

The Hague, Monday, March 10, 1997

Powerhouse Money and Style and Marzotto Creation in Fiat's Fashion Industry

control and flatten smaller fashion houses. Giovanni Agnelli, the honorary president of Fiat, called the creation of the new Gruppo Industriale Marzotto "an excellent deal" and said: "I am sure this huge clothing and publishing group is in a position to do very well."

Nearly two-thirds of the new conglomerate will be in the fashion and textiles sector. But the company will also control the Rizzoli Corriere della Sera newspaper and book-publishing business and will have investments in the Pirelli tire business, in metallurgy, pulp and paper, household furnishings, and banks including a 0.7 percent equity stake in Mediobanca itself.

The leading shareholders of GIM will be Fiat, with 17.3 percent; Marzotto, with 12.4 percent, and Mediobanca, with 10.5 percent.

While Pietro Marzotto, chairman of the new group, hailed the merger as having assembled "a very important fashion group with great synergies, which will encourage product development and research into new materials," critics were less sanguine.

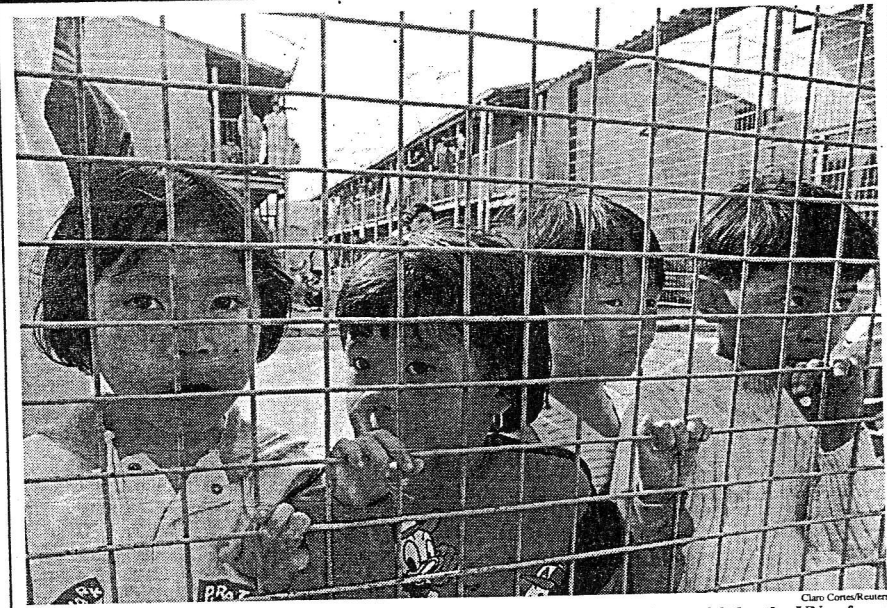
"The move is not justified by any industrial plan," said Walter Cerfeda, an official of the CGIL trade union.

Natale Forlani of the CISL, another union group, said, "The merger is aimed at perpetuating the old balance of power."

The new group said it would have annual revenue of 8.2 trillion lire (\$4.83 billion), a net profit of 253 billion lire, with a work force of 21,000 people.

Some critics suggested that the new group, which will start with 1 trillion lire of cash resources, might aim to secure large stakes in Italian state-controlled groups that are slated for privatization. These include the telecommunications giant Societa' Finanziaria Telefonica, or STET, and its subsidiary Telecom Italia.

"The most likely design of Fiat, Marzotto and Mediobanca is to play an



PENNED — Vietnamese children peering out from a Hong Kong camp during a visit by the UN refugee chief, Sadako Ogata, on Sunday. China is pressuring Hong Kong to do something about the Vietnamese.

Germany Expels U.S. Diplomat For Spying

Envoy Is Accused Of Trying to Steal High-Tech Secrets

By William Drozdiak
 Washington Post Service

BERLIN — Germany has ordered an American diplomat to leave the country after accusing him of trying to get senior officials for espionage and secrets related to high-technology projects, government officials say.

It was believed to be the first time an American diplomat has been expelled on spying charges from post-war Germany, according to a report by Der Spiegel, the weekly newsmagazine which made public the information ahead of publication on Monday.

German officials confirmed the expulsion, but a spokeswoman for the Embassy declined to comment. Department officials in Washington also declined to comment.

According to Der Spiegel's account, a CIA agent working under diplomatic cover tried to obtain classified information and suborn officials from Germany's Economics Ministry. An official who was approached reportedly contacted to Germany's counterintelligence agency, the Federal Office for the Protection of the Constitution, which demanded that the diplomat leave the country.

