper could well form the basis for decisions by trade ministers when they meet in Montreal in December to review progress in the Uruguay Round.

Gatt's mechanism for resolving trade squabbles has come under fire most frequently in the US Congress.

Under the 13-nation proposals, possibilities for shilly-shallying by the country accused would be curbed. The Gatt council would have to establish a disputes panel at the meeting immediately following the one at which a complaint had been submitted.

Gatt's director-general would appoint the members of the panel, if the parties to the dispute had not agreed on its composition within 20 days.

A single panel could investigate complaints from more than one member, if they are related to the same issue.

As a general rule, a panel should not take more than six months to file its report, the 13 nations suggest. In urgent cases it should report within three months.

The proposal also tightens procedures for monitoring compliance with a Gatt report and for countries to claim compensation.

Press Cuttings

from Broad Street Associates **THE TIMES**

Commentary • TIM CONGDON

Pinochet the pioneer

With the recent plebiscite signalling the beginning of the end of military rule in Chile, the time has come to put into perspective the free-market economic policies which Chile has pursued for the past 15 years. These policies have attracted controversy out of all proportion to Chile's size and its role in the international economy, and will probably be debated for decades to come.

Shortly after the overthrow of President Allende's socialist government in 1973, General Pinochet set economic policy on an entirely new course. Acting on the advice of a small group of academic economists (known derisively as the "Chicago boys"), he agreed to wide-ranging reforms which stimulated competition, extended private ownership and used monetary and fiscal policies to combat inflation. These changes were in abrupt contrast to Chile's past, when government subsidies, high tariffs, tight import restrictions, nationalization and price controls had been the norm. There was a special emphasis on reducing inflation, which was about 1,000 per cent when the coup was staged.

A list of the new policies does not sound particularly interesting today. In the intellectual environment of the late 1980s — when British trade union leaders complain about "cordless telephone socialism" and China is setting up stock exchanges — policies such as privatization

and monetary control have become humdrum. Many countries — developed and developing, socialist and capitalist — are taking steps to strengthen the role of market forces in their economies. The original Chilean programme does not sound radical or even particularly unusual.

But the climate of opinion was very different in the mid-1970s. At that time increased government involvement in the economy had been an established pattern in most countries for over a century. Particularly in intellectual trend-setters like Britain, there had been persistent tendencies towards greater state ownership and a rising share of government spending of national income. The policies adopted in Chile were controversial not just for their uniqueness, but also because they reversed a seemingly inevitable international trend.

The Third World development lobbies in the major industrial nations, which were mostly socialist in sympathy and had praised Allende as the "first democratically elected communist president", were shocked. They took every opportunity to malign Chile's new economic policies and to blacken the country's international image. This was easy to do. As Pinochet's authoritarian regime was brutal in suppressing its opponents, the economic policies could be stigmatized by associating them with unsavoury aspects of the anti-terrorist

drive. Moreover, the initial phase of anti-inflation policy was accompanied by a severe recession.

But two events in 1980 began to change international perceptions. The first was the publication by the World Bank of a detailed and well-argued report, entitled *Chile: an Economy in Transition*, which heaped praise on the new approach to economic policy. Although only for "a restricted distribution" and "not to be disclosed without World Bank authorization", its contents leaked out. Secondly, in a national plebiscite majority support was given for a constitution which envisaged at least another eight years of military rule. (Those who think this plebiscite was rigged ought to ask themselves why they have so readily accepted the results of a similar exercise last week.)

The truth was that Chile's free-market experiment had been a success. Of course, the success was not unqualified. A further traumatic recession in 1982 led to cyclically higher unemployment, while many observers worried that the policies had resulted in greater structural inequality. But in the mid-1980s a clear divergence in economic performance emerged between Chile and the rest of Latin America.

Chile had low inflation, stable growth and a fair degree of international credit-worthiness. Other countries had sky-high inflation often in excess of 100

per cent a year, volatile growth associated with erratic policy upheavals (such as the Austral Plan in Argentina and the Cruzado Plan in Brazil) and constant bickering with the international banks. In 1988 inflation in Chile will be about 10 per cent, whereas in Argentina and Brazil it will exceed 500 per cent.

The World Bank now gives almost standard advice to developing countries, from China and Turkey to Malawi: scrap price controls and subsidies, privatize state-owned assets, eliminate import quotas and cut import tariffs... It would not have the same credibility if the first comprehensive programme along free-market lines, in Chile in the late 1970s, had been a failure.

Many people will say the Pinochet government has been so ghastly that nothing good can have come out of it. That view is understandable, but it overlooks the inability of Latin American countries, for at least 150 years, to combine full democracy and sound economic management. The challenge for Chile's new leaders will be to reconcile a competitive, party-based political system with a competitive, free-market economy.

It is interesting as a comment on how the reforms are regarded in Chile, and encouraging for their survival in a different political culture, that the Christian Democrats have said they do not want to disturb the existing economic arrangements.

Press Cuttings
from Broad Street Associates

CITY PRICES



Evening Standard

In complete contrast, BBC I repeated Richard Eyre's controversial Falklands drama, **Tumbledown**, for the benefit of social outcasts who missed it last time. This must be one of the best British television films ever made, and a good deal of the credit should go to Colin Firth, for his heart-rending and totally convincing performance as Robert Lawrence.

Most people would agree that war is hell, so why aren't we shown its hellish side more often? **Tumbledown** did not take an anti-war stance, but it did not need to—Mr Lawrence's story says it all.

Chile's transition to democracy

THE DEFEAT of General Augusto Pinochet in last week's presidential plebiscite has radically altered the political landscape of Chile and marks the beginning of a transition process. The logical conclusion should be the recovery of a much-prized tradition of democracy, so brutally interrupted in 1973 by the military coup that overthrew the Allende Government.

The circumstances are highly unusual. After ruling for 15 years as a military dictator, Gen Pinochet sought to legitimise a further eight years in office by submitting himself to a plebiscite. Having failed to win a majority vote, he is still constitutionally entitled to be president for another 18 months. Temporarily, such a constitutional provision ensures there is no vacuum of power; but it cannot obscure the fact that the regime's authority has been weakened and that Gen Pinochet is now under pressure to leave early.

No exact parallel

Recent instances of countries which have experienced a transition from military to civilian rule offer no exact parallel. Spain's successful transition, which has provided an inspiration throughout Latin America, was conditioned by Franco's peaceful death in office and the existence of an independent institution, the monarchy, committed to democracy. In Argentina the military in effect surrendered power to the civilians as a result of the Falklands conflict and the accumulated odium of abusing human rights and mismanaging the economy. In Brazil and Uruguay the military lost the will to govern against the background of demands for more accountable government. Chile, nevertheless, has one point in common with these countries: it has patently outgrown the need for military government. This is the underlying message of the plebiscite.

In the national interest, the ideal solution would be for the Government and opposition to initiate early negotiations on constitutional reform and the holding of parliamentary and presidential elections. This would give the clearest possible signal of the regime's good faith in the result of the plebiscite, and it would also defuse the natural tensions latent in a society whose political activity has been artificially frozen for 15 years. The way the vote split roughly 55/45 in the opposition's favour cries out for dialogue. For its part, the opposition is not seeking a complete break with the past, especially on economic matters.

The initial statements from both Gen Pinochet and his ministers suggest the regime is going to delay any negotiation with the opposition as long as possible. They seem to be following the maxim that governments do not concede power: the opposition has to fight for power and win it. The 16 opposition parties acquired moral force from their victory in the plebiscite. This can be converted into political power only by the maintenance of a unified front with credible leaders.

Sophisticated society

There is bound to be a cat and mouse game over who makes the first move. Nevertheless, sooner or later Gen Pinochet cannot escape from the consequences of his own actions. Even if he had won, the 1980 constitution committed him to preparing for full parliamentary elections in December next year as part of a broad aim to introduce a guided democracy over the next decade. This was an unrealistically long timescale for a sophisticated society, whose very economic and social progress under Gen Pinochet has created the need for more accountable government.

Chile - unlike Argentina and Brazil - is favoured by a soundly managed economy

which has been restructured with sufficient skill to ensure reasonable growth despite external shocks. Thus the political debate does not need to be distracted by economic issues which have so undermined and discredited the Alfonsín Government in Argentina and the Sarney Government in Brazil. Moreover, the real message coming ever louder from Spain is that prosperity underpins democracy. On the other hand, any refusal by the Chilean military to accept that the rules of the political game have changed would be a recipe for instability which could jeopardise the regime's hard-won economic achievements.

Press Cuttings

from Broad Street Associates **The Daily Telegraph****Falklanders
fight plan
for 'flood' of
immigrants**

By Robert Fox

SUGGESTIONS of a major immigration plan to bring thousands of new settlers to the Falklands by the end of the century are being bitterly fought by many residents.

Some think the colony's new-found wealth from fishing could sustain a five-fold expansion of the civilian population to 10,000 over the next decade.

But a survey suggests that most people think immigration should be held to 40 a year, according to the Falklands Newsletter, the journal of the Falkland Islands Association.

Immigration was raised at a public meeting in Port Stanley earlier this year. This triggered the journal's survey.

Some residents objected to the idea of being swamped by people who might not be able to cope with the conditions. Others feared they would lose control over local affairs.

Since Britain imposed a 150-mile fishing zone round the islands three years ago, gross income has soared from £5 million to £40 million a year, and more hands are needed.

● Señor Dante Caputo, Argentinian Foreign Minister, said in a weekend interview that for the first time in five years progress may be made towards resolving the Falklands dispute with Britain. He gave no reason for his optimism. — Reuter

Revealing the women's war

THE FALKLANDS WAR is about to become a focus of public debate again. Two feature films on the subject are in preparation, following the controversial television play, *Tumbledown*, which was repeated by the BBC last night.

Yet one aspect of that war, and indeed most wars, remains a neglected area of contemporary history — the effects of the war on the women involved, the wives and girlfriends of military personnel, and the often shameful way they were treated by the military establishment.

This is currently being explored in a play by the Transfer Theatre, a co-operative Oxford company, called *Cut The Girls' Talk! This Is War*.

The play, which is touring the

By David Lister

country, is based on dozens of interviews by members of the company with the women involved. What it reveals is how ignorant the country was of the acute distress being suffered by these women at the time, and how this distress was unintentionally but cruelly exacerbated by the military's laborious and outdated methods of conveying information to these women.

On another level, it also shows how much the political discussion of the Falklands then and now concentrated on the men involved, and how little has been devoted to the women, many of whom, like the soldiers from the

conflict, are still being treated for stress-related illnesses.

Katie Buchanan, a member of the company and co-author of the play, says the central theme that kept recurring in her discussions with the wives and mothers was the disturbingly slow and confused way information reached them about deaths and injuries. For one woman it took three days of telephone calls to find out whether her husband was alive or dead.

"All the mistakes we show in the play actually happened. A woman was told that her husband was alive, and she later found he was dead. Another was handed a slip of paper by a man in her son's regiment in the market one morning saying that he was dead.

"A lot of parents in particular felt they were not considered to be important by the regiment. The Army was geared to dealing with wives rather than mothers and fathers, even though many of the men were only 18.

"It really was the case that the Army still had Second World War procedures in terms of getting the information out and dealing with the families, but television was giving the news first, which was terribly distressing."

Katie Buchanan was helped in her own researches by Surgeon Commander O'Connell, who treated Falklands veterans suffering from post-traumatic stress disorder. "There are still many men and women attending these rehabilitation courses," she says.

Time for a remake of Citizen Cane

Commentary



Ian Aitken

THE ACCEPTED wisdom about the Conservative Party for most of its recent history is that it is an institution which accepts the inevitability of change but only with the greatest reluctance. It seeks to hold it off until it becomes inescapable, but it eventually gives way in the hope of minimising the impact on the propertied classes.

According to this theory, it was the Conservative Party's ultimate willingness to bow to the inevitable, and its ability to spot the moment of inevitability, which distinguished the British ruling class from their more foolhardy equivalents elsewhere. Their realistic understanding of the lessons of the 17th century enabled Britain to escape the horrors of violent revolution.

It was, by and large, a useful theory which fitted most (though not all) the facts of British political history from the Restoration until about 13 years ago. Above all, it neatly explained the conversion of the modern Conservative Party to Keynesianism and the welfare state under Churchill, Macmillan and Heath.

The theory's widespread acceptance by the more cerebral elements of the post-war Conservative Party also accounts for the sense of outrage with which many Tories of the old school greeted the triumph of Mrs Thatcher in 1975, and the

horror with which they watched her tighten her grip on "their" party.

It wasn't just that they thought her version of Manchester School liberalism crude, vulgar and basically un-Tory. They genuinely feared that the mass unemployment which it created inevitably would provoke a backlash. They thought that Mrs Thatcher was going to lead them to electoral disaster, and that a radicalised Labour Party would speed the country's progress towards socialism.

You can, if you like, conclude from this analysis that General Galtieri should by now be a candidate for the Conservative Hall of Fame, since it is quite likely that all of these fears might have become reality if he had not had a brainstorm and flung his army into an invasion of the Falkland Islands just in time to save Mrs Thatcher from defeat at the polls in 1983.

You can equally well conclude that Dr Owen and his colleagues in the Gang of Four deserve similar honour by Tory Central Office, since it is arguable that the split in the Labour Party and the creation of the SDP has guaranteed the survival of Thatcherism at two subsequent general elections.

But whatever your view about the immediate causes, it is now accepted by even disaffected Tory grandees like Sir Ian Gilmour that they were hopelessly wrong in thinking that Thatcherism would inflict as much damage on the Conservative Party as it has on the nation. Baffled and resentful, they have virtually retired from the field.

Their retreat, which is only made the more obvious by the occasional cry of frustration from Mr Heath, is wholly understandable. But it has ensured that the party which gathers in Brighton this week to worship at the shrine of St Margaret has now become a meaner and nastier Tory Party than any since the time of Munich.

Of course, it can be argued that the Conservative conference has always encapsulated the more unpleasant character-

istics of the Tory Party. Greed, class hatred, racism and crude authoritarianism are perpetually bursting through the veneer of patriotism and sanctimonious morality which the conference organisers seek to present to the television cameras. But the essential difference is that all past Conservative leaders have sought to keep the embarrassing brute in check while Mrs Thatcher has deliberately identified herself with it. She is the first Conservative leader who has more in common with the floor of the conference than she has with the platform — and what's more she glories in it.

Or, at any rate, she used to. For it is apparent from some of the nods and winks about the content of her conference speech next Friday that either she or her more daring advisers are beginning to have doubts about the sheer vulgarity of the consumerism she has encouraged and the offensive scale of the support she has given to the rich.

One therefore can assume that recent opinion polls conducted privately by Tory Central Office have produced findings similar to yesterday's Gallup poll in the Sunday Telegraph. For this showed widespread scepticism about the Government's claim to have achieved economic success, and recorded an overwhelming conviction that ministers favour the rich at the expense of services like education and the NHS. No fewer than 43 per cent said they not only disliked Mrs Thatcher's policies but disliked her, too.

With figures like that staring up at her from her desk, it is not surprising that the Iron Lady is reaching for the make-up brush to soften the image. And if we are to take the weekend nods and winks seriously, the idea she intends to deploy at Brighton is the idea of "citizenship" as an antidote to the more unpleasant excesses of Thatcherite individualism.

It is, as it happens, an idea which both Dr Owen and Mr Ashdown have already adopted in a slightly different form. But no matter — Disraeli himself recommended dishing his opponents by stealing their clothes. But no one who witnessed Mr Brian Walden's triumphal return to Sunday lunchtime television yesterday can have failed to appreciate that homely, comforting ideas like citizenship bristle with dangers for ministers performing in the Cecil Parkinson / Sara Keays era of political morality.

Not to put too fine a point on the matter, it is hard to keep a straight face when one is

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Press Cuttings

from Broad Street Associates **THE GUARDIAN**

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watching two notable divorcees debating the importance of "family values" in the Conservative Party's philosophy. And I suspect that quite a lot of people will find it equally hard to treat Mrs Thatcher's views on citizenship entirely seriously when they remember what she has done to so many of her fellow citizens.

This time the blatant humbug may turn the nation's tummy. In which case, all those ageing Tory grandees may turn out to have been right all along. Maybe we are due for a return to real Conservative values.

Great dictators: lonely luxury of a dying breed

IF and when Pinochet leaves power, he will join a growing band of dictators who have been toppled in the past 10 years. Pinochet's manner of defeat (trapping himself into an election he could not win) is an unusual form of political suicide. Other mighty figures fell more violently. Some have ended up in lonely luxury, others in severe discomfort.

Ferdinand Marcos was deposed after attempting to snatch a Philippine election victory from Corazon Aquino in February 1986. He triggered rebellion in the armed forces and massive protests, fleeing his palace in Manila to exile in Hawaii. He has since offered the Aquino government £3 billion to let him return home.

Jean-Claude "Baby Doc" Duvalier, who had made himself "president for life" of Haiti, fled the impoverished Caribbean nation on February 7, 1986, after widespread protests and food riots. He too went into an exile

of luxury, in the French Alpine resort of Talloires. He later moved to Grasse and seems set to stay there until the French government can find another country prepared to offer him refuge.

General Leopoldo Galtieri of Argentina was thrown out by his fellow generals in 1982 after his army's defeat by the British task force sent to



Ousted: Galtieri and Marcos regain the Falklands. Later he was tried for offences in the political "dirty war" against subversion, and recently he was jailed for 12 years for "negligence" in starting the Falklands conflict.

