Opera Mundi EUROPE

A WEEKLY REPORT ON THE ECONOMY OF THE COMMON MARKET

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COMMENT

A Letter from Brussels

THE END OF AN ERA?

The French crisis has served to underline the fact that the European Community is nearing the end of the first phase of its history - if not the end of the whole Common Market venture. All sorts of factors of course are involved, but there are two observations in particular that can be made about the dire straits into which the Community has fallen. Firstly, in ten years, the Six have managed to achieve nothing greater than a tariff union, in world where the importance of tariffs is all the time dwindling, while their common agricultural policy is even now being hotly disputed. Meanwhile, France is being shaken to the roots by internal stresses, whilst Germany is in such blossoming economic health that the whole political and economic balance upon which hinges the progress of the Community is being jarred dangerously. When rivers burst their banks, they either form great, amorphous, stagnant lakes, or, broadened and placated, continue gently on their way: the EEC has now come to such a pass, and it remains to be seen how the flow of the Community resolves itself - dissipation or progress.

No honest observer could deny that in the last twelve months the Six have got nowhere: they have gone on showing their faces and making the right noises, but as the new agricultural agreement shows (see Community) there is no substance to their work. The institutions and governments had the good taste at least not to make any fuss about an achievement that is at best questionable, for their four months of talks have led only to an agreement to provide a further year of transition for dairy products - and it is even generous to use the word "transition", as all that has really happened is that the previous situation has been retained. It would be easy to put all this down to the French crisis, and indeed Luxembourg, Italy, Belgium and Germany alike declined to modify their demands in any particular. Again, it took only fifteen minutes last week for the European Commission, and especially Sicco Mansholt and Raymond Barre, to realise that over and above Community orthodoxy the thing was to "rescue" the EEC and and give each member its escape clause.

Member states, moreover, were not even happy to settle for a "pseudo"common milk market, and regressed as far as to question a fundamental principal of the agricultural policy: the financial responsibility of the Community. The method of "evaluation" - by which there is a threshold of expenditure on dairy products of $ 630 million a year - in fact adds up to a modification of the system of sharing these costs between the Six over and above this sum. The actual alteration of the share ratios was not defined, but it will clearly take stock in particular of national butter surpluses. It provides a way for Germany and Italy to not limit their support expenditure on behalf of farmers, but their contributions to FEOGA itself. Such limits demand in their turn the compensation of higher contributions from other members, and in particular France. What is more, the French government has been compelled to use the system of "correctifs" to assume a level of national responsibility for the prices guaranteed to producers of milk. There is nothing strange about this, of course, for back in May 1966 Bonn and Rome made it quite clear that they had no intention of giving complete support to French agriculture: at that time, France stepped down ...

Nonetheless, we can now say that 90% of community agriculture enjoys common market organisations, and is supported by joint financing arrangements - the hitch being that the system is so clumsy, in a great many sectors, that the time must come when it will require a complete overhaul. Nor can we stop there. Once one looks at agriculture in this way, comparing the relative standpoints of the Six, one feels compelled to extend the critical process to the whole of the community system.

In ten years, West Germany has obviously developed. In 1958, she adopted the position that her political situation dictated, but since then there can be no doubt that she has won for herself the economic leadership of the Community, and this cannot fail to have altered her outlook. The real question now is whether Germany still hankers after European political union, or whether, resting assured of her economic security, she now looks kindly upon a far wider structure of free trade in the western hemisphere, and indeed within only a few years, on the political rapprochement with the East. Should her attitude be changing in this fashion, then it follows that exchanges between French and German industry, as the driving force behind the expansion of the Community, become a far less important consideration.

Italy's changing attitude is probably even more significant: when she came into the Community, she could only be deemed a "developing" country, and her main concern was the fostering of her agriculture - industry was teetering. The transformation in the course of a decade has been sweeping, such that in agriculture she has become a net importer, specialising in certain commodities that best suit her climate, geography and economy. Industrially, lacking as she does both coal and iron ore, she has contrived to produce ever greater amounts of attractively priced secondary products. The Rome government would not now even countenance certain of the principles of the Community's agricultural policy that only a few years ago it was only too happy to ratify.

Meanwhile, Belgium, the Netherlands and Luxembourg see the entry of Britain into the Community as the only feasible counterweight to Germany's economic expansion, which they feel encroaching upon their own soil. Each in its way, they are refusing any longer to make concessions to France over agriculture while Paris continues to block the process of Britain's bid for entry. This fact pervades the discussion of all manner of technical questions, not just farm policy. As far as France herself is concerned, all we can do is fall to conjecture on Gaullist strategy - there is certainly no disputing the fact that the French negotiators of the Treaty of Rome had a very different outlook to that of the regime now (just) in power. But without plumbing the recesses of cabinet motives in Paris, we can hardly claim that it sole objective is to sabotage the Community. France, after all, was willing to expose her industry to international competition, and thus to contribute to its reform. Nevertheless, if it ever came to renegotiating the Rome Treaty, Paris would undoubtedly take a different line this time.

Renegotiation indeed appears now to be the only way out. No doubt it was wrong of the Six only to concentrate on one aspect if integration - agriculture - as over the years this has tended to upset the balance of interests, and no doubt France must take some of the blame for this. But France is not the only villain of the piece, and it must remain for the historians to apportion blame as they see fit.

The Six must now face the fact that they are groping. No progress is being made on fiscal harmonisation, which is of vital importance; customs harmonisation is getting under way both late and with difficulty; technical harmonisation does not even exist, despite promptings from the Commission. This is to say nothing of the common commercial policy, regional policy or social harmonisation. Both technology policy and the reform of Euratom are blocked, whilst energy and industrial policy lack any legal or legislative basis. The CAP will have to be revised, and as for external relations...