The news weekly said the diplomat, whose name it did not identify, had left Germany, although it did not say when. To avoid any disruption in working relations between the two countries, Der Spiegel said the case was handled discreetly by the intelligence hierarchies of both nations. The government did not summon the chargé d'affaires, J. D. Bindena, to express its displeasure nor did it formally declare the alleged spy post non grata.

The spying episode reflects an increase of increasing economic competition among Western allies now that a Soviet military threat has vanished years ago, France expelled five Americans — four of them CIA officers — after they were caught trying to bribe French officials for information.

Japanese Face Up to Need for Change As Nation's Old Economic Model Wanes, Apprehension Mixes With Hope

By Sandra Sugawara
 Washington Post Service

TOKYO — After six years of painful recession and stagnation, many Japanese have reached a once-unthinkable conclusion: Japan Inc. has got to go.

The famous system of government-corporate collaboration that made their country one of the world's richest has proved powerless to revive an economy that last boomed in 1990. Now political and business leaders, with the support of much of the public, are trying to make changes on a scale not seen since U.S. occupation forces busted up the zaibatsu industrial trusts after World War II.

The new view is that years of protection of core industries in the home market — banks, airlines, insurance, energy, transportation and others — have left many fat and bumbling. They must face competition, even if it is painful in the near term. These are signs of the changing times:

- Small and medium-sized banks, burdened with bad loans, are being allowed to fail for the first time in half a century. Japanese television viewers have seen sobering images of worried account holders lining up at shuttered institutions.
- Big manufacturers are buying parts from lower-cost factories abroad and letting increasing numbers of local suppliers, small operations that they nurtured for years, go bankrupt.
- Discount retailing, long a taboo to protect millions of shopkeepers, is a big growth industry. Many Japanese, seeking to make household budgets go further in times of economic hardship, shop at supermarkets and cut-rate warehouse stores, bypassing the small shops and their higher prices.
- Foreign products have gained new importance in the marketplace — rice, beef, medical equipment, computers, clothing — and are helping to push down prices.
- Prime Minister Ryutaro Hashimoto is championing a plan to remove many regulations on the financial industry. Regulators are clearing the way for the takeoff of Skymark, the first new airline.

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How Scientologists Won Tax-Exempt Status in U.S.

By Douglas Frantz
 New York Times Service

On Oct. 8, 1993, 10,000 cheering Scientologists thronged the Los Angeles Sports Arena to celebrate the most important milestone in the church's recent history: victory in its all-out war against the Internal Revenue Service.

For 25 years, IRS agents had branded Scientology a commercial enterprise and refused to give it the tax exemption granted to churches. The refusals had been upheld in every U.S. court. But that night the crowd learned of an astonishing turnaround. The IRS had granted tax exemptions to every Scientology entity in the United States.

"The war is over," David Miscavige, the church's leader, declared to tumultuous applause.

The landmark reversal shocked tax experts and saved the church tens of millions of dollars in taxes. More significantly, the decision was an invaluable public relations tool in Scientology's worldwide campaign for acceptance as a mainstream religion.

On the basis of the ruling, the State Department recently criticized Germany for discriminating against Scientologists. Bonn regards the organization as a business, not a tax-exempt religion.

The full story of the IRS turnaround has remained hidden behind taxpayer privacy laws for nearly four years. But a

call a halt to Scientology's lawsuits against the IRS in exchange for tax exemptions.

• After the meeting, Mr. Goldberg created a committee to negotiate a settlement with Scientology outside normal agency procedures. When it found that all church entities should be tax-exempt, IRS tax analysts were ordered to ignore the substantive issues in reviewing the decision, according to IRS memorandums and court files.

• The IRS refused to disclose terms of the agreement, including whether the church was required to pay back taxes, saying it was confidential taxpayer information. The agency required both the Jimmy Swaggart Ministries and an affiliate of the Reverend Jerry Falwell to disclose that they paid back taxes in settling disputes in recent years.

In interviews, senior Scientology officials and the IRS denied that the church's aggressive tactics had any effect on the agency's decision.

Mr. Goldberg, who left as IRS commissioner in January 1992 to become an assistant treasury secretary, said privacy laws prohibited him from discussing Scientology or his meeting



See EXPEL, Page 6

Albanian Offers Vote Reconciliation

By Christine Spolar
 Washington Post Service

VLORE, Albania — President Berisha, confronted with an Albanian revolt throughout the so-called "reconciliation" to rule all political parties. He proposed elections within two months.

In an extraordinary televised address with opposition leaders, Mr. Berisha wanted to send a "civilized message" from the embattled Balkan country to neighbors and "those who are very closely what is going on here."