The Shah of Iran — Mohammed Reza Shah Pahlavi — fled his country to Egypt with a small

casket of Iranian soil in January 1979 during a revolution led by Muslim fundamentalists opposed to westernisation. He died of cancer on July 27, 1980, after living briefly in the United States and in Panama.

Idi Amin of Uganda headed straight for Jeddah, Saudi Arabia, after fleeing Kampala in April 1979, when his army rebelled against him. Deprived of the international audience he loved to berate, he now lives in a villa paid for by the Saudi government.

There is one friend of Pinochet who survives, however. Paraguay's General Alfredo Stroessner, in power since 1954, is (along with Pinochet) the last of a dying breed of Latin dictators. He keeps his grip by locking up or exiling opponents and by keeping a firm hand on smuggling, the country's main foreign currency earner. Pinochet's defeat could mean the Paraguayan strongman will soon be standing alone.

Temporary injunction to be followed by action for libel

Keays halts Tebbit book accusations

Paul Keel

MS SARA Keays, the former lover of the Energy Secretary, Mr Cecil Parkinson, obtained a temporary High Court injunction yesterday to restrain publication of passages from Mr Norman Tebbit's autobiography, *Upwardly Mobile*.

The passages are understood to refer to Ms Keays's affair with Mr Parkinson and to the conditions of an agreement between them.

Her solicitor, Mr Richard Manuell, said the injunction, granted by Mr Justice Phillips at a 40-minute private hearing, also restrained the book's publishers, Weidenfeld and Nicolson.

He added that Ms Keays had issued a writ against Mr Tebbit, the former Conservative Party chairman, and the publishers claiming libel damages in respect of statements in the book.

Mr Manuell said she was considering taking action against newspapers that had published extracts from the book, which is due to go on sale next week.

Her father, Colonel Hastings Keays, said at his home at Marksbury, near Bath, that his daughter wanted the book withdrawn until passages which she claims are untrue and defamatory are deleted.

The injunction is effective until a further court hearing. Mr Tebbit and the publishers

are expected to seek to have the injunction set aside.

Weidenfeld and Nicolson were unavailable for comment last night, but it was understood that they were intending to reprint the book.

The Mail on Sunday, which has already published extracts from the book, now faces legal action by Ms Keays. Last night the newspaper was taking advice from its lawyers.

Ms Keays, who has a four-year-old daughter, Flora, by Mr Parkinson, has caused embarrassment to the Conservative Party on several occasions, some just before its annual conferences.

At the 1983 conference, Mr Parkinson, then Trade and Industry Secretary, felt obliged to resign after Ms Keays told the Times that he had promised to leave his wife and marry her.

Mr Parkinson, who had just masterminded the Tories' second successive general election victory and been Mrs Thatcher's favourite minister, had survived the public revelations of his 12-year affair with his secretary, and of her pregnancy.

The charge that he had lied to her, however, led to his downfall. He left midway through the conference leaving a cloud over what should have been a triumphant celebration.

The 1985 conference coincided with the publication of a book by Ms Keays, *A Question of Judgment*, in which she wrote that Mr Parkinson had "begged her to have an abor-

tion" and that he had "haggled over every pound" in the financial settlement for her and their daughter.

Worse still, the book implied that during their affair Mr Parkinson had revealed confidential Cabinet discussions which had taken place during the Falklands conflict.

The suggestion led to demands from Labour MPs for an investigation under the Official Secrets Act. In the event, it was concluded that no offence had occurred.

Two months before the 1986 Conservative conference, speculation that Mr Parkinson would be brought back into the Government was brought to a sudden end by the publication of an interview with Ms Keays in *Good Housekeeping*.

Ms Keays made clear to the magazine her continuing bitterness against senior members of the Conservative Party.

"What I can't forgive is the hypocrisy, the lying, the arrogance of the other people... Conservative politicians who were prepared to destroy me for themselves," she said.

The affair has continued to haunt the party.

Already this year there has been publicity surrounding the increased maintenance which Mr Parkinson has agreed to pay to his daughter and about her operation to have a brain tumour removed.

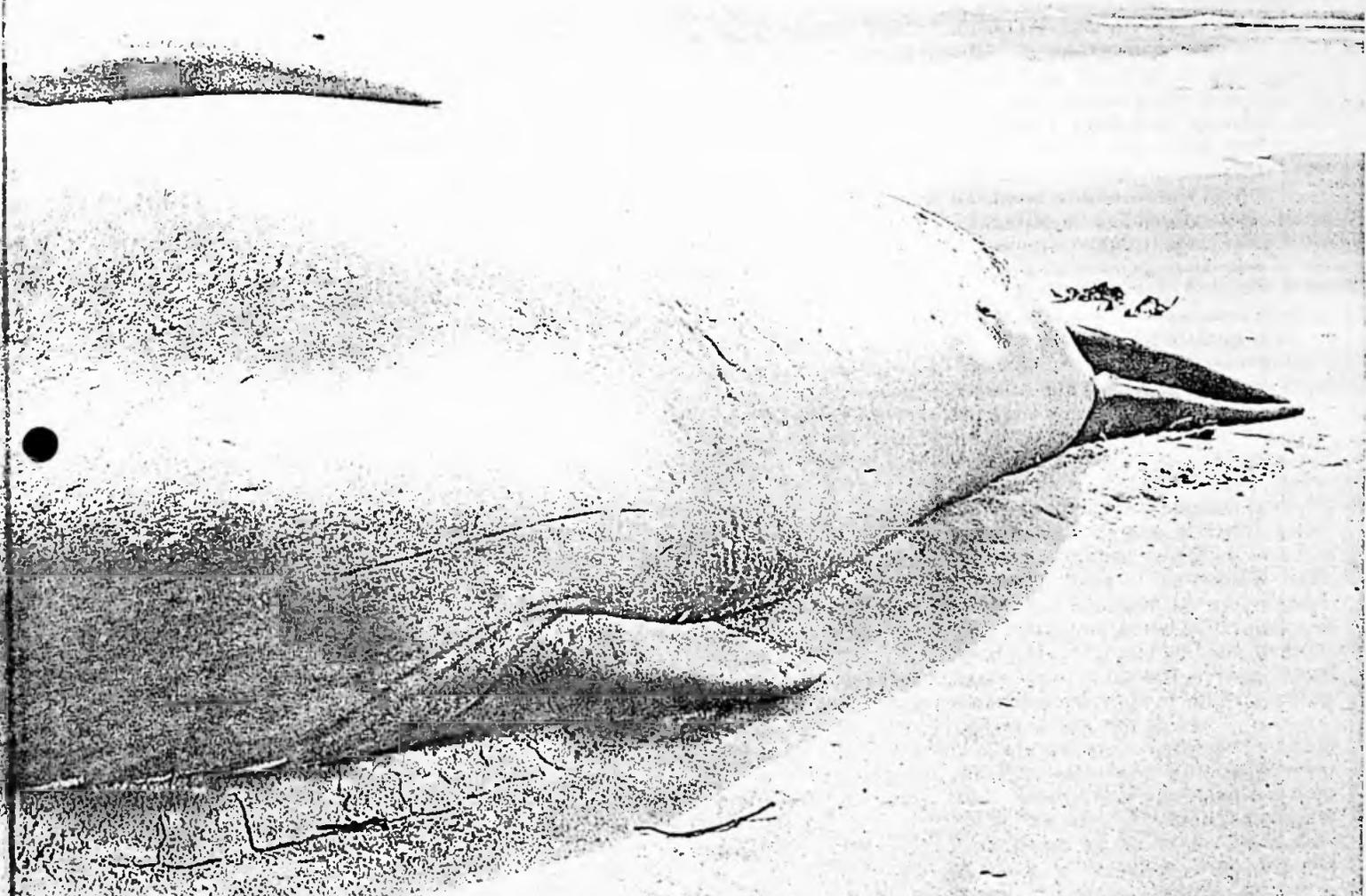
Flora is recovering from the brain tumour operation. She is "making slow progress," according to Colonel Keays.

FALKLANDS



The Friendly

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Islands

PHOTOGRAPH BY [illegible]

I had set off for the Falklands with a foreboding about what I would encounter, only to find that the image I had taken with me was completely false.

If you believe certain British tabloid newspapers, the Falklands are inhabited by sheep and 'Bennies', the slightly feeble minded character in ITV's 'Crossroads', and the food is nothing but mutton with chips or chips with mutton.

In fact nothing is further from the truth. The Falklands are stunningly beautiful and totally unspoiled. The islanders are friendly to visitors who are prepared to talk to them as equals and not as patronising strangers. There is a lot to see and do and the sports opportunities are plentiful.

In short, an unusual, varied and interesting holiday destination far from the madding crowd.

Yes there are a lot of sheep — several hundred thousand at the last count, but you are scarcely aware of them in a country about two thirds the size of Wales. Mutton too is common but there is plenty of beef, pork and poultry with fruit and vegetables. Butter, cheese, cream and milk are produced locally and are delicious — quite unlike the pasteurised, homogenised, salted and often tasteless dairy products sold in Britain.

Port Stanley is as far south as London is north which means that the climate is broadly similar. Winter (May to September) is warmer, while summer (November to March) is slightly cooler. Rainfall is less than in Britain and although there is a steady sea breeze, violent storms are unusual.

The Falklands are about 8,000 miles away from Britain and 300 miles from the nearest point in South America. Because of their remoteness, they are unlikely ever to be spoiled by tourist development. However, limited tourism is being encouraged to exploit the islands' unique wildlife and relaxed lifestyle. A place of limitless horizons where you can ride on a horse for a day without seeing a road, a house or another human being.

In the Falklands you can relax and unwind and enjoy a lifestyle which has scarcely changed in the last 50 years despite the 1982 conflict. The islands have an amazing variety of wildlife which is unafraid of human beings. It was the highlight of my holiday to sit in the middle of a penguin rookery surrounded by thousands of inquisitive rockhopper pen-

guins and to scratch the flipper of a basking, four-ton bull elephant seal.

The RAF TriStar jet gave a slight lurch as it burst out of the giant, billowing cloud and I caught my first glimpse of the Falkland Islands. The beauty of the coastline was stunning.

Deserted beaches of dazzling white sand lay below and beneath the surface of the crystal clear South Atlantic I could see long streamers of kelp, like the tentacles of a giant octopus, waving around in the strong current among the rocks.

As the aircraft banked and turned inland for its approach to Mount Pleasant Airport, the scenery changed. A vast landscape of dun-coloured grassland criss-crossed with the tracks of vehicles which had left permanent scars on the soft peat bogs. Sheep scattered as the shadow of our aircraft passed over them while in the distance I could see the rugged peaks of the mountains which overlook Port Stanley and whose names still evoke strong emotions — Tumbledown, Two Sisters, Mount Harriet.

Formalities at RAF Mount Pleasant were crisp and began with a commonsense lecture from a stern army sergeant. He warned us not to venture into the well marked minefields and to avoid picking up ordnance left over from the 1982 Falklands conflict.

Oh dear. Was my image of the Falklands as a vast military complex — Fortress Falklands — about to be proved right? Were the islands nothing more than an army training ground inhabited by soldiers, sheep and penguins where the weather varied between an Antarctic blizzard and an Atlantic low pressure storm?

Again nothing could have been further from the truth.

The no-go military areas are infinitesimally small in a country of this size and the military presence away from Mount Pleasant is almost invisible.

Two things have combined to give the Falklands an inaccurate image as a place with terrible weather. The first is the Falklands war which was fought in mid-winter in high mountains and the second is the penguins who live there.

Most people associate penguins with Antarctic ice and snow and assume that because five species of penguins nest on the Falklands the weather must be permanently winter.

Everyone speaks English, albeit with a faint west country accent and English customs, law and way of life are the norm.

Getting to the Falklands is easy. There are twice-weekly RAF flights from Brize Norton in Oxfordshire

direct to Mount Pleasant Airport. En route there is a short refuelling stop at Ascension Island south of the equator.

Civilians are allowed on the flights which are operated by ex-Pan Am TriStars. Service on board is similar to that on a civilian flight. In-flight movies are shown and hot meals are served; alcohol is prohibited although you can buy a cool beer at Ascension to ward off the equatorial heat. Journey time is about 18 hours.

Port Stanley is one of the world's smallest capital cities with a population of about 1,200. It is a bustling little place with the atmosphere of a Scottish or English fishing village. Its neat little houses have brightly coloured corrugated iron roofs and the smell of the peat fires mingles with the sea air to create an unforgettable aroma.

Dominating the seafront is Christ Church Cathedral with a giant arch of whale jaw bones which remind you of the Falkland Islands' grisly whaling past. Further down the road is the Upland Goose Hotel where I stayed for three nights.

It was marvellous, after the long flight from England, to sink into a worn but comfortable armchair in front of a peat fire, to relax and unwind with a cup of tea and enjoy the magnificent view across the sparkling waters of the sound.

Stanley is a friendly little place and is well supplied with snug little bars where you can meet the locals and enjoy imported English beer. The local brewery has ceased trading and the rapidly diminishing stock of "Penguin Ale" is fast becoming a popular collectors' item and an ideal souvenir.

Eating in the Falklands is a pleasure, with the emphasis on plain wholesome cooking. The new hydroponic gardens in Stanley provides year-round supplies of fresh tomatoes, lettuce, cucumbers, courgettes and many other vegetables. Falklands beef is inexpensive and of excellent quality while the waters around teem with fish and shellfish. Regular boats from England bring tinned and dry goods so that there is a wide variety of food and drink.

To me, the real attraction of visiting the Falklands was leaving Stanley and visiting the 'camp' where only 800 people live. The camp is a word to describe all of the land outside Port Stanley. It is taken from the old South American *gaucho* word — *campo* or country.

Apart from the new road between Mount Pleasant Airport and Stanley and in Stanley itself, there are no roads so the only way to travel is either cross-country — on horse, Range Rover or three-wheeled motor bike — or by air.

Flying in the Falklands is fun and

evokes a spirit of the early pioneering days of aviation. Falkland Islands Government Air Services (FIGAS) operates flights six days a week linking the various communities with each other and with Stanley. There are no scheduled services. If you wish to fly from Pebble Island to Port Howard, for example, you radio telephone FIGAS at Stanley Airport the day before departure and tell them your preferred time of travel — morning or afternoon.

At 6.00 p.m. tune into FIBS (Falkland Islands Broadcasting Service) which reads out a list of FIGAS flights for the following day with the names of the passengers on each flight. The next day you arrive at the grass airstrip or sandy beach for your flight and both you and your luggage are weighed before take-off in a bright red and blue Islander aircraft.

Salvador is a massive 52,000 acre sheep farm with about 17,500 sheep and a human population of 15. By landrover it would have taken about 8 to 10 hours to cover the 65 miles, but we did it by FIGAS in about 20 minutes.

I arrived in mid-morning and was introduced to the quaint Falklands custom of 'smoko.' A break for hot tea or coffee, piping hot scones with home made cream and strawberry jam and plenty of time for a chat.

Robin Pitaluga, the owner of Salvador, is a fascinating character with a fund of tales about the Falklands and of the war.

It was on Salvador that I enjoyed my first Falklands Island breakfast. Hot porridge, followed by roast mutton, a couple of penguin eggs and toast with home made butter and diddle dee jam — a Falkland Islands berry from a heather-like plant with a strange bitter-sweet taste.

Accommodation at Salvador was clean and comfortable and was originally the sheep shearers' bunkhouse. Each room was equipped with a torch as throughout the camp the power generators are switched off at around midnight. Although there are no television programmes on the Falklands, most settlements I visited had a TV lounge with a wide range of video films.

While at Salvador I had a most memorable day. Robin Pitaluga took us for a two-hour landrover drive across his property, during which time we never crossed its boundary. We bounced over mossy peat bogs, over dried-up streams and along 'sheep streets' — 100 yard wide fenced off sections of land radiating out from the settlement to make sheep collection for shearing an easy matter.

We headed for the north-east coast



A 'Johny Rook' about to eat out of the writer's hand

of East Falkland and there, on a tall headland overlooking the heaving South Atlantic, we barbecued pork and beef, mutton and lamb. Gulls, skuas and albatrosses glided effortlessly above us, while at our feet, at solemn attention stood thousands of comical rockhopper penguins all dressed up for the ball but with no invitation.

The air was sparkingly clear, the only sound was the boom of the crashing waves as they pounded the kelp-strewn rocks at the base of the cliffs and the sharp cry of the numberless sea birds as they wheeled overhead, riding the eddies and whirls of the invisible air currents.

The following morning it was an early start by FIGAS islander for the short hop to Pebble Island where I was guest of Ann and John Reid in Pebble Lodge.

The lodge is a comfortable conversion of the settlement manager's house and on arrival I enjoyed a smoko in front of a glowing peat fire.

I also enjoyed a 'wee dram' with my tea — and at 45 pence a nip for whisky who would blame me?