What this means is that it seems not so much a question now of revamping the Rome Treaty as allowed by the merger of the three treaties, so much as getting new, general negotiations under way, taking in the building of Europe, the drafting of a Treaty that will take stock of all experience to date, and of changing circumstances, including the new candidatures. It should also base itself upon the recovery of the European economy, after the settling-down following devaluation of the pound, the franc, and a number of other currencies. The social and economic revolution in France must also be taken into account, as must the complete upheaval of the economy of the West and the correcting of all those discrepancies that have crept into it.

* * *

France

To say that what is happening in France has caused great anxiety in European circles would be putting it mildly. Brussels, with an eye to the advancement of the European venture, sees the French crisis in three particular contexts.

Politically, it is becoming clear that in Brussels, which could never be deemed a bastion for the present French regime, there has been noticeable swelling of the ranks of the pro-Gaullist element. European circles have been greatly disturbed by the pre-revolutionary movement (what else can one call it?), that has grown up in France, and which seems to pose a real danger of a surge towards power, if only partial power, on the part of the Communist Party. Now that the crisis is over the worst, or now at least that General de Gaulle's message to the nation, given on May 30, has been heard, Europe's seers are returning to their political delvings. They are not very forthcoming about the question at the moment, but at least are discounting any possibility of a serious communist upsurge, at least by legislative means. They also feel that any future government majority in Paris, however constituted, cannot fail to lend a more "European" countenance to French policy. This is not impossible, but it can only come through marked changes in Gaullist external policy, after his swingeing remarks about "totalitarian" communism".

Now that actual insurrection seems less likely, two aspects of the French crisis still weigh heavily with European onlookers in Brussels. The first is the astonishing phenomenon that the whole of the machinery of the establishment was bypassed by the rank and file. The Belgians and Italians were especially struck by this.

Secondly, there is the realisation that there has grown in France a sort of concerted economy, its sectors no longer clearly distinguishable one from the other. Many feel that something important, vital indeed, to the future of western economy and society is now being probed in France. This new blood brings hope, but not without misgivings. The European Community is based on traditional liberalism, and so on two scores there is cause for concern. The first is that the whole thing may get out of hand. It is not a question of preventing the evolution of western economic structure, which indeed is welcomed, but of knowing beforehand just where everything is leading. Europe is experiencing something rather like a chemical experiment: a reaction is going on between different elements, and nobody can yet tell what the new "matter" is going to be. Secondly comes fear, perhaps even physical fear. When we see fire in Paris, we all get to wondering whether or not there is a thatched roof over our own heads. The French "revolution" or "renaissance" will have repercussions across the length and breadth of Europe, let there be no doubt, but what everyone hopes is that the whole process may be ordered, and the movement canalised.

To the European observer, the economic implications of the situation in France are rather more clear-cut. Rising demand, coming out of the increase in wages and greater budgetary expenditure will precipitate nothing short of an explosion in revenue, and this is going to be reflected in consumption, thus in a disposition of the GNP that is hardly to be welcomed at this stage, when there is such a great need for investment in capital equipment. Coupled with this will be rising costs for production, stemming from both the increases in pay and the interaction of the sectors of the economy, also the effects of shorter working hours and the burden arising from this.

The result - rising prices - is a certainty, not least because on the basis of developments over the past few months a rise for the year of between 3 and 3.2% had already been forecast. Experts in Brussels have thus been led to conclude that in fact by the end of the year or the beginning of next, prices in France will have risen by 10% no less.

This problem is likely to be intensified by a further grave social crisis. Many small and medium sized concerns, affiliated to SMIG, will be unable to shoulder the burden of all the pay increases. In other larger companies, the trend towards replacing labour by capital investment will be intensified: this will bring improved productivity, the lowering of labour intake, and thus increased redundancy.

Again, the rise in personal income and its assured channelling into consumption is bound to bring a rise in imports, and this is where the Community comes into the picture. France has vast monetary reserves, and according to European experts she could lose 1,500 to 2,000 million dollars without coming to grief. She may even find herself having to do so, for if the alternative is chosen and she defers her alignment with the common external tariff and returns to protectionism, then everything is set for France to slide again into the position she occupied in 1957: full employment and inflation within a closed economy, the continuance of marginal companies, procrastination on the problem of younger people. From such economic decadence, France would never recover.

For the economy of France to remain healthy, she has no alternative but to accept the liberalisation of trade and payments, even if it costs her 2,000 million dollars. What, after all, are currency reserves for? European economists and commentators have never taken very seriously monetary theories based solely on the revaluation of gold. At the present time, the international monetary problem, a grave problem, stems mostly from deficiencies in exchange rates between currencies, which has nothing whatever to to with the price of gold. Indeed, in passing, one might observe that the modification of exchange rates should in fact begin with revaluation of the deutschmark rather the devaluation of the dollar, despite the political problems that this would give rise to, and which anyway cannot be avoided much longer.

Thus the economic situation in France brings us round quite naturally to the realm of monetary questions once more. It is difficult to see how the devaluation of the franc can be avoided, and indeed it is known that devaluation is not so much a desparate recourse as rather a difficult process to carry out technically. This is why Brussels tends to think that it will occur in the near future. On the one hand, we shall have to wait and see how things go abroad, as the result of the French situation, and indeed of the slow recovery of the pound, and on the other we must allow the French economy to settle down once more. This could take ten months or more, and so it is not until next spring that we can look for any really feasible effort to devalue in France. As for the extent of the devaluation, if the basic features of solutions to the crisis do not alter radically, it would look like being somewhere around 12 to 15%.