Opposition leaders later agreed to a presidential offer even as t

INTERNATIONAL

SCIENTOLOGISTS: *How Tax-Exempt Status Was Won in U.S.*

Continued from Page 1

results that the service had with Scientology, it is surprising to have the ultimate decision be favorable. It was even more surprising that the service made the decision without full disclosure, in light of the prior background."

While IRS officials insisted that Scientology's tactics did not affect the decision, some officials acknowledged that ruling against the church would have prolonged a fight that had consumed extensive government resources and exposed individual officials to personal lawsuits. At one time, the church and its members had more than 50 suits pending against the IRS and its officials.

"Ultimately the decision was made on a legal basis," said a senior agency official who was involved in the case and spoke on the condition that he not be identified.

The church's tactics appeared to violate no laws. Its officials and lawyers said in a three-hour interview in Los Angeles last month that the church had been the victim of a campaign of harassment and discrimination by "rogue agents" within the IRS.

Church officials and lawyers acknowledged that Scientology had used private investigators to look into their opponents, including IRS officials.

"This is a church organization that has been subjected to more harassment and more attacks certainly than any religion in this century and probably any religion ever, and they have had to perhaps take unusual steps in order to survive," said Monique Yingling, a Washington lawyer who represented the church in the tax case.

Since its founding in 1950, Scientology has grown into a worldwide movement that boasts 8 million members. The church has vast real estate holdings around the world and operates a yacht based in the Caribbean.

Its founder, Mr. Hubbard, asserted that people are immortal spirits who have lived through many lifetimes. In Scientology teachings, he described humans as clusters of spirits that were trapped in ce-

ments. At one point, an electronic bugging device was hidden inside an IRS conference room the day before a meeting about Scientology.

Critics say those actions fell under a church doctrine that Mr. Hubbard had called the Fair Game policy. Mr. Hubbard wrote that church enemies may "be deprived of property or injured by any means by any Scientologist without any discipline of the Scientologist. May be tricked, sued or lied to or destroyed."

The conspiracy was uncovered in 1977, and Mrs. Hubbard and 10 others were

Mr. Hubbard died in January 1986, his opposition to taxes lived on among the new generation of leaders, including Mr. Miscavige, a second-generation Scientologist.

Part of the battle was public. A leading role was played by the National Coalition of IRS Whistle-Blowers, which Scientology created and financed for nearly a decade.

On the surface, the coalition was like many independent groups that provide support for insiders who want to go public with stories of corruption. But Stacy Young, a senior Scientology staff

agency, to serve as the group's president. Mr. DesFosses acknowledged that Scientology provided substantial financing, but he denied that the church created or ran the coalition.

Kendrick Moxon, a long-time church lawyer, acknowledged that the coalition was founded by Freedom Magazine. He said its work was well known and part of a campaign by Scientology and others to reform the IRS.

The church's war had a covert side, too, and its soldiers were private investigators. Octavio Pena, a private investigator in Fort Lee, New Jersey, achieved a measure of renown in the late 1980s when he helped expose problems within the Internal Revenue Service while working on a case for Jordache Enterprises, the jeans manufacturer.

In the summer of 1989, Mr. Pena disclosed in an interview, a man who identified himself as Ben Shaw came to his office. Mr. Shaw, who said he was a Scientologist, explained that the church was concerned about IRS corruption and would pay \$1 million for Mr. Pena to investigate IRS officials, Mr. Pena said.

"I had had an early experience with the Scientologists, and I told him that I didn't feel comfortable with him, even though he was willing to pay me \$1 million," Mr. Pena said.

Scientology officials acknowledged that Mr. Shaw worked for the church at the time, but they scoffed at the notion that he had tried to hire Mr. Pena.

Michael Shomers, another private investigator, said he shared none of Mr. Pena's qualms, at least initially.

Describing his work on behalf of Scientology in a series of interviews, Mr. Shomers said that he and his boss, Thomas Krywucki, worked for the church for at least 18 months in 1990 and 1991.

Working from his Maryland office, he said, he set up a phony operation, the Washington News Bureau, to pose as a reporter and gather information about church critics. He also said he had infiltrated IRS conferences to gather information about officials who might be skinning

Minutes of IRS meetings indicate that some agents engaged in a campaign to shut down Scientology, which church officials cite as evidence of bias.

eventually sentenced to prison. Mr. Hubbard was named an unindicted co-conspirator because investigators could not link him to the crimes.

The church promised to change its ways. Members who broke the law were purged, including Mrs. Hubbard, Scientologists said, and the church restructured to protect against a recurrence. The Fair Game policy, they said, has been misinterpreted by courts and critics.