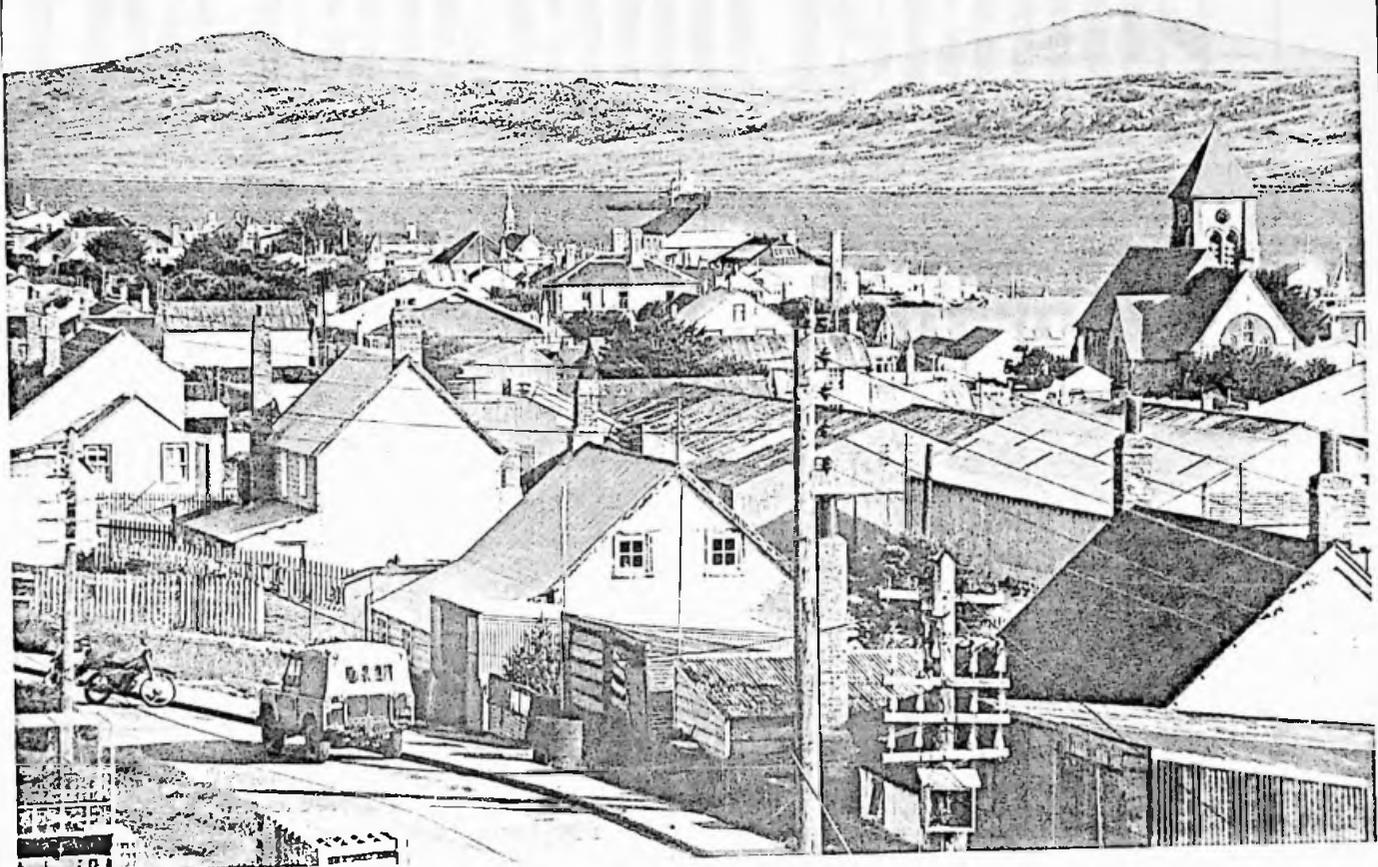
Pebble Island too has a profusion of wildlife and John Reid took us on a cliff-top picnic above a colony of basking sealions. He also took me to see a memorial to *HMS Coventry* which marks the nearest spot on land to the ship's final resting place a few miles offshore. It was a moving experience to stand by the simple cross and read the inscriptions on the wreaths placed there by Falkland Islanders and crews from fellow ships' companies.

Little now remains of the 1982 conflict, but I visited the crash sites of several Argentinian aircraft left just as they fell six years ago. It is a sobering moment to see the detritus of modern technology in the missile age scattered over several acres of peat bog.

During the conflict, the Argentinians laid thousands of plastic, anti-personnel mines. At present, modern

Relics of the recent war are still to be seen





Port Stanley



The Rockhopper Colony also houses the Macaroni Penguin



Rockhopper couple — almost alone



An amorous or protective gesture?



Stark and simple memorials are here to stay

The Falkland Islands

A remote and beautiful group of islands, with a temperate climate, friendly, welcoming people, unbelievably rich and spectacular wildlife and a unique way of life – that's the Falklands.



Here are the answers to the most frequently asked questions about travel to the Falklands:

Where exactly are they?

1000 miles from Antarctica, 300 miles from South America and 8000 miles from Britain. And they're larger than you might think, 160 miles across and over 700 islands in all!

How do I get there?

By RAF Tristar – there's a twice-weekly service from RAF Brize Norton, near Oxford to the new Mount Pleasant Airport, near Stanley. Journey time is about 17 hours via Ascension Island.

Where can I stay?

There are two hotels in Stanley and a number of tourist lodges located at particularly interesting places around the island group. By travelling around the Falklands staying at the lodges, you'll see the best of the wildlife, scenery and way of life of the Falkland Islanders.

How do I travel around?

Mostly by light aircraft – Britten Norman Islander aircraft seating 9 passengers. But you'll also make some journeys by boat and Land Rover.

What shall I take with me?

Just take the same clothes you'd wear in the outdoors in summer in Britain, but don't forget to pack a good barrier cream (you'll tan very quickly in the pure Falkland air) and at least twice as much film as you think you'll need.

How do I make my booking?

Seven tour operators offer fully inclusive holidays in the Falklands throughout the November to March visitor season. For details of these, plus brochure, contact Falkland Islands Tourism.

Falkland Islands Tourism's new 20-minute promotional video with an introduction by HRH The Duke of York, is available on loan in VHS format on receipt of a refundable £5 deposit from:

**FALKLAND
ISLANDS
TOURISM**

Falkland Islands Tourism Information Service
291 Ladbroke Road York YO2 2ET
tel. 0904-702059 Fax: 575539

The Falkland Islands – Where nature is still in charge

technology cannot guarantee to locate all of these objects, so certain small areas around Stanley and some of the settlements are securely wired off and prominently marked. Provided you keep away from these restricted areas and use your common sense, there is no danger from mines or war debris.

My favourite place in the Falklands is Sea Lion Island where I stayed with Pat and Dave Gray who run the purpose-built Sea Lion Lodge which opened a year ago.

With the opening of the hotel, the island's population more than doubled from two adults and two children to five adults and four children.

Sea Lion Island is a wildlife paradise. On a morning stroll along a deserted beach I was able to approach giant, four-ton elephant seals basking in the warm South Atlantic sunshine. These giant animals are unafraid of humans and allow you to approach close enough to tickle their flippers. Less friendly and far less approachable were colonies of sea lions. Massive furry manes, ferocious roars and giant teeth make them every bit as fearsome and magnificent as their land namesakes.

The birdlife on Sea Lion Island is outstanding. Vast colonies of penguins — rockhoppers, gentoos, king, macaroni and magellanic sit on the beaches and headlands. The rockhoppers are my firm favourites. Totally unafraid of man and very inquisitive they stand nearly on tip-toe to get a good view — so much so that they almost topple over backwards.

Some of the world's rarest birds breed on Sea Lion Island and I saw night herons, red-backed hawks, falcons, sooty sheerwaters and striated and crested caracaras. These latter

birds are known locally as Johnny Rooks and show an insatiable curiosity. One followed me all over the island and was fascinated by a feather in my cap. At last, he could stand it no longer and swooped down on it to carry it away in triumph.

Port Howard is a large sheep station settlement on West Falkland and I found it an ideal place to enjoy the camp way of life. Like many settlements there are excellent sporting activities ranging from sailing, and windsurfing to riding and fishing and 12lb brown trout are quite common in the peaty waters of the many Falkland rivers. I went out for an enjoyable morning's ride across the rolling Falkland hills. We rode for



Elephant seal in courtship dance

hours and saw nobody, heard no sound save the breeze whistling in the grass and the seabirds calling overhead and saw few traces of human activity.

Port Howard is a 200,000 acre farm, give or take a few thousand acres, inhabited by 42,000 sheep and a herd of 800 Ayrshire cattle for beef and dairy products. The community there is 40 strong and boasts its own school and shop with a dairy and bakery which supplies Port Stanley.

There is an interesting military museum relating to the ten-week occupation by the Argentinians in 1982 and just outside the settlement on a peaceful knoll overlooking a sea inlet lies the grave of Captain John Hamilton, M.C., hero of the SAS raid on Port Howard.

Several companies operate inclusive tours to the Falkland Islands, including Page and Moy of Leicester, Twickers World from Twickenham and Island Holidays, Comrie, Perthshire. Other small operators organise specialist tours including Major and Mrs Holt's battlefield tours and Cygnus Wildlife Holidays.

A 14-night full board holiday in the Falklands with flights to and from by RAF TriStar with Page and Moy costs £2,850. Included are excursions and/or accommodation in Port Stanley, Kidney Island, San Carlos, Pebble Island, Port Howard, Keppel Island, Saunders Island, Fox Bay, Salvador and Sea Lion Island.

There are also visits to Cape Pembroke, Bluff Cove and to the scene of the major battle on Mount Tumbledown. The services of an experienced wildlife tour leader is included in the price.

The Falkland Islands are far away and yet one feels at home and it is possible to relive one's younger days in a wilder way.

GETTING THERE

Full British require neither passport nor visa but must have return ticket. For advice and information about visiting the Falklands contact: Steve Green/Richard Coates, Falklands Islands Tourism, 294 Tadcaster Road, York, Yorkshire YO2 2ET, England. Tel: 0904 702059.

AREA

4,700 square miles

POPULATION

2,000

LANGUAGE

English

CURRENCY

Falkland Islands pounds = £1 sterling

TRANSPORT

The only way to travel to the Falkland Islands is by RAF TriStar from RAF

THE FALKLANDS

What You Need to Know

Brize Norton in Oxfordshire. Return air fare about £1,150. Flights by courtesy of the Ministry of Defence with bookings made through the Falkland Islands Government Office, 29 Tuf-ton Street, Westminster, London SW1P 3QL. Tel: 01-222 5842. Flight departures every Monday and Thursday.

CLIMATE

Temperate. Rainfall varies from a minimum one inch per month to three inches per month maximum. Winter temperatures in Stanley vary from 31°F (0°C) minimum to 40°F (5°C) and summer temperatures from 42°F (5°C) to 56°F (13°C). Seasons are opposite to those in Britain.

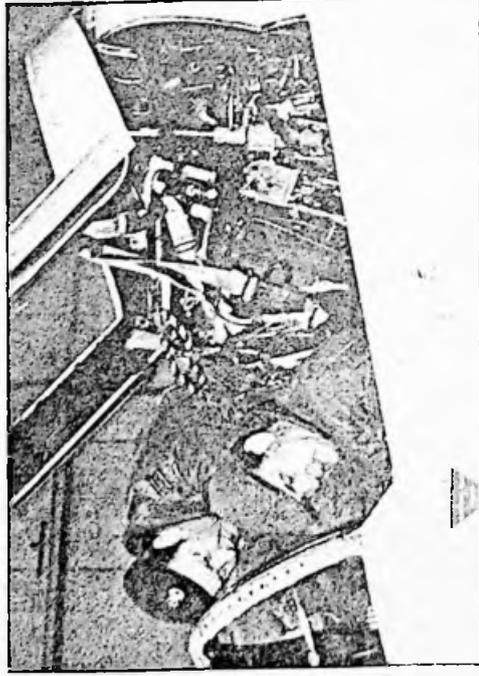
ACCOMMODATION

There are two hotels and several boarding houses in Stanley and in the outlying islands and communities there is one purpose built hotel and several lodges. Accommodation is clean and comfortable if a little basic.

TIME

GMT -5 hours. NB Some of the settlements keep their own time which can differ from Stanley by between half an hour and an hour.

Falklands file



HOW DO YOU start this thing? US of S for the Armed Forces, Mr Roger Freeman, in the cockpit of a Phantom at Mount Pleasant under instruction from Sqn Ldr Barney Barnard, OC No 23 Squadron.

Mr Freeman spent four days looking at the work of the station and British forces resident there.

It was his first visit and he said he had been impressed by the evident efficiency of the Services and surprised by the weather which was sunny and relatively calm during his stay. After he left it reverted to more customary high winds, gales and blizzards!

MORE THAN £12,000 has been raised for "The Race Against Time" by the service and civilian population.

Races took place all over the Islands, the main ones being at Mount Pleasant and Stanley. Despite snow and hail there was a large turnout for the 10km run which involved personnel from all three services.

Fit Lt Margot Müller, the National Organiser for the Falklands, said: "What started off as a quiet 10km run for Mount Pleasant personnel to raise a little money for charity became a massive island-wide event!"

MONEY RAISED at the Mount Kent radar station will help a young Bradford boy receive specialist treatment for cerebral palsy at a clinic in Hungary.

The case of James Gavin attracted the attention of Flt Lt David Clough, who comes from the Bradford area, when he was serving at the station a few months ago. He is now at Boulmer but the idea he left behind has now borne fruit in the shape of a £500 contribution to the James Gavin Appeal.

Money raised by such means as sponsored haircuts and marathons on the running machine in the tiny gym, will now help young James on his way to Hungary.

A party of eight travelled down to Mount Pleasant and handed over the cheque to Mrs. Carol Brindle, the wife of Gp Capt Geoff Brindle, the Station Commander, for posting to the UK.

There was another cheque for £300 for the Great Ormond Street Children's Hospital Appeal—the result of a separate fund-raising operation organised by the catering section.



AIR VICE MARSHAL David Crwys-Williams, CBFFI, has opened Mount Pleasant's new primary school.

It has a total of just three pupils, one of whom is his own daughter, Claire, aged six. At the moment they are being taught by Captain Ruth Poole but it is intended that a SCEA teacher will take over from her in January.

"In order to encourage more families to take up married quarters at the base, it was thought, that having a school might be an extra bonus and help to foster more of a community feeling," said AVM Crwys-Williams.

Inside the new primary school, I. to R. Felicity Brindle, Timothy Skipper, AVM Crwys-Williams, Capt Ruth Poole, Claire Crwys-Williams, Mrs Phyllis Rendell, the Falkland Islands' Chief Education Officer.



SAC Mike Furniss, from Neatishead, is pictured holding a photograph of Darcy, the first guide dog to be put through training with £1,000 donated by the radar station at Bryon Heights.

The small unit has now raised a further £1,500 sufficient to train a second dog and have it named Byron by the Guide Dogs for the Blind Association in honour of its South Atlantic connection.

Mike presides over the Wokka Fund which makes its contribution to the cause by imposing fines for such misdemeanours as putting beer can ring pulls in ashtrays or failing to wear the prescribed dress for a particular night.



TWO local children had the trip of a lifetime when they flew to New York for the start of "The Race Against Time".

Neither Stephen Dickson aged 14 nor Nima Aldridge aged 11 had ever left the Islands before. Along with Mrs Lorraine McGiff, the deputy head of the Stanley School Hostel, they flew by Tri-Star from Mount Pleasant to Brize Norton, before continuing their journey to New York.



CHARITY SPOTLIGHT

FALKLANDS RACE AGAINST TIME

SERVICEMEN and women based in the Falkland Islands were praying for weather good enough to allow them to take part in the international charity Sports Aid's Race Against Time.

At present, it's the middle of winter in the remote islands in the South Atlantic, and it had been snowing non-stop for five days.

The mastermind behind the island's contribution was RAF Physical Education Instructor Flt Lt Margo Muller, from London. She and her organisers persuaded about 600 Servicemen and women from the RAF, Army and Royal Navy, stationed in and around the islands, to take part in the Race Against Time.

The target

The Falkland Islands joint military and civilian community hoped to raise about £4,000 for the Sports Aid charity, for famine relief in Third World countries.

Nearer home, five RAF footballers from Lyneham in Wiltshire, found a novel way to raise cash for Sports Aid. During a six-day period, they planned to visit all 92 football league clubs in England and Wales, kicking off at Swindon Town, and finishing at Wembley.

Spot kicks

Along the way, each of the five team members were to have three penalty pot shots at the football team's goalkeeper. For each ball in the net, the footballers, who all play for the Lyneham team, were to net a sponsored pot of cash for the charity.

Team members were: Cpl Craig Gill a Physical Education Instructor; Cpl Paul Danby an Electronics Technician; Cpl Roy John-Lewis also an Electronics Technician; Jnr Tech Colin McHurdle an Electronics Technician and SAC Kevin Bailey a Movements Operator.

Party time in the South Atlantic

DARRAN GILL, an RAF corporal from the village of Croft near Leicester, has been celebrating his 21st birthday in good company over 8,000 miles from home.

He has been spending a few months in the Falkland Islands repairing and maintaining Hercules aircraft engines. Just a few days before his own birthday one of these Hercules planes also notched up 21 years.

Then a few days later there was a fifth birthday celebration for 1321 Flight, which Darran has joined for his detachment in the Falklands from Lyneham near Swindon. The flight has been reformed and disbanded a couple of times since the Second World War. Its last resurrection was in September 1983 since when it has operated the Hercules which fly around the Falklands and South Georgia.

Just for the record Darran spent his birthday on Saunders Island on a short break from work and tramped a mile for every year he has lived to see some penguins. The Hercules saw in its 22nd year by sitting on the tarmac at Mount Pleasant, taking a spell between missions.