It may well prove possible to link devaluation of the franc with a vast, world-wide bid to set the monetary machinery in order (and we should remember that the readjustment of exchange rates would not be incompatible with some sort of revaluation of gold).

Thus, as far as experts in Brussels are concerned, the dismantling of trade barriers is something that France should adhere to at any price, as is the giving of priority to investment over consumption, despite present circumstances. The franc should not be devalued right now, but in say a year's time, when circumstances and all other things are equal. Obviously, this train of events should lead the countries of the Community to intensify their efforts at cooperation.

THE WEEK IN THE COMMUNITY

May 27 - June 2, 1968

THE COMMON MARKET - AGRICULTURE

EEC Ministers Reach Agreement

Early last Wednesday morning, May 29, the agricultural ministers of the Six eventually succeeded in reaching agreement on outline regulations for the common dairy and beef markets due to come into effect on July 1. For a long time it seemed as if not only the common dairy market but also the introduction of the full industrial customs union, the completion of the common external tariff and the initial tariff cuts under the Kennedy Round would also be endangered, since France under pressure from her own farmers, was linking these with concessions on the new dairy policy (see No 460). This is very much a compromise since the resulting common dairy market will not be fully unified. Though common intervention prices have been fixed for butter and skimmed milk powder corrective adjustments will be permitted in certain countries. The compromise reached is however expected to be generally satisfactory to the farmers of the Six. On the beef market side more success was achieved, in that this market will be truly unified. The new regulations include complete abolition of internal restrictions on trade, common external protection and indentical support systems in all member countries.

For the dairy market the following support system has been agreed: -

				DM/100 kg
Butter	Common intervention price		--	694
	Intervention price in France, Belgium and Luxembourg		–	705
	Intervention price in West Germany		–	670
Skimmed Milk powder	Common intervention price		–	165
	Intervention price in France, Belgium and Luxembourg		–	176
	Subsidy for skimmed milk used for animal feeding		–	6
	Subsidy for skimmed milk powder used for animal feeding		–	33
Italian hard Cheese	Intervention prices for:			
	Grana Padano	- 30 to 60 days old	–	499.20
		- 6 to 8 months old	–	595.20
	Reggiano-Parmigiano	- 6 to 8 months old	–	652.80
	Monthly premium for private storage of both cheeses between 12 and 18 months old		–	7.92
Milk	Target price ex farm		–	39

The corrective adjustments will be financed by FEOGA in those member states, namely Belgium, and Luxembourg, which previously applied an intervention price for butter higher than Dm 705 per 100 kg and from national funds otherwise, namely in France. In order to allow free movement of butter and skimmed milk powder the above corrections will be compensated for in intra-Community trade and in trade with third countries. If the application of these corrections should create distortion of the conditions of competition, if perhaps they affect cheese and condensed milk, special measures would be taken by the Council on a proposal of the Commission. It has also been decided to consider the question of grants for whole milk retained on the farm in order to prevent this milk being delivered to the dairies in the absence of such aid. Intervention methods may also be taken for other matured cheeses, if necessary, in order to support the market.

To run down the present 150,000 tons of butter in stock will cost about Dm 960 million. Dm 680 million will come from national contributions, which will be based pro rata on the level of stocks in the respective country as at April 1, 1968. The stocks will be sold off cheaply to the food industry and certain social groups. Other outlets envisaged are to dispose of the butter in the form of butter oil as aid to developing countries and to use it up in mixed calf feeds. To relieve pressure on the EEC agricultural fund, though not necessarily to finance the dairy market policy, a tax will be levied on fats to yield Dm 350 million per annum. The tax will be at the rate of 14 pf. per kg of pure fat on vegetable and marine fats for human consumption, which would mean about 11 pf. per kg for margarine. The administration of the fat duty will be under the control of the European Parliament which receives a certain degree of budgetry control for the first time.

At the instigation of the Italian delegation the total cost of the dairy policy will be provisionally limited to Dm 2,520 million for the 1968/1969 season. This will probably entail a special meeting of the six ministers in the autumn when it should be possible to judge how far actual expenditure is likely to correspond to the budgeted figure. Attempts by West Germany to fix a firm limit of Dm 3,200 to 3,400 million proved unsuccessful.

Beef: The final beef marketing regulations show little change from earlier provisional compromises.

As from July 1 a single reference price will be calculated for the Community by weighting the national market prices by the country's percentage share of EEC cattle numbers. The final percentage weightings are:

Belgium 5.2	Luxembourg 0.3
Netherlands 7.3	Italy 18.9
West Germany 27.5	France 40.8

Protection against imports from third countries is to be intensified and will be based on the following four stage levy system:

Market price as a percentage of orientation price	Market price on the basis of an orientation price of Dm272/100 kg liveweight Dm/100 kg	Levy rate (per cent)
over 106	288.32	–
104 - 106	282.88 to 288.32	25
102 - 104	277.44 to 282.88	50
100 - 102	272 to 277.44	75
under 100	less than 272	100

Levies will continue to be fixed weekly. No adjustment in levies will be made if the market price varies only within the levy stage of the preceding week.

National intervention measures are as follows:-

- intervention measures may be taken if the market price is less than 98 per cent of the orientation price and is less than 98 per cent in at least one region (not country) of the Community.
- intervention measures must be taken if the market price is less than 93 per cent of the orientation price.

These percentages may be reviewed annually.