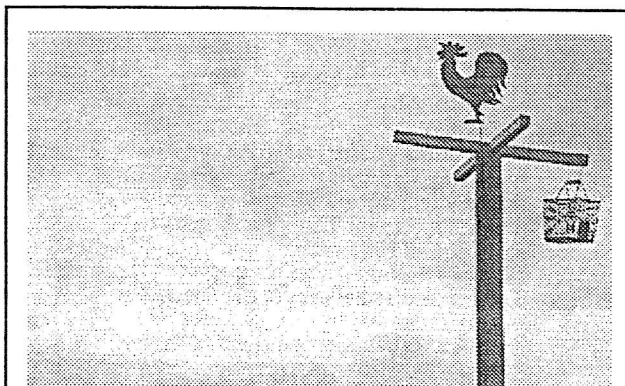
"There is nothing like that," said Elliot Abelson, the church's general counsel. "It doesn't happen."

But interviews and an examination of court files across the United States show that after the criminal conspiracy was broken up, the church's battle against the IRS continued on other fronts. When

member until she departed in 1989, said she helped plan the coalition as part of Scientology's battle against the IRS in late 1984, while she was managing editor of the church's Freedom Magazine.

"The IRS was not giving Scientology its tax exemption, so they were considered to be a pretty major enemy," Ms. Young said. "What you do with an enemy is you go after them and harass them and intimidate them and try to expose their crimes until they decide to play ball with you. The whole idea was to create a coalition that was at arm's length from Scientology so that it had more credibility."

Ms. Young said she recruited Paul DesFosses, a former IRS agent who had spoken out against the



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Scientology describes its
goal as "a civilization with-
out insanity, without criminals
and without war, where
the able can prosper and hon-
est beings can have rights,
and where Man is free to rise
to greater heights." To reach
those heights, Scientologists
believe, each individual must
be "cleared" of problems
and afflictions through a
series of counseling sessions
known as "auditing." The
sessions are performed by a
trained auditor assisted by a
device similar to a lie detect-
or, known as an E-meter.

Although Scientology's
complicated finances make a
total estimate difficult, re-
cords on file at the IRS in-
dicate that in the early 1990s
the church was earning about
\$300 million a year from
auditing fees, the sale of Sci-
entology literature and re-
cordings, management ser-
vices and the franchising of
its philosophy. Church offi-
cials said those figures were
higher than actual earnings.

Mr. Hubbard established
the original mother church,
the Church of Scientology of
California, in Los Angeles in
1954. Three years later, it was
recognized as tax exempt by
the IRS. But in 1967, the
agency stripped the church of
its exemption, and a fierce
struggle broke out between
the agency and the church.

In its revocation letter, the
agency said that Scientology's
activities were commercial
and that it was being operated
for the benefit of Mr. Hub-
bard. The church ignored the
action and withheld taxes.

Minutes of IRS meetings
indicate that some agents sub-
sequently engaged in a cam-
paign to shut down Sciento-
logy, an effort that church
officials cite as evidence of
bias. Some of the tactics led to
rebukes by judges, including
a 1990 ruling in Boston that
criticized the agency for ab-
usive practices in seeking ac-
cess to church records.

Scientology retaliated. In
1973 the church embarked on
a program code-named Snow
White. In a document labeled
"secret," Mr. Hubbard out-
lined a strategy to root out all
"false and secret files" held
by governments around the
world regarding Scientology.

"Attack is necessary to an
effective defense," Mr. Hub-
bard wrote.

Under the supervision of
his third wife, Mary Sue, Sci-
entologists infiltrated the De-
partment of Justice and the
IRS to uncover information
on the founder. They broke
into offices at night and
copied mountains of docu-



Misha Japaridze/The Associated Press

POLE POSITION — A Moscow boy going after a basket of goodies Sunday to celebrate winter's end.

or having affairs.
"I was looking for vulner-
abilities," Mr. Shomers said.
In one instance, information
that Mr. Shomers said he had
gathered at an IRS conference
at a mountain resort was
turned over to an associate of
Jack Anderson and appeared
in one of the investigative re-
porter's columns criticizing
top agency managers for high
living at taxpayer expense.
At one point, Mr. Shomers
said, he slipped into a meeting
room at a California hotel
where an IRS conference was
being held and took a stack of
internal agency documents.
He said he mailed the material
to an address provided by his
church contact.
It is impossible to verify all
of Mr. Shomers' statements
or determine whether his ac-
tions were based on specific
instructions from church rep-
resentatives.

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中国出口商品交易会

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**the 81st Session
Spring '97**

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