Darran, who left Lutterworth Grammar School, near Croft,

five years ago to join the RAF, is pictured about to cut the cake which was flown down from Lyneham in celebration of 1321

Flight's fifth birthday. In the background is Hercules XV213, his elder by five days. The cake is being held by Sqd Ldr Ray Blun-

den (left) who has just taken over command of the Flight from Sqd Ldr Steve Smith on the right. Pic by SAC Jez Allis.



**News
round-up**

Nigel Fountain

.....

CHILEAN dictator General Pinochet lost a vote last week. He had asked citizens to support him staying in power. But Chileans said no.

That was the good news. The bad is that he stays in power — by rules he invented — for 14 more months, and controls the army and police. People who opposed him in the election have since been attacked.

Pinochet took power in a 1973 military take-over, backed by the United States. Salvador Allende, his democratically elected predecessor was murdered, as his presidential palace was bombed by the Chilean air force's British-supplied jets.

Britain continued to supply Chile with weapons. It relied on Pinochet's support when fighting another South American dictator, Argentina's General Galtieri, in the 1982 Falklands war.

Pinochet has been backed by many richer people in Chile and elsewhere because they were scared of Allende's socialist politics. Even Pinochet's allies think it's time he quit. But the dictator — whose mother once said he was too kind and forgiving — is cunning, has the guns and 14 months. . . .

Is impartiality merely the same as achieving a balance?

FOR 30 years the BBC has proclaimed its commitment to impartiality. But the way it interprets that commitment has changed. In the Fifties it meant a narrow political agenda, balance by the minute in areas of controversy and a rule which meant parliamentary debates could not be covered for a fortnight. Ten years later it had relaxed sufficiently to permit daily current affairs, satire and personal view programmes. Twenty years further on, the broadcasters are under attack over a series of programmes from *Tumbledown* to *Zircon*, accused of being alternately subversive or self-censoring. So what could or should impartiality mean? Last week channel controllers heads of department and senior producers in BBC television spent a day discussing *impartiality.

It is easiest to define impartiality in technical terms, as a description of the way a topic or debate is treated. It clearly involves fairness, accuracy and objectivity. Yet even this narrow definition has its limitations. Impartial in relation to what? Who decides the parameters of debate, particularly on deeply felt moral issues like hanging, abortion and euthanasia? Surely the broadcasters cannot be impartial when reporting on issues such as terrorism, which touch the survival of the state?

Yet a surprising number of people think impartiality is something achieved by balance. Balance may be prudent and necessary for a national broadcaster at certain times and on certain issues; before a by-election or a major vote in the House of Commons, for example. And yet mathematical balance, measured by stop-watches, is often used by politicians to prevent serious examination of issues. Broadcast-

VIEWPOINT by Patricia Hodgson

ers too easily accept it as a substitute for the rigour and effort needed to achieve thorough and even-handed coverage of a difficult question.

Fiction has also become part of the debate. Drama is entertaining when it deals with contemporary issues. But how does the dramatist combine the demands of accuracy with artistic purpose? Drama can hardly be impartial. Is it required to be fair? The dramatist clearly cannot have total licence when representing events and characters still alive in the experience of the audience.

In debate at the Edinburgh Television Festival it was argued that crusading drama on the BBC should apply the standards of fairness and proof expected of statements given currency by a reputable publisher; secondly, that BBC drama must pass a test of quality and be free from any suspicion of institutional axe-grinding.

These views generate heated discussion inside the BBC and strong reactions outside. There is no disagreement, though, on the need to establish programme conventions and clear labels which the audience can respect, even if they do not agree with particular content or points of view.

Here is the crux. The BBC must keep in touch with public opinion without merely reflecting it. Its programmes must often probe and challenge. Yet freedom to do so depends on public support for an enterprise which will, on occasions, offend many. Such support is most likely to be forthcoming if the audience believes the BBC is impartial, that it has no axe to

grind. There are many more constituencies in the country than those immediately understood by predominantly middle-class, middle-aged, male, metropolitan broadcasting executives or represented by official spokesmen from the major parties. The BBC is paid for by everyone. It means reflecting the sharpness with which a whole range of critics attacks government and other parts of the Establishment; and resisting the criticisms and pressures that will result.

The author is head of the BBC's Policy and Planning Unit.

**The BBC television seminar was the fourth in the impartiality series, which ends in December. The best papers, with conclusions, but no specific guidelines, will be published in the new year. The largest seminar, to which outside commentators and critics are being invited, will be held on 16 November.*

11 OCT 1988

Press Cuttings

from Broad Street Associates

WEST END FINAL

Evening Standard

Legal beagle

THE GOVERNMENT'S legal guard dog, Lord Havers, is setting paw to word processor and writing his autobiography.

Havers will be getting his fangs into such topics as the Zircon spy satellite affair, the *Spycatcher* fiasco, the Falklands war and the Sarah Tisdall and Clive Ponting debacles.

That's not to mention his relationship with predecessor Lord Hailsham and his views on private conversations in the Gent's powder room at the Garrick Club. There will be nothing on Havers's colleagues in the cabinet, though; showing a regrettable lack of sporting blood, he refused to keep a diary of his time in Government.

Clue to ancient 'jigsaw puzzle'

By Adrian Berry
Science Correspondent

SCIENTISTS say that the oldest undersea rocks ever recovered by a drilling ship are part of the bed of an ocean which vanished 200 million years ago.

The discovery is helping scientists work out the mystery of why continents move around.

The primordial Tethys Sea, named after the ancient Greek goddess of rivers, was the Earth's earliest ocean.

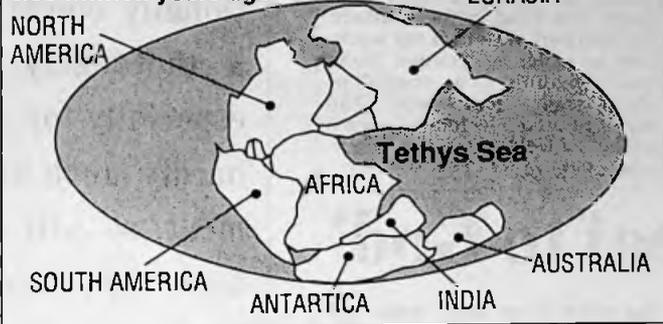
It was once the size of the Indian Ocean. But it vanished when the Earth's land masses closed in on it, forcing its seabed upwards so that it turned into mountain ranges.

"Both the Alps and the Himalayas were originally part of the Tethys seabed," said Professor Philip Rabinowitz, of Texas Agricultural and Mechanical University, director of the expedition that made the discovery on the drilling ship Joides Resolution, off the north-western coast of Australia.

He said: "These rocks are at least 230 million years old. This is the first time anyone has ever found rocks that were part of that ancient Tethys seabed and are still under the sea."

"We are finding out more and more about the shapes of the earliest seas and how the continents moved and separated. What is

The earth's continents
200 million years ago



fascinating is that the torn edges of the separated continents sometimes retain the shapes they had at the time of the separation.

"The north Australian coast may be typical of one of these ancient edges. They are like giant pieces of a jigsaw puzzle."

"When theoretically reassembled, they show us what the Earth looked like hundreds of millions of years ago, at the start of the age of the dinosaurs."

Prof Rabinowitz continued: "The greatest mystery is what makes the continents move. The most likely theory is that rock is forced up from deep in the Earth's crust by some volcanic process, and that it drives existing continents apart."

"The movement of the continents is still going on. Europe

and North America are today moving apart at a speed of about an inch a year.

"Africa is moving northwards towards Europe at the same speed, while the Pacific Ocean is spreading outwards, apparently in many directions, at five inches a year."

More money needed for green policies

SIR—The land is a little greener. In July, the Prime Minister, in a foreword to a publication by the Department of the Environment (Our Common Future, A Perspective by the United Kingdom on the Report of the World Commission on Environment and Development), stated that environmental considerations will be taken into account in all areas of policy-making. Her recent speech at the Royal Society (report, Sept. 28), and subsequent statements by some other Ministers, have underlined the commitment.

Other very welcome statements this year have been those of the chemical giants, Du Pont and ICI. They are now advocating that the requirements of the Montreal Protocol on Substances which Deplete the Ozone Layer should be made more stringent, and that the ultimate aim should be a complete phase-out of fully halogenated chlorofluorocarbons.

We begin, perhaps, to see the dawn. But we should not be complacent. There are other threats, one of which is to environmental science itself. Too often in the past, when environmental hazards have been identified and policies devised to deal with them, support for relevant basic science has diminished, or even ceased, although a full understanding of the problem has not been achieved.

Scientists working in these fields of study, supported often only by short-term grants, look for more assured prospects elsewhere. The reserve of skills and equipment to meet the next crisis is being eroded. A firm commitment by the Government to long-term funding for the investigation of environmental problems would be very welcome.

J. C. FARMAN
British Antarctic Survey
Cambridge

DAILY TELEGRAPH

10.10.88

Falklanders fight plan for 'flood' of immigrants

By Robert Fox

SUGGESTIONS of a major immigration plan to bring thousands of new settlers to the Falklands by the end of the century are being bitterly fought by many residents.

Some think the colony's new-found wealth from fishing could sustain a five-fold expansion of the civilian population to 10,000 over the next decade.

But a survey suggests that most people think immigration should be held to 40 a year, according to the Falklands Newsletter, the journal of the Falkland Islands Association.

Immigration was raised at a public meeting in Port Stanley earlier this year. This triggered the journal's survey.

Some residents objected to the idea of being swamped by people who might not be able to cope with the conditions. Others feared they would lose control over local affairs.

Since Britain imposed a 150-mile fishing zone round the islands three years ago, gross income has soared from £5 million to £40 million a year, and more hands are needed.

● Señor Dante Caputo, Argentinian Foreign Minister, said in a weekend interview that for the first time in five years progress may be made towards resolving the Falklands dispute with Britain. He gave no reason for his optimism.— Reuter

Falklands factor

FOR THE first time, the Falklands Development Corporation has been courting the support of Labour delegates by means which are close to the party's heart: they have taken a £3,000 trade stand at the party's conference.

Despite the belief of many Labour supporters that Fortress Falklands should be ended, Terry Betts, a Falklands Legislative Council member, reported yesterday a generally civil reception from conference delegates.

To help relations, a Falklands quiz has been held, with the winners receiving four hand-made Falklands sweaters. Splashed across the top of the questionnaire is the Falklands crest showing a sheep and a ship, above the slogan Desire the Right — a fitting message, perhaps, with which to sum up this week's proceedings in Blackpool.

Chase May Put More Loans To Argentina on Cash Basis

By a WALL STREET JOURNAL Staff Reporter

NEW YORK - Chase Manhattan Corp. said it expects to report about \$550 million of its loans to Argentine borrowers are on non-accrual status, reducing third-quarter earnings by \$18 million after taxes.

In the first half, the holding company for Chase Manhattan Bank reported net income of \$501 million, or \$5.53 a share; in the second quarter, net was \$224 million, or \$2.45 a share.

Earlier this week, in a U.S. Securities and Exchange Commission filing relating to a proposed preferred-stock offering, Chase said that "in light of continuing uncertainties regarding Argentina," more credit to borrowers there could be put on non-accrual status. Of \$970 million of Chase loans outstanding to borrowers in Argentina at June 30, \$60 million had been on non-accrual basis.

Placement of loans on a cash or non-accrual basis means that income from such loans is recognized only when payments are received. Under U.S. regulations, banks are required to put a loan on nonaccrual 90 days after interest payments are missed.

Recovering a lost democracy

Robert Graham considers what will follow General Pinochet's defeat in Chile

Dictators are not in the habit of being voted out of office. The defeat of General Augusto Pinochet in Chile's presidential plebiscite thus creates a remarkable, and probably unique, precedent. With the regime opening itself to international scrutiny, Gen Pinochet could not have committed political suicide in a more public manner.

The rules of the plebiscite may have been set by the military junta; but the vote process was clean and the result cannot be easily challenged. This means Chile, where political activity was frozen by the coup which overthrew the populist government of the late Salvador Allende in 1973, has now begun a complex and delicate transition from dictatorship to democracy, belatedly following its South American neighbours Argentina, Brazil, Bolivia and Uruguay.

The process will be extremely hard to stop. Indeed, the principal issue now is the speed at which the transition takes places. This will depend upon the military's willingness to make concessions, the strength and unity of a fissiparous opposition movement and the fate of Gen Pinochet himself. Although international pressure on the Pinochet regime has proved relatively ineffectual to date, the new circumstances suggest that this too could be an important factor favouring a more rapid transition.

A period of political uncertainty is therefore in prospect. Nevertheless, Chile today is not in a radical mood. A majority of the 12.7m population is enjoying the very real benefits of five years of sustained economic growth. Few Chileans wish to put the clock back to the chaos and uncertainty of the Allende era. Gen Pinochet dangled in front of the electorate the spectre of such chaos if the vote were to go against him. His defeat indicates that Chileans believe they are mature enough to secure a stable transition.

The size of the opposition's victory — on latest counts gaining 54 per cent of the vote — should act to cool the wilder anti-Pinochet elements. A substantial defeat by more than 65 per

cent would have encouraged the left to make demands that might have alarmed the military and destabilised the country. As it is, the margin is sufficient to be convincing yet narrow enough to engender a sense of national reconciliation, although Gen Pinochet has refused so far to countenance any form of compromise with his opponents.

The vote was fundamentally against the person and style of the 73 year-old general. The month-long plebiscite campaign exposed him as ageing, vituperative and an improbable figure to lead one of the most

Political activity, which has been frozen since 1973, has now begun a complex and delicate transition from dictatorship to democracy

sophisticated societies in Latin America virtually through to the end of the century. Even some of his closest aides were exasperated by his poor performance, the crude nature of the regime's propaganda and above all his determination against much considered advice from within the military and the business community — the two pillars of his support — not to let a consensus candidate stand.

A consensus candidate, even though a *pinochetista*, would have stood an infinitely better chance of winning. It was enormously risky for the general, who had never courted popularity, to expose himself to a popular vote. The right in Chile has

never mustered 50 per cent of the vote. Indeed, it could be said that, even allowing for the regime using all the apparatus of the state to secure victory, it was an achievement to obtain such a high percentage of the vote after 15 years in power.

Gen Pinochet has only himself to blame for losing. It ranks as one of the classic examples of a Latin American dictator being blinded by the arrogance of power. He believed his own propaganda and trusted the complacent findings of the regime's dubious opinion polls. A striking feature of the campaign was the consistent discrepancy between the pro-Pinochet polls and those of the opposition, which both gave good margins in their respective favour. Someone had to be wrong and it seems the large number who showed up in the polls as undecided had all along decided to vote against Gen Pinochet.

The opposition parties are committed to shortening the 18 month period in which Gen Pinochet is constitutionally entitled to remain as president. In September, the 16 parties opposing him stated in a common platform: "We want a rapid and orderly transition to democracy on the basis of a broad national consensus which embraces all the political, institutional and special forces in the country and that respects each and everyone's legitimate interests."

The military on the other hand, which has formidable powers under the 1980 constitution, wishes to follow the legalistic path. In theory Gen Pinochet is permitted to remain in the presidency until March 1990, calling parliamentary and presidential elections in December next year. Thereafter the military will continue under the constitution to retain an effective

power of veto, especially over vital legislation such as reform of the constitution.

Sticking to the letter of the constitution has to be balanced against the uncomfortable reality that Chile is now saddled with a lame-duck administration; and furthermore that the constitution was designed in the belief that a régime candidate would win.

The defeat of Gen Pinochet, however, immediately removes both his mantle of authority and undermines his claims to legitimacy, creating a power vacuum. At the same time, many influential Pinochet supporters in the military and business communities are unlikely to forgive his failure, and will be seeking to preserve as best they can their own interests. These may not necessarily coincide with those of Gen Pinochet himself. Although supreme commander of the armed forces, he is likely to become increasingly a hostage to a more collegiate decision-making process within the military.

One of the regime's supporters closely connected with the military commented before the vote: "If Pinochet loses, the military will put the survival of the military establishment and the preservation of unity above the fate of an individual."

This unity is bound to come under pressure over how to deal with the opposition. A small hard-core within the army is believed to support an interventionist approach, resorting to the reintroduction of emergency powers in an attempt to prolong the status quo ante the plebiscite.

But this element is a minority and the opposition so far has demonstrated that it will do the maximum to avoid providing an excuse for intervention. In this respect, the restrained reaction to the plebiscite result on the streets of Santiago indicates that the political parties have a measure of control over their supporters and that people in general are aware of the dangers of a break down in law and order justifying military intervention.

The army, although the most powerful service arm and the one from which Gen Pinochet enjoys the most unqualified support, has its political antennae. Officers know that negotiations have to begin with the civilians, no matter how distasteful they may be. One of their main concerns is to ensure the politicians do not insist on a series of human rights trials for abuses committed under Gen Pinochet. The para-military *carabineros* and the navy for their part are more anxious to withdraw from direct involvement in politics and running the country.

The opposition's political platform, which must now become the benchmark for their future conduct, fully recognises the role of the military:

"The transition must take place on the basis of agreement with the Armed Forces and the Security Forces . . . to avoid an institutional and legal vacuum." Only with their consent can there be a peaceful negotiation of the constitutional issues.

The constitutional issues cannot be ducked for long since the law governing political parties is highly restrictive, excluding the communist party in particular. The Communist Party of Chile, the largest in Latin America, holds the key to the activities of the underground grouping, the Manuel Rodriguez Patriotic Front, which carried out the abortive assassination attempt on Gen Pinochet in 1986. The Front agreed to suspend its sabotage

tactics during the plebiscite campaign.