Special regulations have been formulated for frozen beef. The customs duty is maintained and the levy is applied on a permanent basis. The policy for meat intended for processing has a twofold purpose, firstly to give preference to EEC produced meat, and secondly, to guarantee satisfactory supplies for the Community's processing industry. Accordingly, frozen meat intended for processing will benefit from special import arrangements consisting of the total or partial suspension of the levy. Each year before December 31, in 1968 in time for the introduction of the common beef market on July 1, the Council of Ministers will decide upon EEC import requirements for the coming year, taking into account the processing industry's requirements and forecasts of available supplies in the Community of qualities suitable for industrial use. If the situation so requires the Commission will propose to the Council any amendments which should be made to this balance sheet. In accordance with the management committee procedure the Commission will therefore examine the market situation every quarter in order to draw up the balance sheet for the following three months. On the basis of proposals submitted by the Commission the Council will lay down the general rules concerning the conditions under which the levy on frozen meat for manufacturing may be totally suspended. Frozen beef from third countries not coming within the above quota may be imported levy free provided the buyer agrees to accept a quantity of frozen beef which has been the object of an intervention measure or a contract of aid for private storage and of a quality suitable for industrial use.

The issue of import licences can be curtailed or entirely suspended. The Commission will be responsible for the execution of these regulations and through the intermediary of the competent mangagement committee for the validity of import licences.

In order to have a large number of calves in the Community and to increase meat production without increasing the number of cows and the milk production young cattle coming from third countries will benefit from special import arrangements. These facilities consist simply of the repayment of or exemption from, the levy on young male animals weighing between 220 and 300 kg and of the exemption from levy and reduction by half of the customs duty for calves under 80 kg. These concessions are subject to the following conditions:-

1. The EEC market price for calves is higher than the orientation price.
2. The animals are kept for fattening. Animals between 220 and 300 kg must be fattened for at least 100 days. Member states will be held responsible for implementing the necessary control procedure.

INDUSTRY

European Companies

On June 5, the EEC Commission took a further step towards the creation of legislative machinery to give companies in the Community "European" status after the customs union, in order to facilitate expansion, rationalisation and the more economic grouping of manufacturing concerns in the Common Market. The Commission is somewhat compromised in all that it does in this field in that "European companies" are not specifically envisaged in the Rome Treaty, which embodies its terms of reference. Thus the work that has been done in this field (see Nos 445, 452) has had to be kept at committee level, in order to lend the character of intergovernmental action.

The Commission has now proposed that this work be better concentrated by the formation of a new committee, working under it and comprised of two representatives of each member government. This would carry out the groundwork enabling the Commission to draft the necessary legislation, while a parallel ministerial committee would actually prepare for ratification of the proposals by the Council of Ministers. At this stage, the Commission but seeks a mandate from the Council to reorganise its European company work in this manner, and it looks as though there may be some delay before its work can be streamlined.

* * *

EXTERNAL RELATIONS

Chipping at French Ice

The Council of the European Communities met for the 36th time on Thursday last, May 30 and was presided over by Sigs. Giuseppe Lupis, Deputy State Secretary at the Ministry of Foreign Affairs and Sthos Valsecchi, Deputy State Secretary at the Ministry of Finance of Italy. Amongst the matters discussed were the agreement between the EEC and Morocco and Tunisia, the Yaounde Convention, relations with Malta, association with the East African countries, relations with Algeria and the harmonisation of customs legislation. The most significant matter to come up though was the re-appearance of the German proposals (somewhat modernised to suit the new situation) for some kind of interim arrangement between the EEC and the four candidate countries, Britain, Norway, Denmark and Eire. The raising of the matter at this juncture did have a touch of unreality about it since all the foreign ministers were absent from the meeting and were represented by their lieutenants. West Germany, represented by Herr Rolf Lahr, State Secretary for Foreign Affairs, was not the only party to feel that France's present weakness should not be allowed to pass without turning it, even if only by a little bit, to the breaking of the veto on the enlargement of the Community.

On Monday May 27, Herr Lahr visited Paris for consultations with the French government and with the evident intention of finding out how much the French attitude towards the enlargement of the Community had been mollified by the present situation in France. West German diplomats seem to think that the French would be willing to moderate their opposition to British membership, without however fully abandoning it. Herr Lahr was in fact able to return to Bonn with a limited undertaking by the French that any trading agreement offered to Britain by the Community may contain an explicit statement in the preamble that it is to help prepare for U.K. membership of the Community. This is a noticeable advance on previous French dicta on the matter, but it is still much less than the almost automatic transition to full membership that Britain has sought. Herr Lahr was also unable to wring from the French any undertaking to allow continuous consultations between Britain and the Community.

It appears then that any weakening on the part of France due to the present political situation will be minimal, or in any case less than many interested parties had perhaps hoped for. Contrary to what had been expected in some circles France is not going to back out of any of the tariff cut agreements which it had promised to fulfil under the Common Market and Kennedy Round Agreements. On June 5, the French government, in the person of M. Guena, information minister, gave undertaking to adhere to the July 1 deadline for the final elimination of industrial tariffs between the Six, and although the Kennedy Round agreements were not specifically mentioned in the statement, the general drift of the announcement seemed to indicate that these too will be honoured. France, according to official statements, is determined to be deflected as little as possible from the course it had mapped out for itself in international affairs.

At home too it is still intent on pursuing a policy of faster economic expansion while avoiding inflation. The burden of maintaining both the foreign and domestic policies almost intact is to be carried by calling on the vast reserves that the country has built up over the recent years of prosperity (see Comment). According to M. Couve de Murville, the new Finance Minister, the recent flight of capital is of "little importance" in comparison with the country's foreign exchange reserves. Given these large reserves and the fact that General de Gaulle still commands a certain degree of respect in the world, France will probably still be able to maintain the initiative within the Community.

During the evening session of the Council meeting, when Herr Lahr's proposals were discussed, none of the foreign ministers attended, nor did a single French minister. The French delegation was unable to make any new pronouncements on the matter; all they could do was repeat M. Couve de Murville's damping phrases now so well known to British ears.

Herr Lahr's proposals included the reduction of tariffs between the EEC and the four candidate countries by an average of 10% per year over a period of three years starting on January 1 1969, to be followed by an "examination of the conditions of membership" to see whether they had been fulfilled on or soon after January 1, 1972. As the Germans have always had it, but contrary to the hopes of the British at least, membership could not be made automatic on the fulfilment of the trial period. During the three year period of tariff cutting, additional tariff reductions could be regotiated to prepare for the final phase, full membership, which would coincide with the final abolition of tariffs. Parallel to this moves could be made to remove technical obstacles to trade. Also included in the proposals were outline plans for the increase of agricultural trade between the candidate countries and the Six, but the actual substance of the plan should be left to the Commission. Britain he felt could not be expected to bring her totally disparate system of agriculture into line with the EEC's from the very beginning, so she would be allowed to maintain her system of prices until full membership became really possible. Throughout the process of tariff reductions the Commission should keep in close touch with the British government so as to leave no further fields of co-operation untried. In this connection Herr Lahr was thinking especially of economic co-operation.

The German representative hoped that his plan would be examined along side the other plans for interim arrangements with the candidate countries which are still on the agenda for discussion at the Council.

African Association : The absence of the Foreign ministers from the meeting did not seem to prevent the representatives from giving the go-ahead to the association of the three East African countries, Kenya, Uganda and Tanzania. Long negotiations have been carried out, and France for one was never very keen that the primarily French character of the Yaounde countries should be diluted with Anglo-Saxon influence. Events seem to have brought about a change in French attitude, or at least France does not feel it worthwile at this particular juncture to fight the issue. The Italian representative suggested that the agreement be signed at Arusha, Tanzania on July 26.

The conditions for the association of the three East African countries have now been finalised, though the East Africans are still not content with the coffee quota. (see No 461). The Community has agreed to admit almost all the East African Economic Community's exports duty free, with the exception of coffee, cloves and pineapples. For the first two of these the EEC authorities have decided to impose quotas but no tariffs. The coffee quota will be 42,000 tons a year up to May 31, 1969 by which time the association agreement should have been re-negotiated to bring it into line with the renewed Yaounde convention. In return for these reductions the EAEC countries have undertaken to give preferential treatment to some 59 community goods, goods which represent about 15% of the Six's exports to the East African countries. Subject to pressure by the East African countries on the coffee matter, the Community authorities conceded that the present coffee quota would not be accepted as an immutable fait accompli when it came to re-negotiating the agreement next year, thus if the association turns out to be a success we are likely to see some increase in the coffee quota following the negotiations next year.

Meanwhile in Britain Mr. Wilson reiterated that in spite of recent changes in the situation within the Common Market, Britain's application "stands exactly where it was". In an answer to a parliamentary question last Wednesday Mr. Wilson said that he did not think there had been any substantial shift of opinion sufficient to change the conclusion reached in the House in May of last year. On the following day he refused to comment on the internal situation within France when invited to do so, but added that Britain "would have something to contribute to the stability of Europe which in the end means the stability of this country".

* * *

FINANCE

Monetary Committee's Tenth Report

The Tenth Report of the EEC's Monetary Committee, which has just been published, first reviews economic trends within the Community. It states that the inflationary trends noted in 1964 and 1965 led to the introduction of measures aimed at restricting demand and curbing price and cost increases. This in turn produced a noticeable slackening of economic activity late in 1966 and early 1967, with a virtual recession in West Germany. The effects of the situation in West German spread to the other members of the Community, and the report states that this was further evidence "of the way in which the economic situation in one country depends increasingly on the economic policies followed by its partners, particularly those which exert a greater influence by reason of the size of their economies".

The Monetary Committee considers that the recent steps by Britain and the United States might well bring about a rise in interest rates on the international capital market. It repeats the decision of the Finance and Economic ministers of the Six during their Rome meeting to "keep interest rates stable in their respective countries by means of concerted action". The report stresses the need for existing co-ordination of economic policies to be extended, especially where a member state might be about to take a major measure affecting to an appreciable extent the economies of the Community.

Dealing with the worsening disequilibrium of international payments during 1967 and the deterioration of the balances of the key reserve currencies, it says that "the several unusually strong waves of speculation .... threatened the very existence of the international monetary system in its present form." But prior consultations between the Six, particularly in the Monetary Committee, played an important part in the decision of the EEC member states not to devalue. As regards the measures announced by President Johnson at the beginning of the year, the report states that the programme to restore the US balance of payments is of outstanding importance. There is another call for the present Administration to tackle "excess home demand by making more use of budget policy reinforced by appropriate measures in the monetary field". At the same time, whilst saying it is for countries with external deficits to balance them again, the Committee warns other industrialised countries against pursuing policies which would hinder these efforts. Most EEC member states are underemploying their productive resources, and some have larger balance of payments surpluses. There should continue their expansion policy and even intensify it where it is compatible with their domestic policy - this was written before the out break of the present French crisis.

During the past year the Monetary Committee has examined how the international monetary system works and ways of making improvements. The January 1967 meeting of the Finance Ministers and Governors of the Common Market Central Banks at The Hague saw a further attempt to achieve greater co-ordination of the approach adopted by the Six towards international monetary problems. The common attitude reached by the Six during these discussions made an important contribution to the agreement reached during August 1967 by the Group of Ten regarding the creation of SDRs. However the common EEC attitude regarding the reform of the procedures and practices of the IMF enabled most of the proposals made by the Monetary Committee to be finally accepted.