The principal difficulty facing the opposition is going to be the varied nature of the groups that have made up the campaign against Gen Pinochet. They range from disillusioned former Pinochet supporters to the centrist Christian Democrats through to elements of the Socialists on the left. The opposition has to maintain its unity in negotiating a transition with the military. Yet at the same time the politicians have to prepare for what could be an extremely hard-fought general election for a new parliament and for the presidency.

Their record of unity has been poor, divided as much by personalities as ideologies. However, since political activity has only begun to be legalised in recent months, the opposition can scarcely be expected to be well organised. By general consent it was considered better first to fight to defeat Gen Pinochet. Though this tactic has been vindicated, it leaves a lot of questions open as to how they next proceed. They could opt to pick a "shadow" president or retain the current leadership front of the "no" campaign.

In the final stages of the campaign, Mr Patricio Alwyn, the Christian Democrat leader, emerged as the principal opposition spokesman. The Christian Democrats are probably the largest single party and the easiest opposition partners for the military to deal with. However, the most charismatic figure to appear has been Mr Ricardo Largos, the Socialist leader, who has been trailed as a Chilean version of Mr Felipe Gonzalez in Spain. These two men are likely to become the most influential opposition figures in the coming weeks.

The immediate concerns will be political rather than economic. Indeed, the opposition kept exceedingly quiet throughout the campaign on economic policies, realising that the structural reforms carried out under Gen Pinochet had provided Chile with the best managed economy in Latin America. It is likely that the opposition will attempt to raise mini-

mum wages and devote more funds to social expenditures, but the nature of the market economy now in place has not been fundamentally questioned. The same applies to foreign investment. It is possible that some large strategic projects like the giant Escondida copper development will be scrutinised but opposition economists accept the need for an export-oriented economy financed by foreign investment.

Speculations about economy policy are far down the road today when Chile is grappling with the new-found

The vote itself was fundamentally against the person and style of the 73-year-old general who was exposed as an ageing, vituperative and improbable figure

idea of recovering one of the finest traditions of democracy in Latin America, surrendered when Gen Pinochet took over. Although events may move fast, it is worth remembering that recent transition periods in the region have proved long. In the case of Argentina, the military disgrace of losing the Falklands war, the catalyst for change there, occurred in mid-1982 but the first elections were not held until 18 months later. The transition in Uruguay took almost two years, while in Brazil the military handed over power in 1985 and still the president has not been directly elected and a new constitution has only been approved this week.



General Pinochet: casting his vote in the plebiscite

On the trail of warrior queens

'When a woman does lead in war she generally does incredibly well and becomes a goddess'

Antonia Fraser puts Mrs Thatcher in the same category as Elizabeth I, reports Victoria McKee

In the sunny, chintzy drawing room where her left-wing literati think tank meets, Lady Antonia Fraser somewhat surprisingly extols the virtues of Margaret Thatcher as a warrior queen.

Once the wife of a Conservative MP, the late Sir Hugh Fraser, and now married to Harold Pinter, she has just completed a study of the species, *Boadicea's Chariot*. Mrs Thatcher fits the mould perfectly, according to Lady Antonia, but the Queen — even in military uniform — does not. "My definition is women who led in war and also ruled. Which lets out Joan of Arc, too, because she wasn't a ruler.

"All the women I have chosen to concentrate on — Cleopatra, Boadicea, Zenobia of Palmyra, Matilda of Tuscany, the Empress Maud, Queen Tamara of Georgia, Isabella of Spain, Elizabeth I, Queen Jinga of Angola, Queen Louise of Prussia, the Empress Maria Theresa of Austria, Catherine the Great of Russia, the Rani of Jhansi, Indira Gandhi, Golda Meir and Margaret Thatcher — in some way fulfil those criteria. When I started I assumed Queen Christina of Sweden did — because she wore men's clothes — but she melted away in my hands."

Queen Elizabeth II is only the ceremonial head of state, Lady Antonia explains, while as Prime Minister Mrs Thatcher wields the real power and has shown, during the Falklands crisis, that she can lead her country to war — and back.

"Like her or not, you can't deny the lady is successful," she says magnanimously. "I can distinguish between the person and the policies. I mean there's no way I'd vote Conservative in the foreseeable future but I voted for her in 1979, although I had tremendous reservations. I think ultimately I was thrilled with the idea of a woman as Prime Minister."

She likens the position of the warrior queen to the embattled female executive — torn between single-minded ambition and the greedy desire to have husband, home and children, too. "The most successful ones play it two ways: on the one hand I'm the honorary man ('the Better Man syndrome') and may have been the honorary boy ('the Tomboy syndrome') but on the other hand I'm a lovely adorable goddess of a woman who you must respect for my femininity. I don't think any woman ever put on unbecoming warrior's clothes."

Reconciling extremes of masculinity and femininity seems the surest recipe for success: often achieved, she notes, through running down the rest of the female sex to emphasize the warrior queen's uniqueness.

The warrior queen likes to surround herself with men, to emphasize her honorary maleness. To illustrate this point Lady Antonia has chosen a photograph of Mrs Thatcher, resplendent in a gold brocade evening gown which looks

like chain mail, surrounded by the dinner-jacketed men of her Cabinet.

It was during her researches for an earlier book, *The Weaker Vessel*, that Lady Antonia first became interested in "the phenomenon of female courage". She noticed that "men really got more excited with a woman leader: it appealed to their chivalry and enabled her to perform with her army feats that a mere man couldn't have led them to".

She sensed an exciting paradox: "Women have been subjugated and felt to be inferior throughout history, and also to be gentle, but when a woman does lead in war, generally for some freakish reason, she does incredibly well and becomes, as it were, a goddess."

She speculates that "perhaps Mrs Thatcher, having established herself as the Iron Lady, now wants to be the goddess as well. There is a softening of the image".

The "appendage syndrome" — being the daughter or wife of some great, dead man — has worked to the advantage of warrior queens from the Empress Maud to Indira Gandhi. It is the reason Corazon Aquino came to power in the Philippines,

and Benazir Bhutto may be able to seize it in Pakistan. Lady Antonia is fascinated by Bhutto. "Of course Zia's death, and her being on the brink of power with a new baby all happened since I finished the book — but it rivets me," she says. "Bhutto could well be a warrior queen in the making, and she could be like the Empress Maria Theresa, who held up her child to the troops and said, 'What is going to happen to this child? Help me!' and they all went 'Hooray!'"

Possibly because of the appendage syndrome, countries in which women walk three steps behind the men have a stronger tradition of female leadership, Lady Antonia observes, than "progressive" nations such as the United States. "It may also have something to do with having goddesses in the culture.

"I think the lack of emergence of a real woman leader in the US, where women have been so strong for so long, is quite fascinating. That may also be due, I suppose, to the cult of the couple: there's hardly a day when you don't hear about the woman - she's really got to be there. A husband is usually a handicap to a woman leader: look at poor Geraldine Ferraro."

Would Lady Antonia secretly enjoy the heady power of being a warrior queen? "Not in the least," she asserts. "I purposely had my photograph taken with peaceful lilies for the bookjacket. I would like to see women rulers who do not have to be warrior queens, particularly as the kind of wars we're likely to have are not the kind that anybody can hope to survive."

In her book she recalls an interview with Geraldine Ferraro, in which the potential vice-president was asked whether she would be strong enough to push the button. Lady Antonia thinks the question should have been whether she'd be strong enough not to.

"As a historian I can only say what people have done. But as a

person I would hope that the future will be different, because if warrior queens are always going to drag other women under their chariot wheels there aren't ever going to be very many women leaders."

● *Boadicea's Chariot: The Warrior Queens*, by Antonia Fraser, published by Weidenfeld & Nicolson on October 13 (£14.95)



STEPHEN MARKESON

No Boadicea: Lady Antonia Fraser "would like to see women rulers who do not have to be warrior queens"

Royal couple's second job is 'a complication'

The Duke of York has spoken frankly about his career in the Royal Navy and the problems posed by long separations from wife and family as a serving naval officer.

"Before getting married I never bothered about going away, because it was fun. But I think to be split from one's wife for so long cannot be good for the long-term relationship", he said.

But in an interview with the Press Association the Duke underlined his commitment to his naval career. He also described how he reconciled being a junior officer and a member of the Royal Family.

Chatting informally in the gardens of Government House, Sydney, the Duke recounted how he sailed in HMS Edinburgh from Portsmouth in June for a six-month deployment, the highlight being the bicentennial naval review in Sydney last weekend.

It is the longest the Duke and Duchess have been parted since their marriage more than two years ago. The Duke admitted: "I don't like it, full stop."

But having joined the general list as a career officer two years ago, he recognized separation had to be accepted.

"You just have to take it, otherwise the Navy could not exist", he said.

After years as a helicopter pilot and helicopter warfare instructor he followed the natural progression of a career officer to work for his watchkeeping and ocean navigation certificates.

A general list officer must obtain these certificates if he is

eventually to command his own ship.

In joining Edinburgh he has also been able to combine his royal duties with his naval career, something that has not always been easy for the Queen's second son, and occasionally it makes his life in the Navy difficult.

"I have worked my passage to Australia, done the royal tour and I return on completion of the tour to duty in HMS Edinburgh, returning to

The Duke and Duchess of York were left stranded and adrift in stormy waters at Brisbane yesterday when their hovercraft broke down. Royal officials and Australian police ordered an investigation amid fears that the £1 million craft may have been sabotaged. An identical back-up hovercraft also broke down at the same time in the Brisbane river. Last night police ordered the hovercraft to be hauled out of the water for examination. The

United Kingdom in December and staying with the ship until the middle of next year", he said.

"I have been in the Navy for nine years and I think we have come to a pretty good working arrangement."

The Duke's royal duties are considered by the Navy to be an essential part of his job.

He receives the same amount of leave as other officers but even when he is ostensibly on leave he is often involved in royal duties.

"It is particularly difficult for Sarah and me because we have second jobs, as it were, and that is the complication", he said. "There are also many

more conflicts in Sarah's life as a naval officer's wife than perhaps with other officers' wives.

"Sarah has a house and family to look after as other naval wives have, but she also has not only her own staff and office to run, but also mine while I am away, and also not forgetting her own royal engagements."

The royal tour of Australia has highlighted the conflict between naval officer and

drama began as the royal couple were on their way to St Helena Island, 10 miles off the coast, which was once a penal settlement. Almost halfway to the island, the hovercraft began to vibrate and a loud bang was heard as one engine failed and the vessel began to drift. The captain eventually beached the hovercraft at Pinkenba, an industrial suburb of Brisbane, and the Royal couple were driven back to the city.

duke. The Duke said he thought the tour had gone "very well".

"It has been marvellous to see so many people, particularly in Darling Harbour when we arrived in Sydney. The welcome we have received throughout our visit has been very warm and friendly."

He brushed aside criticism of the decision not to take their eight-week-old daughter Princess Beatrice on the tour.

"If they bothered to think about it for one second, Beatrice is much better off at home where things are stable", he said.

"It would have been possible to bring her here, but it

would have made life so complicated and disjointed it would never have worked."

The Duke said the Duchess kept him informed of Princess Beatrice's every development. "Sarah has been very, very good taking photographs and sending them to me", he said.

"She is also keeping a video record of Beatrice and her progressions and it will all be recorded for Beatrice in years to come and for me to see when I get back."

The Duke has already seen one video recording of his daughter and he described the princess as "quite extraordinary".

"She is really very alert and does not make much noise", he said. "She has Sarah's eyes and I am convinced she is going to be prettier than both of us."

The Duke clearly enjoys his life at sea, acknowledging there were virtually no other jobs he could do. "What else could I do, given the fact that I am a member of the Royal Family?" he asked.

There were very few precedents for a married member of the Royal Family serving in the armed forces and the Duke said "the wheel had basically to be reinvented". It was a difficult line to tread and protocol in dealing with senior officers was sometimes complicated.

He does not miss flying after years as a helicopter pilot, which included service during the Falklands conflict.

He said he now looked forward to commanding his own vessel.

The Duke and Duchess end the official part of their 10-day tour in Brisbane today.

NO TO THE GENERAL

General Augusto Pinochet, vanquished in this week's plebiscite in Chile, should now show magnanimity in defeat. His country has taken a giant stride forward towards democracy, from which it will not willingly return. He should now step aside and help it on its way.

The number of free democracies in Latin America has grown from three to 13 in a decade. That Chile now seems likely to step into line with Brazil and Argentina, is a development of great significance for its neighbours. The image of the whole sub-continent stands to benefit.

The progress made so far by Chile has been encouraging. Accusations of intimidation by General Pinochet's men both preceded and surrounded the referendum — and no doubt were well-founded in some cases. But the consensus among foreign observers is that polling, by and large, was free and fair. For a country which has been governed by a military dictatorship for 15 years, it was a reassuring test of political responsibility.

So far so good. The question which now must be answered is what happens next. Under the Constitution (which he drew up himself eight years ago) General Pinochet must call presidential and congressional elections by December next year — then step down as head of state three months later. In theory this means that little will change for 18 months.

Things might not alter all that much even then. For one thing, he has retained the right to remain as Army chief for four more years — and the Army will still exert an influence through the National Security Council, which can query all Government decisions which it holds to be contrary to the national interest.

Given that he and other senior members of the military will also have seats for life on the country's Senate (one in three of whose members will always be appointed) it is clear that Chile has not seen the last of General Pinochet. Indeed it appears that he can even stand for President, when the elections are held some time towards the end of next year.

It seems clear that a period of transition will now be necessary. There is a need to reconstruct the machinery of democracy — including the development of the political parties themselves. To expect General Pinochet to

hand over power immediately would be unrealistic. The country would not be ready to accept.

But how long this period should be is more debatable. The electorate has made clear that it wants him to go and for him to remain in power for 18 months would seem excessive. The opposition is already calling for him to step down more quickly than is laid out in the Constitution, and one must endorse that view. He would also be well advised to step down from all positions of political power — and indeed there are those in the Army who have advised him to do so.

Chile is entering a period of great political uncertainty. General Pinochet has been defeated in the plebiscite by a 16-party alliance called "Command for the No". But this was very much a marriage of convenience — between politicians who had little in common beside their detestation of the old dictator. In casting their vote for the "No" the 7.4 million strong electorate has voted for change. But the alternatives before them remain hazy.

The violent coup which brought General Pinochet to power in 1973 ended three years of economic chaos under the elected Communist Government of President Allende. While they want an end to the violence, the repressive policies and political isolation of the Pinochet years, they hardly want a return to what preceded him. The monetary policies of the Pinochet Government, aided by 15 years of political continuity have helped Chile towards an economic prosperity which is the envy of its neighbours.

The moderate opposition led by the Christian Democrats, is already said to be seeking amendments to the Constitution which would make it more democratic. Whether the Army will respond to this positively is one of the questions which remain to be answered.

Much of the responsibility for ensuring a smooth transition rests with this moderate opposition, who must arrange their priorities in the national interest. But much also remains with General Pinochet. He has proved his ability to hold on to power for 15 years. He must now learn how to dispose of that power with equal skill.

Shooting gallery

IN THE aftermath of the firearms amnesty, I have reassuring news for those who fear that valuable weaponry will be melted down in some police furnace. The National Museums Consortium is touring constabularies to rescue any guns of special interest for division among local, national and Ministry of Defence collections.

"Although we don't have to pay for the guns, they are being 'transferred' to us, which means we can't dispose of them later," David Penn, keeper of the Imperial War Museum's firearms department, tells me. He is particularly interested in sniping rifles and any small arms smuggled back as trophies from the Falklands War. Two unusual items he is expecting are a Patchett 9mm sub-machine gun, which is a rare 1945 prototype of the Sterling sub-machine gun, and a 1920s Afghan musket.

EEC wheat farmers may meet shortfall

EUROPEAN wheat farmers could be called on to honour Argentina's export commitments if the Argentine crop fails to recover from a five-month drought.

The drought, which has disrupted planting, has forced Argentine crop estimates down from 9.9 million tonnes to 8m tonnes and persuaded many farmers to allocate more land to the growing of soya beans, the Argentine Grain Board said.

While a more accurate estimate of production is expected towards the end of the month, Argentina is unlikely to be able

to honour all its export commitments.

Unlike Canada and the US which have also suffered from drought this year, the EEC, by virtue of sufficient carry-over stocks and a good wheat harvest, is well placed to increase its own exports to some of Argentina's customers.

Argentina is believed to have started negotiations with Brazil, with which it has a medium-term supply agreement, to define the quantities Brazil wants from the coming harvest.

Balancing Britain's defence priorities

SIR — Your Defence editor's article (Sept. 27) on the tensions within the Ministry of Defence budget restates what has been the case since at least the Korean War — too little trying to do too much.

Denis Healey tried in 1964 to get it right and there was another major effort in 1974, but it was not until Sir John Nott grasped the nettle in 1981 that there appeared to be any prospect of cutting back on our preoccupation with the eastern Atlantic and getting our defence priorities more in line with our true defence interest.

The Falklands put paid to all that. Successive Defence Secretaries since then have had to massage the books to maintain the fiction that capabilities match commitments.

Whatever other arguments are advanced, it is unthinkable that France should be the only European nuclear power, so Trident must be retained in the programme. So the fundamental problem lies in the priority to be given between our Nato contribution in the central European region and our perfectly understandable predilection for a wider maritime role.

It is a case of changing the thrust of our effort over a period to give us the most effective military, and therefore political, capability where it matters most. Until Russian deeds match Russian words few will argue that this must lie in our conventional force contribution to Nato's forces in the central region. It is no good being able to keep open the Atlantic bridge if, by the time help arrives in Europe, the Russians are toasting their toes in the Channel ports.

Air Vice-Marshal NORMAN HOAD
Stowmarket, Suffolk

Onward, Christian Salvesen to Missouri

John Petty reports on a family company which buys small concerns ready for expansion rather than splash out on big ones. Under its 'nibbling' expansion policy it has made its first move into American road transport

CHRISTIAN Salvesen, which went public in 1985 after more than a century as a family company, is to buy its first American transport company in pursuing a quiet policy of nibbling expansion.

The steady flow of takeovers, particularly building up a European network ready for 1992 and liberalisation of Common Market trade, has seen its share price rise sharply this year in response to bullish comments by analysts for stockbrokers.

Barry Sealey, group managing director, likes to buy small companies ready for expansion rather than splash out on costly big ones that need turning round. Hence the first step into American transport will be the 23-truck privately-owned Semo business at Sikeston, Missouri.

"It's a nice little operation, profitable and well-run, he says. "It will be the learning-ground for growth there, just as an enviable chain is being built-up across Europe."

Although Christian Salvesen sounds distinctly Scandinavian, it has been a Scotland-based business since being set up in 1872 and developed at one stage into the world's leading whaling

company. About 51 p.c. of the shares remain with a widely-spread family network.

But now it is in cold stores, road transport, oil drilling services, brickmaking, coastal colliers, anti-pollution equipment, processing, transformers and generators.

Its handling of goods for other companies even extends to processing lines such as meat for dog-food makers.

And its business has been tied remarkably to such things as the quality of the pea crop, even without owning any peafields of its own.

Salvesen claims to be "the leading temperature-controlled storage, processing and distribution company in Europe." This includes processing and repackaging of products including fruit and vegetables.

It distributes chilled and frozen foods for major food manufacturers and supermarkets, including all the frozen foods for Marks and Spencer. There is localised distribution of textiles, household products and non-perishable food lines.

In the United States, it has made Merchants Refrigerating into the fourth-largest cold store

cont...



Sir Gerald Elliott: retiring at end of the year

operator and has a fruit packing operation in California.

Now it is making its first move into American road transport.

Salvesen also has Aggreko, providing containerised diesel-powered electric generators and transformers with a network across Europe, including manufacturing in Britain and Holland, and a growing business in North America.

Marine services include ownership and management of coastal ships carrying coal from the North East to Central Electricity Generating Board power

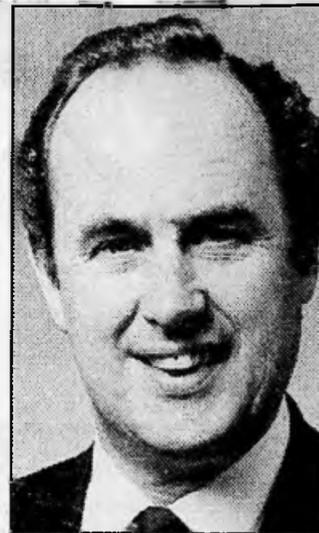


John West: taking over as Salvesen chairman

stations on the banks of the Thames and Medway.

Salvesen Drilling Services is involved in oil-well equipment while Vikoma makes and supplies anti-pollution clean-up equipment in more than 60 lands. Salvesen Brick is producing up to 120m bricks a year.

Typical "nibbling takeovers" in recent months have included Alt-Express, of Pontypool for £925,000 cash; Joseph Massage, a Belgian refrigerated transport company doing 60 p.c. of its business in West Germany; a 75 p.c. stake in the distribution subsid-



Barry Sealey: "learning ground for growth"

iary of Langnese Iglo, a Unilever subsidiary in West Germany and Pierce Industrial Air in the United States.

It also came to an arrangement, at a cost of £6m, with Smedley Foods to take over responsibility for the frozen food processing business at Spalding.

Meantime, it has arranged for John West, 60, who retired in May as chief executive of Reckitt & Colman, to become chairman of Salvesen when Sir Gerald Elliott retires at the end of this year.

Scourge of comrades parade their wares

Charles Hodgson meets advocates of nuclear power and Sunday shopping

THE Labour Party conference might seem unfertile ground for anyone wishing to promote nuclear power, campaigning for Sunday shopping or hoping to recruit new Falkland Islanders.

But among the regulars in the Winter Gardens exhibition hall are a few stalholders whose presence might be regarded as out of place if not downright provocative.

They include a number of Labour's favourite whipping-boys. British Nuclear Fuels has been coming to this particular lion's den for some years.

Its reception this year in the light of the renewed nuclear power debate provoked by the Government's electricity privatisation plans, has been mixed.

"Some people have come up and told us we should not be here at all," says Mr Neil Marrs of the company's revamped public relations department. "Others have been encouraged that we are ready and willing to answer their questions."

The industry is trying to shed its secretive image and Mr Marrs feels that by taking the new message of openness to the opposition, BNFL will give reassurance.

The Central Electricity Generating Board, which made no secret of its disquiet at some of the Government's privatisation proposals, has received a warmer welcome.

Its representatives see their role as "dealing with the issues" raised by privatisation - such as the impact on prices and security of supplies and the safety obligations attached to a profit-making operation.

A newcomer this year is the Shopping Hours Reform Council, set up last

May to lobby for a relaxation of trading hours, especially on Sundays. Its director, Mr Roger Boaden, says that many union delegates have expressed support for the move, but coupled that with concern about protecting their members.

Mr Boaden is in Blackpool to "talk this through" with delegates and to push the retailers' case, backed by public opinion polls showing that two out of three people favour a relaxation of the law.

Labour hopes to make a clear profit of more than £100,000 from its conference exhibition this year, with commercial exhibitors paying £2,900 per stall. The exhibition with 86 stalls, more than double last year's total, is the largest yet and the party is intent on making it part of its new "professional" approach to fund-raising.

One of the more unexpected exhibitors must be the Falkland Islands Development Corporation, which is eager to show the Labour Party that the islands have not been turned into one vast military base, and to point out potential management contracts.

Apart from a few snide comments about "Las Malvinas", delegates have shown "natural curiosity" about the islands, according to the two native islanders staffing the stall, and there is the added attraction of the Falklands Quiz.

The winner - who must, among other things, find out how many species of penguins breed on the islands - will win four Falklands wool sweaters.

The islands' prominently displayed motto "Desire the Right" may not, however, be quite the appropriate message for this particular forum.

SAS and Texas Air agree link-up

By Anatole Kaletsky in New York

SCANDINAVIAN Airlines System yesterday announced a series of major operational and financial agreements with Texas Air, the biggest US airline holding company - a link-up involving an investment of up to \$100m by the European company to create the world's largest integrated system of passenger air routes.

The key to yesterday's agreements is a series of scheduling changes which will enable SAS transatlantic flights from Scandinavia to link into the domestic route network of Texas Air's operating subsidiary, Continental Airlines. Continental's main US hub is at Newark

airport, outside New York, and SAS will transfer most of its transatlantic flights from Kennedy Airport to Continental's newly-built terminal at Newark.

SAS will pay Texas Air \$25m immediately and a further \$25m in stages for the use of the US airline's terminals and other facilities. In addition, Texas Air's board has invited SAS to buy up to 10 per cent of the company's stock in the open market and Mr Frank Lorenzo, Texas Air's chairman, said yesterday that SAS intended to acquire these shares over the next six months. At yesterday's price of

\$14½, this 10 per cent stake in Texas Air would cost around \$50m. Mr Jan Carlzon, the SAS chief executive, has also been invited to join the Texas Air board.

In addition, the two airlines will establish a joint training facility for their service staffs. This could be an important factor of the deal for Texas Air, which has been suffering from serious service quality problems and clearly hopes to improve its image, particularly among business travellers, through the link with SAS.

As a result of the planned scheduling changes and the

transfer of SAS flights to Newark, Mr Carlzon said that passengers from Scandinavia would enjoy daily links with most major cities in the US. He added that SAS had already created a similar hub and spoke operation in Bangkok with Thai International Airlines, and was working on further arrangements with Qantas in Australia, Varig in Brazil and Aerolineas Argentina.

His ultimate objective was to create a global system which would enable passengers to fly virtually anywhere in the US, South America and the Pacific Basin whether non-stop or with just one transfer.

Why shooting Chernobyls at one another makes no sense

Bruce Kent argues that Labour need not be embarrassed by its defence policy. It should be leading public opinion towards accepting disarmament

Tomorrow in Blackpool the Labour Party's National Executive Committee will recommend acceptance of a resolution calling for an "effective non-nuclear policy". But it will also call for resolutions with much sharper teeth to be withdrawn. Many delegates will be dismayed at what they will judge to be more evidence of executive embarrassment. However, there is no need for Labour spokesmen and women to look uncomfortable whenever defence is discussed. It will come up every year. The pro-nuclear lobby knows an Achilles heel when it sees one.

At this difficult time I would like to offer the Labour Party some unsolicited advice. It is outrageous, to start with, that the Conservatives should have been allowed to set themselves up as the party of multilateralism. Their record is deplorable. Too often when a treaty — be it anti-ballistic missile or non-proliferation — gets in the way of their policies (or those of the Pentagon), they break or bypass it. They boast of "spectacular achievements" in the export of weapons to other countries. The UN International Year of Peace of 1986 they wholly ignored. The peace education promised at the UN disarmament sessions of 1978 and 1982 has been turned into a term of abuse. They claim credit for the Intermediate Nuclear Forces treaty but plan to deploy yet more weapons in Europe.

Nevertheless, a little history certainly does help. As long ago

as 1973 Lord Chalfont declared that French and British nuclear weapon developments were based on a policy "which has no military significance, which is based on a false sense of national pride and which puts existing and future arms control agreements at risk". I couldn't have put it better myself.

What is a British, allegedly independent, nuclear deterrent actually meant to be for, apart from boosting "a false sense of national pride"? In no way has it enhanced our negotiating powers. Risking blowing up your own home is not a very sensible way of coping with burglars. It did not deter the Argentinians, it did us no good in Aden, was useless at Suez, and is irrelevant when it comes to the IRA. Is ours supposed to deter the Russians? Lord Carver and others have said, often enough, that it would be suicide for us to threaten to use Trident against Russia.

The fact is that it is not a weapon at all. Shooting Chernobyls at one another makes no sense, even if there were some political reason for a war, which manifestly there is not. In neither conventional nor nuclear terms could East or West possibly "win" one, in any rational sense of that word. At most, the nuclear deterrent is a dangerously unstable instrument of evil blackmail. Counter-black-

mail is not the only or the safest means of dealing with blackmailers. In any event, no one has yet discovered either how to deter nuclear accidents from happening — and they happen with terrifying regularity.

What we are seemingly stuck with is the crude nationalism of an Ernest Bevin. He had to have one, he said in 1946, with "a bloody Union Jack on top of it". Most of the media pundits and politicians have not yet left that level of crudity behind them. The Bevin doctrine is one which licences general nuclear proliferation. We have no right to deny to others the nuclear "security" we claim for ourselves.

The argument was once supposed to be between those who, in relation to the British bomb, were unilateralists and those who were multilateralists. Those days are past, but Labour is not heard to be saying so. Margaret Thatcher like David Owen, intends to have a British bomb as long as the Russians have any. That is not genuine multilateralism.

Labour is, of course, quite right in the new world climate to ask other countries, as Britain independently relinquishes nuclear status, to make their own parallel peacemaking and disarmament commitments. That call should go to non-nuclear, as well as nuclear states. It would certainly get a positive

response from the leaders of the Six Countries Peace Initiative [which followed the Palme Commission report of 1982 into strategies for disarmament] as well as from the Gorbachev regime.

But Labour ought also to rubbish illusions both of nuclear first-use and of an American nuclear umbrella. Which American president, in his right mind, would risk the nuclear destruction of a single American city supposedly to protect a Western European one? Who believes that you can use a tactical nuclear weapon without the highest probability of total catastrophe? David Owen's Palme Commission report made that quite clear. Yet such is the risk which underpins flexible response.

Labour above all needs to lift the debate above the level of weapons and umbrellas. The charter of the United Nations still remains for most people unread. The human race faces a wide variety of real international threats: famine, flood, disease, pollution and financial collapse to name but some of the most obvious. No one seems yet to start to take seriously the problems which the world will face as its population possibly doubles in the next 60 years.

Yet we spend a trillion dollars a year on war and war preparations and by doing so

the world becomes not more but less secure. A world free of Nato and the Warsaw Pact, working co-operatively, economically interdependent, pursuing social justice and common security in a UN context, is a world worth working for.

Labour's problem seems to be that it assumes public opinion cannot change. In Australia the shift has been dramatic. In 1980, 40 per cent of Australians thought the Soviet Union was a threat; now only 6 per cent do so. In 1980, 64 per cent wanted their own nuclear capability, now only 22 per cent do. In 1980, 60 per cent supported American bases; that figure has now dropped to 39 per cent.

Change can and does happen all the time. But it will not do so unless the trumpet sounds a clear note. Labour is too prone to believe in disarmament by conference resolution. It is not just resolutions we need but practical campaigning with all the diligence demonstrated by those who sell soap. That requires time, enthusiasm, technique and a willingness to persuade on doorsteps and in shopping centres.

A few thousand pounds spent on a few popular videos making basic points about disarmament, the arms race and the pointlessness of a British "independent" deterrent would be money well spent. A programme of grass roots education is badly needed. Labour doesn't even have plans for one. It is high time it had. The next election is not that far away.

The author is chairman of CND

CONFERENCE NOTEBOOK

Euphoria in a fairy castle

IN THE surreal setting of the Spanish Hall, a Blackpool function room decked out in the style of a fairy castle, the big left-wing rally of the day became suddenly euphoric. "We can come back," Eric Heffer proclaimed joyously. "This is a watershed conference..."

The cruel laughter which greeted Mr Heffer's vote in the trade union section on Sunday (0.007 per cent) was forgotten: and left-wing activists regrouped throughout the Winter Gardens, inspired to new heights by their obliteration in Labour's leadership election.

Gloomy talk from MPs of the left's political impotence found no echo among the constituency delegates massed in "Block A" in the Empress Ballroom conference hall. "Come on T and G, you're supposed to be leftwing," they yelled cheerily, frantically waving their blue "One Vote Against" cards at the union as they went down to defeat after almost unbroken defeat.

Lined up on the platform of the Labour Left Liaison meeting, the speakers promised new and yet more telling assaults on Neil Kinnock's creeping revisionism. Joan Maynard cited nuclear unilateralism: "Our planet — and the country — are at stake on that one."

But Dennis Skinner, the Labour vice-chairman, denied the full status of office by Mr Kinnock's occupation of the post, clearly struck a chord: "For God's sake have confidence," he told the packed meeting. Votes to roll back Labour's socialist agenda would count for nothing "unless we carry a few".

FOR much of yesterday, Sukey Cameron was the loneliest person in the Winter Gardens. Her thankless task was to man the Falkland Islands Development Corporation stall. "I haven't had much interest so far," she said. "But I have only been open a few hours."

Delegates swept past en route to competing attractions unmoved by snapshots of Falklands life. Nor was there much competition for the Falkland sweaters offered as prizes for the first delegate to answer simple general knowledge questions on the islands. "It will probably be better at the Tory conference next week," Sukey said.

AS PEACE and harmony broke out between John Prescott, the failed candidate for deputy leader, and the triumphant Kinnock-Hattersley "dream ticket", some people in Blackpool were already wondering how long it would last.

Leadership sources make no secret of their limited regard for Mr Prescott's presentational skills and political style. And his current position as shadow energy spokesman will become a pivotal post as the Government moves to privatise electricity.

Mr Kinnock's scornful reaction, when Mr Prescott initially appeared to pull back from a challenge, is said to have finally provoked his decision to fight. So close attention will focus on whether Mr Prescott will be allowed to stay in post after the autumn elections for Labour's Shadow Cabinet.

John Pienaar

The West's guilty policies exposed

By Samuel Brittan

A visitor to Berlin during last week's Fund-Bank meetings would have had to be thick-skinned indeed not to be uneasy at what he witnessed. For instance, there was the opportunity to hear the world's best symphony orchestra playing music that was in its time revolutionary, but we had to go in behind lines of security police and posters accusing the IMF of Third World deaths and starvation. Then, not far into East Berlin, on the usual tourists' jaunt, novices were startled to have to dodge goose-stepping troops parading outside the memorial to the unknown soldier. The Berlin where my father once studied medicine has vanished beyond recall.

I must resist the temptation to speculate on matters German and instead ask the question whether Western governments have cause to be guilty about Third World poverty.

We can certainly dismiss the crude attack of the International Counter Congress, also meeting in Berlin on capitalism and all its works, with its insular appeal to countries to turn back from world markets and look inwards. If only Marx had been living to denounce this left wing infantilism as only he could. But at the other end of the opposition spectrum there were ideas which overlapped with those espoused within the IMF and World Bank.

For instance, the Development and Peace Foundation cited US and German bankruptcy law which could provide a model for sovereign debt. (Living With Sovereign Debtors; Development and Peace Foundation, Lautenbergstr. 30, 5300 Bonn.)

But one does have to ask more searching questions. Contacts with world markets have enlarged opportunities in Third World countries. There are imponderable questions about the wider effects of contacts with Western values and technology. But it is more useful to cite three different kinds of

policy, not of capitalism but of Western governments, which do hit the Third World.