Washington: On June 3, the governors of the IMF in fact made the first amendments to the fund's statutes since 1944, in preparing for the creation of SDRs. A vote for the Common Market countries will be "built in", and the scheme will make it more difficult to lift gold off its present "peg" of $ 35 an ounce. The amendments were voted by the governors by mail, but the final ratification must be made by member governments, requiring approval by 65 countries with 80% of the Fund's voting power.

* * *

E.I.B.

European Investment Bank's Report

The European Investment Bank has just published its annual report; this time the report contains a run down on the achievements of the Bank during its first ten years of existance.

The Bank made its first loan in 1961 and since that time has grown to be one of Europe's key issuing banks. The total amount issued reached $ 21.4 million in 1961, $ 66.8 million in 1964, $ 194.5 million in 1967 and finally reached $ 553.7 million at the end of last year, that is more than double the amount of capital paid in. The annual amount of loans granted has also risen regularly over the period, from an annual figure of $ 53.4 million on average for the period 1959-1961 to $ 128 million for 1964-1965 and $ 232.8 million for 1967. Since its formation the bank has made some 200 loans amounting to a total value of $ 1,000 million, of which some 78 loans worth 123 million were for Turkey and the Associated African States.

Within the Community itself, the EIB has been concentrating on regional development, which explains the preponderance of loans to the Southern half of Italy. As for the other member countries the Bank's regional development effort has been applied mostly to outlying regions, such as the West and the South of France and to certain German Länder. In Campagna for example, EIB finance contributed to the creation of 15,000 new jobs and to the continuance of a similar number of old jobs.

In addition to these regional development projects the bank has also had a hand in a number of sector rationalisation programmes, in the shipbuilding sector in particular. Work of this kind has however been of a limited nature because much of it is already allowed for under the specialised ECSC treaty for the iron and steel sectors, and because the real reason for such rationalisation schemes is not the opening up of the national frontiers. The Bank has also financed projects which promote the unification of the national economies of the Six member countries, and in particular the unification of the Six transport systems and joint industrial schemes in which several member countries play a part.

These ten years have thrown into relief the role that the Bank can play in European integration by promoting the cause of the less well placed regions, by re-organising European infrastructure and by re-aligning industrial structures. The Bank holds itself ready to contribute to the solution of the great problems which the Community is bound to come up against in the future, in the field of technology for example.

With regard to its work in 1967, the EIB report states that the development of capital markets within the Community has permitted it to procure the necessary capital for its expansion without having to resort to significantly higher cost recources. Generally speaking, the balance between saving and investment was achieved under more favourable terms than last year. For the whole of the EEC, net issues of stocks and shares reached $12,810 million against $ 10,980 million in 1966. Issue of shares slowed down except in the Netherlands and Belgium. Issues of fixed interest shares remained at a high level. Foreign investments in France, Italy, Belgium and the Netherlands rose to $ 100,million. The international european market played an enhanced role as a source of long term loans: the total amount of loans progressed 65% compared with 1966 ($ 1.8 m. compared with $ 1.1). Of this total American loans accounted for $ 527 million and Community loans for $ 529 million.

During the course of last year, the Bank signed 42 loan contracts amounting $ 212.6 million, Italy accounting for 13 of these valued at $ 65.1 million. The most important of these loans were to finance telephone equipment in Sicily and Calabria, to finish off the autoroute between the French frontier and San Remo and to modernise the shipyards in Trieste. In France, six loans have been granted amounting to $ 53.7 million, including loans for the construction of a gas pipe-lines, a section of motorway between Roquebrune and the Italian frontier (L'autoroute d'Esterel) and the modernisation of the telephone system in the South-West of the country. In addition, the Bank has made provision for 8 loans totalling $ 194.5 million compared with $ 138.5 million for the previous year.

Break-down of Loans (end of 1967)

"Ordinary Operations"	$ Millions	% of Total
Community countries	765.5	77
Italy alone	523.6	53
Associated Countries	89.6	10
"Special Operations"	123.3	13
Total:	978.4	100

Ordinary operations were first designated in 1963 and are loans made under favourable terms such as a low interest rate, with long term repayment conditions and a period of grace. Special operations are loans financed from extra-ordinary sources and administered separately.

STUDIES AND TRENDS

EUROPE & THE WORLD MOTOR INDUSTRY

Part II

The Challengers' Strategy

The logic behind all the mergers and associations in Europe is of course the increased threat of the industry being swamped by the American automobile giants. Renault and Fiat were the first companies to wake up to this threat and to embark upon an aggressive marketing policy covering the world. Fiat was the first motor company in Europe to call for mergers between European companies, to form units of an adequate size to stand up to American competition. Furthermore Fiat executives spoke openly of their overtures to VW in 1963-1964, but it appears that the philosophy of the two companies was too disparate for any association or merger to come about. Fiat is much closer to BLMC, and if Britain were to enter the Community, there could be the possibility of some link here. Fiat has become the most international of all the European motor companies. The link with Russia comes first to mind and this is the most spectacular of Fiat's many overseas agreements, some of which date back to before the war: with Simca (these shares have since been sold back to Chrysler) Seat in Spain, Steyr in Austria. In addition to these agreements, there have been others, for assembly or manufacturing plants in Bulgaria, Poland, the United Arab Republic, Morocco and Tunisia. In contrast to the VW approach of manufacturing all its products at home and then exporting them to the markets, Fiat prefers to trade by means of licence, by assembling in foreign markets or by co-manufacturing.