- Protection. Studies cited by that well known radical dissident Nigel Lawson, at a demo known as the Development Committee, suggest that protection costs developing countries more than twice the amount they receive in aid.

- Arms Sales. It takes two to tango and Third World governments were rightly condemned by the IMF managing director Michel Camdessus for giving arms priority over social needs. But government heads such as Mrs Thatcher who promote deals like Britain's much-vaunted £1bn arms agreement with Malaysia have also something to answer.

- Structural budget deficits. An undoubted effect of the US and other budget deficits is to raise real interest rates and inflate the costs of both debt service and new finance. A different policy mix, with tighter fiscal policy and lower interest rates, would help developing countries as well as investment in the industrial world.

All three major policy errors hit consumers and citizens in the countries practising them as well as the Third World. They are promoted by special interest groups whom the more excitable demonstrators are too unsubtle to pinpoint.

Where do the banks come in? "If the IMF and central banks had not stepped in with rescue

Banks can surely now be left to make their own deals with sovereign borrowers

packages there would have been more debt forgiveness, but more defaults and more bankruptcies by financial institutions." The implication was that this might have been quite a good thing. The person speaking was no demonstrator at all, but a top insider with

strong free market leanings.

His words throw an interesting light on Ten Misconceptions About the IMF. This is an excellent Fund publication which deserves to be better known. But when it says that the Fund does not bale out banks, it is being legalistic.

The Fund has co-ordinated and led debt packages since 1982. Of course the original impetus (apart from US political fears about Latin America and above all Mexico) was the fear that a collapse of major banks would snowball into a world depression.

The view - common to the free market right and the radical left - that the banks, who fell overboard to offer their loans, should have been left to face the music, is attractive. But the risks to the world economy were probably too large and non bail-out stabilisation policies were too untried to take the risk.

Six years later, however, the banks have had ample opportunities to provide for bad debts and most have done so. They can surely be left to make their own deals with sovereign borrowers and let governments step back a bit.

Such settlements will involve massive debt write-offs, however disguised. There was a memorable hospitality cruise on the Lake Wannsee when the redoubtable chairman of the Commerzbank, Walter Seipp, entertained his wardrobe guests by thundering: "I have not worked 16 hours a day for 40 years so that some Argentinian playboy can salt away money in Zurich."

He was neither more nor less moral than the more new look Alfred Herrhausen of the Deutsche Bank, who has a more flexible stance. But Mr Herrhausen has on his side that deity beloved by Prussian philosophers, namely history.

There are, however, two missing elements in the plans both of the reformers within the Fund and Bank and the more respectable radicals. One

is a recognition that if there are to be positive resource transfers to the developing countries, either the latter will have to become more attractive to private investors; or Western taxpayers will have to dip into their own pockets, as the Japanese seem willing to do. It cannot all be done just by making banks suffer so that we all have to pay for our own concert tickets at the next annual meeting.

Secondly, and even more important, excessive concentration on debt relief risks distracting attention from the internal reforms which middle income and poor countries will have to undertake if they are to embark on self-sustaining growth. Write-offs there will have to be. But, as one financial statesman at the centre of the whole debt effort remarked to me, these are at most a necessary and certainly not a sufficient condition for a real attack on the poverty of the Third World.

Democracy's new roots amid the dictatorships

TO MANY people in Britain, Latin America is a far-off continent of which we know little, save that we recently won a war off its south-eastern coast. To the United States it is the continent "south of the border", and of serious immediate concern.

During the Reagan years, attention has tended to focus on the trouble-spots of Central America, while the debt problem has loomed over the West's major banks with baleful menace.

But whoever wins the American presidential election will find democracy showing surprisingly tenacious roots in South America, and even advancing precariously in Central America, although the stalemate in Nicaragua continues.

The two countries highest on the State Department's list of potential crisis spots are Chile, whose President Augusto Pinochet may at last lose his grip on power in Wednesday's referendum, and Mexico, where a blow-up would absorb a huge share of American foreign policy attention. In addition, there is a continent-wide trend towards a tougher attitude to overseas debt, which could pose a serious threat to the international financial system, as well as endangering democracy in Latin America.

This is a subject that, unusually, Michael Dukakis seems to have considered in more depth than George Bush (whose campaign manager was the author of the nearly stillborn "Baker plan" on the debt). Both have a duty to address this underlying threat to the world economy and the stability of the southern half of the American continent.

The Latin American trend towards democracy and away from old-style military regimes has been remarkable. A decade ago, there were just three democracies in Latin America: Costa Rica, Venezuela and Colombia; today there are 13.

The most improbable convert to democracy over the coming year may be the best-known dictatorship of all: Chile. The coup in 1973 that swept away the hopeless Marxist experiment of President Salvador Allende elevated the country to international pariah status.

Since then, General Augusto Pinochet has ruled with a mixture of cunning and brute force. His economic track record has been a considerable improvement on Allende's: an experiment in pure monetary economics by the "Chicago boys" under the influence of Professor Milton

Friedman turned sour when the country indulged in the lending spree of 1978-79 but, since then the economy has been managed quite well on a less doctrinaire basis.

But General Pinochet made no effort to fulfil his initial pledge to restore the country's democratic traditions, relying instead on a succes-

sion of expedients to prolong his stay in power. He has finally been held by his more constitutionalist military colleagues to keep to his promise of a referendum on October 5 to decide whether he stays on for another eight years, or whether free elections should be brought forward.



Augusto Pinochet

Drawing: JOHN SPRINGS

As Chile prepares for the referendum on Wednesday to decide on General Pinochet's future, ROBERT HARVEY examines the remarkable Latin American trend away from old-style military regimes towards democracy

Press Cuttings

from Broad Street Associates *The Daily Telegraph*

(2)

Opinion polls suggest that the general will fall victim to a massive vote against him in the cities, which would tip the balance against his support in the more conservative countryside.

The opposition says it has enough poll-watchers to prevent a major electoral fraud, but finds it hard to believe the general would quietly accept the result of a "no" vote.

If General Pinochet loses, chaos will not necessarily ensue: the Left-wing parties seem likely to win less than a quarter of the vote and, anyway, insist that they have evolved from the Allende era; the Christian Democrats, Chile's biggest party, lean to the Right these days; and conservative parties can be expected to do well.

The Mexican problem provides a more direct challenge to the United States. The country is of immense importance to America not only because they share a 2,000-mile border, but because Mexico is the prime source of illegal immigration to its northern neighbour and, with a population of around 80 million, is the biggest Spanish-speaking country in the world.

A remarkable thing about Mexico up to now has been the stability of its not very representative political system. The country's 1917 revolution established a pyramid-shaped government built on political patronage, a modest amount of repression and a fair degree of humbug.

THE PYRAMID has now fissured down the middle. After several years of IMF-imposed austerity, a leading figure from the PRI, Mr Cuauhtemoc Cardenas, defected and barnstormed around the country in opposition to the party's presidential candidate, Mr Carlos Salinas de Gortari.

In July's election, the count was embarrassingly delayed, eventually giving Mr Salinas the narrowest of overall majorities against an unprecedented opposition vote of 31 per cent for Mr Cardenas and 17 per cent for the perennial Right-wing

National Action Party. Both opposition parties cried fraud.

The emergence of a president whom a majority of Mexicans probably consider unelected makes it difficult for the government to carry on the sound-money policies of the outgoing President de la Madrid. These ensured that Mexico, on paper at least, stayed within the rules of the increasingly surreal and frantic debt renegotiation game.

The contested election conjures up the possibility of major conflict in a country that has known cruel civil wars in the past. The immediate hope must be that Mr Cardenas can dampen the anger of his followers and insist, in exchange, on thoroughgoing political reform under Mr Salinas to prevent a repetition of the ballot-rigging episode at the next presidential election. At the very least, it is hard not to conclude, as Mr Salinas says, that the era of one-party politics in Mexico is over.

It has been over in a number of other countries for several years now. Democracy has reached a crucial second stage in the Latin American countries that underwent the passage from authoritarian rule earlier in the decade.

Both Argentina and Brazil, Latin America's economic giant, are in dire economic trouble. President Alfonsín of Argentina came to power amid hope and goodwill in the aftermath of the Falklands War. So far his attempts to deal with the country's appalling economic problems have foundered, with inflation in August alone running at 26 per cent and strikes multiplying.

President Alfonsín's major achievement is that few expect the customary Latin American accompaniment to such a crisis: a military coup. Instead, next year's presidential election is likely to be won by Mr Carlos Menem, the candidate of the traditional populist party, the Peronists.

As with Mexico's turn to the Left, this could spell trouble on the debt front as Mr Menem seeks to satisfy the expectations of his followers, fed up with the present dose of austerinflation.

In Brazil, President José Sarney has clung to power for three years, presiding over inflation now in four digits. His likely successor next year, a veteran Left-of-Centre politician, Mr Ulysses Guimarães, is also expected to pander to his followers.

A smaller democracy, Peru, is in deep trouble. Its socialist president, Alan Garcia, has failed to control the growing terrorist menace of a gang of Indo-Maoists called Sendero Luminoso, while pursuing economic policies that, while widely popular for thumbing a nose at the international banks, have similarly led to austerinflation.

After the introduction this summer of an unpopular austerity package, rumours of an impending military coup have reached a new crescendo; if democracy survives until the presidential election next year, most people believe that the Right, under the improbable leadership of best-selling novelist Mario Vargas Llosa, will win. It would be deeply depressing if Peru, one of the earliest of Latin America's new democracies, were the first to start a trend towards return to rule by the military jackboot.

Losses a lesson for debt relief

HISTORY teaches that sorting out debt crises usually involves lenders having to take large losses on their loans. There are plenty of precedents for lenders forgiving, however reluctantly, debts owed by companies and countries. One example is Latin America in the Thirties, when debt buybacks were used to help tackle the continent's debt problems.

The lesson that losses are all but inevitable has taken a while to sink home since the present debt crisis emerged in 1982. But few bankers or creditor governments can still harbour misconceptions. Debt forgiveness, debt reduction, debt relief, debt concessions; these phrases now crop up in talks of the debt problem.

During last week's IMF meeting in Berlin, there was a vigorous debate between some of West Germany's leading commercial bankers about debt forgiveness, with one declaring it not in his vocabulary. There are many bankers who dislike the word — not least because it is a hard concept to sell to shareholders. But there is no doubt voluntary measures to reduce the outstanding stock of debt are being afforded greater priority.

It was a constant theme at the IMF annual meeting. The agreement among the big industrial countries on limited debt forgiveness for the low-income debtor countries of sub-Saharan Africa — where the bulk of debt is owed to governments — put the official seal of approval on the concept of concessionary relief.

And it was striking how many finance ministers appeared intent on softening up commercial banks to move further in this direction with middle-income debtors — where banks are the main creditors — even if most insisted this should not involve transfer of risk from the banks to the official institutions.

Nor is it just ministers and officials who now approve of voluntary debt reduction. Bill Rhodes of Citibank was proud that, theoretically, Brazil could reduce its outstanding debt to

the banks about \$18bn or nearly one-third during the next five years through various debt reduction schemes it has in place.

The figures are theoretical because it is unlikely Brazil could absorb that amount. But it is nonetheless striking that bankers should be so enthusiastic about schemes which generally involve banks accepting a loss on assets.

Weariness with the intractable nature of the debt problem is one of the main reasons for this. In the early days of the crisis, everybody assumed debtor countries would grow out of their problems. But this proved a false hope. Six years on — with the stock of debt having risen about one-half to more than \$1,200bn — progress has been disappointing.

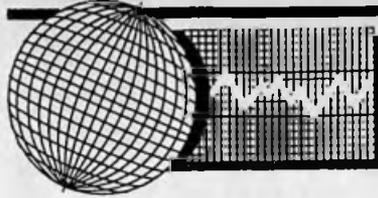
The lenders are in much better shape; banks have provided heavily and greatly strengthened their balance sheets. But for many borrowers the size of their debt and the servicing costs means the prospect of growing out of the problem is as distant as ever. A further disincentive for the debtors is that, under the traditional approaches which underlay the Baker Plan, the fruits of success accrue largely to external creditors.

The improved position of the banks has also meant they are in a position to absorb the losses debt reduction involves. In addition, the increasingly diverse interests of banks, with many of the smaller or even medium-sized ones keen to withdraw from the game altogether, has helped pave the way for the range of market-based schemes aimed at reducing debt.

Surprising is how much of it already has been going on. Debt/equity swaps have been around for some years and are becoming a growing and highly-profitable business for commercial and investment banks that broke the deals. It has become an alluring area for former Latin American finance ministers and central bankers to work in and is likely to be a significant feature of developing country financing in the years ahead.

There have been attempts — with

ECONOMIC OUTLOOK



mixed success — at exit bonds, which allow the smaller banks to pull out at a cost. The Argentina exit bonds attracted little interest, but nearly 100 banks have applied for more than \$1bn in the new Brazilian package.

There have been debt-conversion schemes — such as Mexico's pioneering scheme to exchange loans at a discount for bonds — and debt buybacks, whereby countries simply buy-in their debt at a discount. Straight buybacks seem to have been carried out mainly by state bodies rather than governments because of problems with loan agreements that prevent countries buying-in their debt on the secondary market.

There are many problems with voluntary debt reduction. The monetary consequences of debt/equity schemes is one. In the case of debt buybacks, which are one of the simplest ways of reducing debt, a country first must have reserves available to buy-in the loans. And if it does, this raises problems if it needs new money.

The recent Brazilian package shows new money and debt reduction are not incompatible. However, while the shift towards debt-reduction schemes offers one of the brighter prospects for an eventual solution to the debt problem, the increasing difficulty of putting together new money packages is one of the gloomier signs on the horizon.

New money packages for all but the very biggest debtors are becoming near impossible to put together. Putting up new money is expensive because of the provisioning required and, as the banks have strengthened their balance sheets, they have become more independent and less sus-

ceptible to the cajoling of creditor governments. This means the prospects for the smaller debtors is fairly bleak and they probably will have to rely more on official sector financing.

It is clear the debt strategy likely to evolve along its present lines. One surprising aspect of last week's IMF meeting was the moderate tone of the debtor nations. Brazil's attempt at confrontation through its interest moratorium is seen to have failed and even Peru wants to return to the fold. There is also a sense of realisation that grand schemes for new institutions simply are not going to happen.

A combination of financing and debt reduction along voluntary, market-based and case-by-case lines is the course now charted, with the World Bank and the IMF — in one order or another — also playing their part as financiers and monitors of economic adjustment and growth.

However, it will still likely be necessary for governments to play a bigger role in providing relief to the middle-income debtors if the debt mountain is to be eroded. It is difficult to predict the chances of this happening. As usual, much will depend on the attitude of the next US Government.

But the debt-relief plan for sub-Saharan Africa suggests the seeds have been sown. Nigel Lawson, one of the architects of the sub-Saharan plan, is undoubtedly aware how hard it is intellectually to defend granting concessions to some debtor countries and not others. Indeed, the original debt relief plan drawn up between the Treasury and the Bank of England extended to middle-income debtors, but it was decided that it was politically unrealistic to try for too much at once.

However the climate is steadily shifting. There is little doubt that Michel Camdessus, managing director of the IMF, would support extending the sub-Saharan scheme when the time is right, and the French Government is also working on its own plans for middle-income debtors.

Peter Wilson-Smith

So whose IMF is it, anyway?

CHANGE IS at work beneath the surface of the world's monetary order. That is the message from Berlin, where through this year's meetings of the IMF and World Bank ran the unspoken question: Whose Fund and Bank are they, anyway?

The question casts doubt on the balance of power in the best international financial institutions we have (Nigel Lawson's graceful tribute) and foreshadows a new deal—or, more likely, new deals—between creditors and debtors.

It could be asked more readily in the effective absence from Berlin of the world's biggest debtor, which is also the Fund and Bank's biggest shareholder and their host government. Nicholas Brady, caretaker Secretary of the United States Treasury, is said not to be certain of reappointment even if his party wins the Presidential election. He was variously described as "a nice chap" (Mr Lawson again) and "practically invisible" (all other sources).

In the circumstances, his fellow ministers agreed to put off worrying about the dollar for a while—even though the IMF's economists think it is flying too high for its comfort and safety.

Instead, the stage was set for the world's biggest creditor—whose entrance, as it happened, was bungled. That may not matter, for having reached centre stage Japan will not sidle off again.

The Japanese initiative on world debt was described by one of those present as a Cheshire cat—"£50-billion, now you see them, now you don't..." Another put it more harshly: "It's a peanut. I know a peanut when I see one."

All the same, to build some sort of bridge between Japan's surpluses and the big-money debts of the "middle-income" countries must be the most hopeful piece of financial engineering that could come out of these meetings. It is not as though our German hosts, with the world's second largest surplus, could be seen doing much bridge-building.

Now begins the bargaining as Japan seeks to move up from its modest position as the IMF's No.5 shareholder. The Fund and Bank are not just financial talking-shops; they work best when they correspond to reality, and it is in their own interest that the Japanese should contribute more—in every sense.

When the cat is away, the French will play. They have, as usual, their man at the head of the IMF (three out of the last four—how do they do

CHRISTOPHER FILDES

it?) and a grand initiative of their own, apparently being saved up so that President Mitterrand can unveil it at the United Nations. Japan, France and the IMF now make a tripartite tactical alliance.