General Motors: The main threat from America seems to come from General Motors and its two European subsidiaries, Opel and Vauxhall. These two companies seem to work quite independently of each other and thus contradict the normal trend towards association and concentration. Both are expanding, although haltingly due to the recent general recession in the European automobile industry: both companies have big expansion programmes for the future. Opel, which concentrates on the passenger vehicle side has expanded its plants at at Rüsselsheim (near Frankfurt) and Bochum, in the Ruhr: it has component factories in Kaiserslautern and West Berlin, an important proving ground at Dudenhofen and has recently completed the construction of an automatic transmission factory in Strasbourg. What is most significant though is that Opel has recently (last November) started marketing its products in the home country of its English sister company, Vauxhall. Opel has set up a dealer network that is quite independent of Vauxhall's and hopes initially to acquire a £5 million per annum share of the British market, gaining sales in particular at the cost of Volkswagen. The complete independence of the two companies within the G.M. group is borne out by the fact that Vauxhall was unaware of Opel's intention to market in Great Britain and was evidently caught unawares by the decision. In the words of Vauxhall's press officer following the announcement by Opel: "We do not know that Opel are going to market here. Vauxhall and Opel activities are completely divided and no one here could comment until G.M. had made an official statement."

The news of the move by General Motors gave rise to a certain amount of speculation as to its long term significance. The American anti-trust regulations seem to be tightening their noose around G.M. in the United States and this move to increase competition within the European market may be a palliative to the authorities to show that G.M. is at least willing to make some concessions even if they are not in the home market. It appears that the anti-trust authorities are seeking a reasonable excuse to demand that G.M. split up the group to a certain extent, and make one of the companies from within the group, such as Chevrolet, an independent concern. G.M. is obviously anxious to avoid giving the authorities the excuse they need and has carried out this move partly, at least, as a sop to the authorities.

On the other hand Opel's move into the British market may be the first step in a rationalisation scheme that will encompass the whole of Europe. At present Opel is by far the bigger of the two European General Motors subsidiaries in the passenger car sector. In 1966 Opel produced 649,000 passenger cars, and its exports of 295,000 units were greater than the whole of Vauxhall's passenger car output which in that year stood at 182,000 units. Bedford, the commercial side of Vauxhall, is on the other hand much bigger than Opel in this field, and is in fact G.M.'s biggest subsidiary in that field. In 1966 Bedford produced 100,000 commercial vehicles, compared with Opel's meagre 13,000 units. The logical step is therefore for Opel to assume increasingly greater importance in the passenger car field and for Vauxhall/Bedford to assume greater importance in the commercial sector. Any developments are necessarily dependent upon Britain's entry into the Common Market or, failing that, just on the Kennedy Round cuts. G.M. denies that there are any long-term plans for European integration but it seems inevitable that at least the low volume units and parts will be integrated in the near future. It is obviously not worthwhile to integrate such high output models as the Viva and the Kadett, but there is scope for integration at the large car end of the European G.M. range. Vauxhall is at present a low capacity producer of the larger type of vehicle: the old Cresta, which has since been superseded by the Ventora was only produced at a rate of about 10,000 over the last two years. The new Ventora contains a number of parts in common with the Opel model of the same size and this constitutes a certain saving It is strange, however, that Opel only exports the small and medium-sized cars to Britain (the Kadett and the Record) and not its larger range, such as the Commodore. The real step towards rationalisation, however, has come in the commercial sector where G.M. has decided that Vauxhall-Bedford alone will produce the Group's commercial vehicles outside the United States. The British subsidiary is already the biggest in this sector and, concentrating on the middleweight class of vehicle, has become the world's leading exporter of ordinary general-purpose trucks. The company's expansion in the heavier trucks sector (the KM range) further consolidates Bedford's strong position in the commercial market.

Ford: The company to take European integration and rationalisation most seriously though seems to be the Ford Motor Company. In June of last year the company, seriously threatened by declining sales from the Köln -Deutz plant (50,000 cars being stockpiled at one time), decided to reorganise its network of European subsidiaries and to rationalise its manufacturing interests by forming an administrative company called Ford of Europe. This new company, with its headquarters in London (in spite of Britain's failure to enter the EEC), oversees the activities of the whole of the company's European empire. Apart from its British and German car and truck factories this includes the Nederlandsche Ford Automobiel Fabriek in Amsterdam, where it has also an assembly line for auto parts and tractors imported from the USA, and other assembly lines in Genk in Belgium and in Ireland, Denmark, and Portugal, plus an agency network that covers the whole of Europe.

The consummation of Ford's plan for Europe has been the creation of the Escort, Ford's first all-European car. This conventional, somewhat unexciting (in terms of engineering) motor car seems already to have been very successful with regard to sales. Present production is running at some 1,000 per week and in Britain there is a ten week wait for delivery of the model. With a 1100 c.c. engine and its popular appeal advertising campaign, it was designed to capture the market from the now somewhat old-fashioned beetle Volkswagen. According to Ford of Europe's vice president and sales chief, Robert Layton, tastes and mode of life are becoming increasingly uniform throughout Europe as the ramifications of the EEC and EFTA become greater and mass communication between the countries of Europe increases. The logical conclusion then, given this premise of increased uniformity of taste, was to exploit the European market as a uniform market and with a uniform product. With her two main subsidiaries, one in Britain to gain access to the EFTA market, and one in Germany to gain access to the EEC market, Ford was ideally placed to carry out this market onslaught. Market research informed the Ford company that Europe was ready for a larger car than its old Anglia - a car that was reliable, pleasant to look at and cheap, rather than one which was technically advanced, more expensive and possibly unreliable. What Ford aimed to do was to capture the whole European market rather as Opel and Vauxhall had done with their Kadett and Viva models.

The new Escort will shortly be assembled in Ford's assembly plant at Genk in Belgium but manufacture of the car in Germany will have to wait for a while yet, as Ford management has decided that certain modifications must be made before the model is offered on the German market. Ford's transit van is already manufactured in both Dagenham and Cologne. Unlike G.M.'s marketing strategy for Europe, Ford does not envisage competition between the British and German sister companies. The products of the two companies will only be marketed in the same country if it is economically viable and possible, according to Layton. The simultaneous marketing of both marques in one country will take place in such countries as Norway where there are not significant price differentials between the two marques. Again in contrast with the G.M. system, even if the two marques are offered for sale in the same country, they will be handled by the same dealer network.