The IMF is asking for a big increase in capital and at the same time wants to find ways of diversifying away from the dollar. The bigger the capital increase, the bigger the stake that Japan stands to gain. The British are suspicious of the IMF's self-aggrandisement (also, we want to hang on to our stake in the Fund for as long as we can) and as for the Americans, they are blessed with a constitution which provides for the separation of powers.

Whatever the executive may want to promise, unless the legislature can be persuaded to vote for it the money will not be there. The United

When the cat's away, the French will play

States still has not paid up for World Bank capital increases to which it agreed years ago.

Behind the tripartite alliance marches an oddly-assorted army. Debtors cannot be blamed for hoping for the best. Some bankers are prepared to talk of debt forgiveness. Others might say, like that feline prime minister, Balfour: "I never forgive but I always forget."

The bankers insist that virtue must be rewarded and lost sheep encouraged to come back into the fold. Brazil, which a year ago was threatening its creditors with a moratorium, is in their good books again, and even Peru has tired of being the world's naughty boy who bids everyone defiance.

Creditors, debtors and officials in the middle all agree that progress has been painfully slow in the six years since Mexico first tottered and threatened to bring the whole card house of international credit down with it. The card house has been shored up, the threat to the system has receded; buying time has bought that and it would have been cheap at almost any price.

The next step, though, is to get the

big debtor economies back to the point where they can tap the world's markets on commercial terms without anybody's arm having to be twisted. When that happens, whatever it had cost the banks in terms of provisions made and interest foregone, the crisis will be over. For some countries—Chile and with luck Mexico and even Brazil—a date may be in sight. Others are still far off, and receding.

Hence the belief which could be sensed in Berlin that a policy of slogging on as we have will no longer suffice, that we must in the next year or two see some sort of shift towards the developing and debtor nations. Hence, too, the fight over the biggest and most controversial deal of the meeting, the World Bank's \$1.25 billion loan to Argentina.

That can hardly be called the reward of virtue, for the IMF has long and vainly been trying to agree a programme of reform with the Alfonsin government. Sir Kit McMahon of the Midland, who supports the deal, will still not lend until an IMF programme is in place.

All agree that the Bank has stretched a point to prop up Alfonsin before the elections, knowing that the alternative would be far worse, certainly for the creditors. Some see the Americans, using the Bank as their catspaw. Others fear that the Bank's credit will suffer a self-inflicted wound—that it will have to pay more for its money and charge its deserving customers more, as the price of forgetting Barings's First Law of Banking: Never lend to Argentina.

Mr Lawson, who thinks the IMF too lax a lender, was obviously horrified to see its standards undercut by the Bank. His achievement at the meeting was to push through his plan to help debtors of a different class—"the Sudans of this world," as he called them.

For the rest, he was engaged in propping up Britain's own credit, by declaring that we were so obviously creditworthy—even when running a balance-of-payments deficit on American lines—that no one could doubt us. Nothing more has been heard of his own plan of reform, with the world's currencies moving together in "managed floating." At what was probably his last IMF, he had his corner to fight.

That was a pity; and it will be a pity if his creative and combative mind is missing from the power-struggles and changes to come.



PETER GROSVENOR in his book review

says that the chairman of the Fiat Group, Giovanni Agnelli, tried unsuccessfully to stop publication of the book Agnelli and the Network of Italian Power by Alan Freidman. There were several inaccuracies mentioned in Mr Grosvenor's review.

● Mr Agnelli has not, at any time, tried to stop publication of this book. The Fiat subsidiary MISAR which is alleged to have sold land mines to Argentina during the Falkland crisis in 1982 did not become a Fiat-owned company until 1985.

● Furthermore, Fiat subsidiaries have never at any time sold missile technology, in any shape or form, to Argentina.

Richard Gadeselli,
Head of Corporate
Communications,
Fiat UK Limited.

Press Cuttings

from Broad Street Associates **SUNDAY TELEGRAPH**

2 OCT 1988

WORLD Bank boss Barber Conable is regarded as such a danger by some IMF officials with his Argentine loans and other exploits that they are now calling him Barber Chernobyl.

Sour note in the 'who does what?' dispute

THE Soviet Union is expected to join the International Monetary Fund in a year or two. On last week's evidence, it will meet a friendlier reception than many of the Fund's founders, who set it up at the end of the war to provide short-term finance for countries with balance of payments deficits.

Russia has an excellent credit record with capitalist banks, never having run into default or rescheduling problems with what international borrowing it has done. (Perhaps, however, it is only waiting for the chance that membership provides, like its heavily-indebted Comecon partner, Poland).

Amiability did not characterise last week's proceedings. Instead of the usual bland pieties, IMF managing director Michel Camdessus warned that the Fund was in danger with "the greatest potential threats coming from its own members" — especially those which, like America, refused to contemplate tax increases to reduce deficits. (Britain, with a budget surplus but a balance of payments deficit, did not feel itself entirely excluded from these strictures).

"The IMF is the best international organisation we've got," was British Chancellor Nigel Lawson's resigned comment after Camdessus had attacked America for its budget and trade deficits, West Germany for bail-

ing out lame ducks and almost everyone who stuck his head over the parapet.

That was probably the biggest compliment paid — except by private bankers — to an institution under continual fire from "friend" and foe alike. Camdessus was said to have lost face by letting World Bank chief Barber Conable steal the initiative in fixing up a controversial \$1.25 billion loan package for bad debtor Argentina.

The Bank was created at the same time as the Fund, to support economic projects in the "developing" countries.

Camdessus was allegedly "furious" because the constitution of both bodies requires the IMF to clear World Bank deals like this first. (the Fund later claimed that it had been kept properly in touch, but only after the flak had exploded). Even within the Bank some feel the Argentine deal could damage the Triple A rating of the Bank's own paper.

The managing director is angered by talk that the Fund will soon merely police World Bank deals, where once it was the administrator of the international financial system.

Yet, even so, Japan wants to take over Britain's role as Number Two in the Fund — and the Provost of Glasgow is lobbying to have the next meeting on the Clyde!

Falklands £9m fiasco

by David Brown Agriculture Correspondent

A FALKLAND ISLANDS fishing venture which has left taxpayers with a £9 million bill is to be the subject of an official inquiry.

The money — enough to pay for the islands' entire fishery protection operation for 18 months — was lost in a deep-sea fiasco last year involving two ageing, refurbished trawlers sent from Britain amid a wave of patriotic fervour and optimism among the islanders to exploit the rich fishing grounds of the South Atlantic.

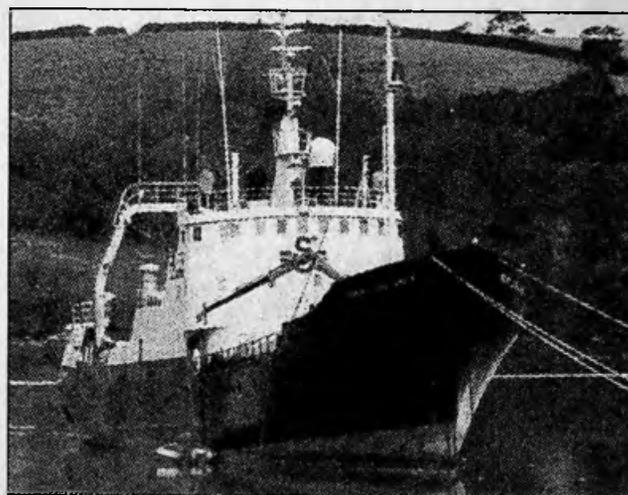
Licence fees from British and foreign vessels fishing in the waters have transformed the Falklands economy, and are expected to reap the islands more than £30 million this year.

The trawlers were despatched by Seamount Ltd, a company set up in 1987 in which the Falklands Government owned a 51 per cent stake through the Stanley Fisheries subsidiary of the Falklands Development Corporation.

But it all went wrong. One of the ships, the 989-ton Mount Challenger, suffered a number of handling difficulties and could get no further than the Spanish port of Vigo, where it languished for months before being sailed back to Falmouth, Cornwall, a fortnight ago.

The 28-year-old vessel is now lying on the River Fal, waiting to be sold.

The other ship, the Mount Kent, a 1,343-ton freezer trawler built 21 years ago in Scotland and previously named the St Jason, based at Hull, survived



The Mount Challenger at anchor

the long voyage to the Falklands last winter but developed serious mechanical problems after fishing for only three days. She has been laid up in Punta Arenas, in Chile, since April.

Both vessels had been extensively refitted before they sailed.

Seamount, founded in 1987 with the aid of a Midland Bank loan and backing from Britain's Export Credit Guarantee Department, is now being wound up. Its assets, including the two ships, will be sold to help meet debts and the British crews have been paid off.

The incident has embarrassed

the islands' government and thrown its fishing policy into confusion. It is a major setback for joint fishing ventures in the South Atlantic between the islanders and operators from Britain.

The enterprise was devised as a way of giving the Falkland islanders a stake in the the fishing grounds on their own doorstep without having to find the skilled crews themselves. With a population of around 800, only a handful of men are engaged in fishing.

But as officials in Port Stanley started to sort out the mess, long-established fishing com-

panies in Britain criticised them for holding up a £200 million project to establish a year-round fishing industry there with "no financial risk to the islanders themselves".

Experienced deep sea fishing companies in Britain hope the episode will persuade the Falklands Development Corporation to change its policy on fishing rights and to let professional fishermen from Britain "get on with the job", instead of relying on licence fees from foreign vessels and a number of joint ventures involving the Development Board.

A Hull-based consortium formed by J Marr and Witte-Boyd, two of Britain's major fishing companies, has designed a new class of fishing vessel and wants to send a fleet to operate from Port Stanley.

The new vessel is based on the experience gained by Marr skippers and crews during a successful partnership with Japanese fishing boats in the South Atlantic.

But the project has been held up by the refusal of the Falkland authorities to guarantee the consortium enough individual licences for the vessels, and to guarantee that the licences will remain in force for an acceptable number of years.

A spokesman for J Marr said yesterday: "We are talking about a huge investment and it is only right that we seek some protection for that investment in return for taking all the financial risks."

Falklands war boost for Cecil

NEVER in my wildest imagination had I expected, when I joined the Cabinet, to be faced with the decision before us on Saturday, April 3, 1982, the morning after the Argentine invasion of the Falklands.

Cabinet is not a place for votes, but that morning the Prime Minister asked each colleague directly 'Should the Fleet be despatched — yes or no?'

Sadly, the Foreign Secretary, Peter Carrington, resigned. Francis Pym succeeded him and in true Foreign Office style pursued every avenue which might lead to an accommodation with Argentina, ending each journey in a cul-de-sac blocked by the intransi-

gence and incompetence of Galtieri and his junta. The full story of the war cannot be told for many years to come.

There are no British skeletons in cupboards but it would be against our national interest to expose how sometimes with the help of friends and despite the efforts of our potential enemies some things were achieved.

Sufficient to say that the wild conspiratorial theories are total rubbish. The invasion itself was not launched to scupper a peace initiative — there had been weeks of those and all had foundered on Argentinian obduracy.

It was launched because the fleet could not be left heaving

around in heavy Atlantic seas at serious risk from Argentinian submarines or, before she was rightly sunk, the cruiser Belgrano and her attendant destroyers.

I made only one unique contribution to the campaign. The Prime Minister formed a Falklands inner group of herself, the Foreign and Defence Secretaries and her deputy Willie Whitelaw, but it was at my suggestion that she included Cecil Parkinson.

It made him a national figure and gave him far greater personal authority almost overnight.

Amongst the casualties of the Falklands War was the relationship between the Government and the BBC. Whilst the BBC corre-

spondents in the South Atlantic upheld the highest standards of courage and journalism of their war-time predecessors, the unctuous 'impartiality' of the BBC's editorialising was a source of grief and anger.

Few of us directly concerned will ever forgive the phrase: 'The British authorities, if they are to be believed, say ...', or the regular references to British and Argentinian forces rather than our forces and enemy forces.

For me the British Broadcasting Corporation might have better called itself the Stateless Persons Broadcasting Corporation for it did not reflect the mood of the British people who finance it.

Extract from Norman Tebbit's Book.

Super secrets from Supermac

HAROLD MACMILLAN was a gent. One of the last of the old horse-drawn Tories, light years away from the pragmatic breed we have today.

In old age his drooping eyes and moustache and his sonorous calls for national unity made him an all-British totem. I am not altogether sure that, as a nation, we are emotionally ready for a full Macmillan biography.

But if we have to have one, it might as well be **MACMILLAN 1894-1956** (published by Macmillan, naturally, at £16.95).

His official biographer, Alistair Horne, is not one of your bright, nasty young debunkers but a thoughtful ex-Army officer in his sixties who lived through the Macmillan years as an adult and spent the last decade of his subject's life in long, intimate conversations with him.

Mr Horne, apart from being a meticulous scholar and fact-checker, seems to have got the reticent Macmillan to unbutton and confide in him to an astonishing degree.

Here for the first time we see the shy agonies of his

youth, his appalling, domineering American mother Nellie, his romantic courtship of Lady Dorothy, and his pain and confusion when she publicly and consistently cuckolded him with Bob Boothby, even bearing her lover a daughter.

"But what's physical love compared to the things you share—interests, children?" said Macmillan rather shyly.

The book is a joy to read. Alistair Horne has managed sympathy without sycophancy.

He covers the private life and the politics, including the Yalta accusations, with balance and yet with great empathy, seeing it all from Macmillan's own perspective.

An odd perspective it was, too. How fascinating to know that during the height of the Suez crisis good old Supermac managed to read the whole of George Eliot, three works of history, and the new C P Snow.

It is as if Mrs Thatcher admitted to having spent every night of the Falklands campaign ploughing through the Booker shortlist.

Argentina invited to Wembley

By PHIL SHAW

ARGENTINA, the World Cup holders, have been asked to play England at Wembley for the first time since the Falklands war. The Football Association has invited them to take part in the Rous Cup with England and Scotland next May.

Tottenham Hotspur manager Terry Venables has refuted reports that he is to join Atletico Madrid, after president Jesus Gil was quoted as saying that Venables had approached the club.

Keith Curle, the 24-year-old Reading centre-back, yesterday turned down a move to FA Cup holders Wimbledon, after the clubs had agreed a fee of £500,000. Manager Bobby Gould said: "He did not feel it was the right move for him at this stage."

John Duncan, the Ipswich manager, hopes to sign at least one of the Soviet Union national side. "They could be the answer to increasing our squad's strength and keeping within a tight budget," he said.

Argentina bait

Michael Henderson

ARMENTINA, the world champions, have been invited to take part in the Rous Cup matches at Wembley and Hampden Park next May. "The ball is in their court and we are waiting to hear their reply", a Football Association spokesman said yesterday.

The Argentinians last played at Wembley in 1980, when England won 3-1 prior to the European Championships in Italy. The previous summer they beat Scotland 3-1 in Glasgow, where Diego Maradona scored on his first international appearance in Europe.

Since the Falklands war the political tension has eased gradually although the goal Maradona scored with his fist in the Mexico World Cup provoked a fresh footballing controversy. If Argentina accept the invitation they will be the third South American team to contest the Rous Cup, after Brazil and Colombia.

Whether Paul Davis forces his way into the England side by then depends on how quickly he gets over the £3,000 fine and nine-match ban imposed on Thursday for an assault on Southampton's Glenn Cockerill which the FA ruled had brought the game into disrepute.

Arsenal will appeal, basing their claim, said manager George Graham, on "the severity and inconsistency of the sentence". Three matches is the standard ban for dismissal; Davis's punch, unpunished at the time, was detected by an ITN news crew.

John Duncan, the Ipswich Town manager, is currently seeing red to keep his club in the black. His transfer targets

are members of Russia's European Championship team.

With the help of Michael Irvine, the Conservative MP for Ipswich, Duncan has contacted the Russian authorities and expects a response early next week. Defenders Kuznetsov, Demianenko and Protasov head his shopping list.

The other East Anglian manager, Dave Stringer, begins October with Norwich on top on the First Division, which means he is the first Manager of the Month. Don Mackay (Blackburn), Dave Bassett (Sheffield United) and Billy McEwan (Rotherham) take the divisional awards.

While Bassett has begun the season well at Bramall Lane, his one-time charges are unhappy at Wimbledon. Keith Curle, the Reading centre-back, yesterday decided against joining them after the clubs had agreed a £500,000 fee. But Middlesbrough received better news from their centre half, Gary Pallister, who has signed a new four-year contract.

Top match in the First Division today is the meeting of Spurs, for whom Paul Stewart makes his debut after his £1.7 million transfer, and Manchester United, who retain 17-year-old Lee Sharpe at left back. If it is teenagers you want, though, go to St Andrew's, where Garry Pendrey has called up no fewer than six in an 18-man squad for the Barnsley game.

● Gordon Taylor, the players' union chief executive, yesterday appealed to the FA not to jeopardise Paul Davis's international career, writes *Russell Thomas*. Speaking at the Football Into The 1990s conference at Leicester University, Taylor said this would be "worse than any penalty imposed by a court of law".



FA's new Rous Cup bid for Argentina

THE Football Association have made a renewed bid to persuade Argentina to play at Wembley next summer.

An invitation to compete in the Rous Cup has been sent to Buenos Aires but so far the FA have had no reply.

There has been no dialogue between the two countries since the Falklands War in 1982, though Argentina put England

By STEVE CURRY

out of the World Cup in Mexico in 1986.

FA spokesman Glen Kirton said yesterday: "We have sounded them out about taking part with England and Scotland in the Rous Cup next May.

"They are the current world champions and would prove a great attraction."