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A BRITISH CHALLENGE

One sector of the motor industry which is often overlooked is the accessories and spare parts sector. Exports in this sector from Britain already exceed the value of actual cars exported and the trend is continuing. British based companies supply most of Italian cars with pistons, bumper forming machines for car plants from Japan to Sweden and a substantial proportion of original equipment for Volvo cars, as the company has taken pains to point out in its recent advertising campaign in Britain. Recently, following devaluation, Volkswagen hired Mr Alick Dick, a former director of Standard-Triumph, to canvass for British parts for the Beetle and 1500 models. VW has make it known that it is prepared to buy up 20% of its requirements ofany component in Britain and has given Mr Dick the task of finding contractors to do the job. The Dunlop group, which already supplies VW with a number of parts, has been in consultation with Mr Dick over the supply of brake hoses. Several other British component manufacturers have been attracted by this most lucrative market and have opened negociations with VW through Mr Dick. The German company has a budget of £42 million p.a. for foreign components covering some 8,300 components; only for about half of these will tenders be sought in Britain, but even so, added to the £1 million that VW already spends on British components, this will amount to a considerable sum.

British Automobile and Accessories Exports (Jan-June in £m)

	1967	1966	1965
Cars assembled	90.8	90.4	90.1
Cars unassembled	38.3	34.6	40.5
Lorries	58.3	55.7	56.1
Buses	6.7	7.2	6.5
Accessories	150.0	137.0	132.0
All Products	424.0	409.0	393.0

From the above table can be seen the great significance of the export trade in accessories compared with finished vehicles. A number of manufacturers of components have now set up their own manufacturing subsidiaries on foreign soil, so that the rise in exports of components may now level off. On the other hand there is an increasing trend for components to be exported to fill gaps in the range of locally made products and to meet replacement needs, both of which are still growing although shipments of vehicles either completely assembled or knocked down are stagnating. The proportion of C.K.D.to assembled vehicles will probably continue to grow; one manufacturer already exports 45% of its cars knocked down and this may well increase to between 55 and 60% over the next two or three years.

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OUTLOOK

The European motor industry is in a state of transition and flux. The key trends are rationalisation, concentration, association and expansion. At present the European motor industry's share in the world is over a third, standing at 35.5%, but it must fight to ward off and overcome the Japanese challenge. Exports to underdevelopped countries will play an increasingly important part in the configuration of exports as these areas become increasingly richer, but the European market, itself, is still far from being saturated. In 1966, vehicle density was still surprisingly low: with a population of 353 million and a vehicle count of 52 million, the density was one unit for every 6.8 inhabitants, that is roughly the same vehicle density as the United States enjoyed in the 1920's. Given the rising standard of living in Europe and the correlation between income and vehicle density, the vehicle population in Europe is bound to go on rising for some time to come, with only the proviso of lack of space and congestion which will afflict the more compact Europe before the United States at any given level of vehicle density. As the European family moves into the second (or more) car class, Europe will gradually creep up to the saturation level that the United States seems to have achieved, namely one vehicle for every 2.5 inhabitants. Even if it does not reach this level, the European market can still accomodate twice as many vehicles as it does at the present time. Given this firm "domestic" base, the European industry has a good chance to corner a significant section of the world market.

June 6, 1968

HEADLINES

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CONTENTS

AEROSPACE

** Efforts to keep Franco-German space and satellite cooperation alive, after the British withdrawal from ELDO and the dwindling prospects for ESRO after Italy's failure to vote credits for the T-D project (see Technology, 460, p3), have been taken a stage further with the formation of SYMCOSAT-GROUPEMENT D'INTERET ECONOMIQUE DEUTSCH-FRANZOESISCH FIRMENGRUPPE, with administrative offices in both Bonn and Paris. The company has been formed to secure orders for the European satellite project, and is a joint venture by SIEMENS AG, Berlin and Munich, rated the top German company in 1967, AEG-TELEFUNKEN, Berlin and Frankfurt, ERNO RAUMFAHR-TTECHNIK GmbH, Bremen (capital Dm 10 million - see No 415) and the French ENGINS MATRA SA, Paris (see No 404).

Erno was itself formed early in 1967 60-40 by VFW - VEREINIGTE FLUGTECHNISCHEWERKE GmbH, Bremen, and HAMBURGER FLUGZEUGBAU GmbH, Hamburg to handle their space interests, mainly at that time for the "Mesh" project, within the consortium grouping Matra, Hawker Siddeley Dynamics Ltd, and the Swedish Saab's Svenska Aeroplaan. Italy's withdrawal has since cast the work of the consortium in grave doubt.

The most recent link-up between Siemens (see No 455) and AEG-Telefunken (see No 463) was in the field of military avionics, in association with Rohde & Schwarz and Standard Elektrik Lorenz of the New York I.T.T. group (see No 441). The formation of Symcosat now forges financial links between the German and French interests remaining actively involved in European space cooperation, regardless of the future of Mesh.

CHEMICALS

** DIVERSEY FRANCE SA, Ozoir-la-Ferriere, Seine-et-Marne (formerly in Paris) has become a shareholder in DIVERSEY SA, Fribourg, Switzerland, which has raised its capital from Sf 70,000 to 200,000. French Diversey received its shares against the contribution of an estimated Sf 60,000 worth of assorted patents.

The French company (capital F 3 m.) specialises in chemical cleansing and disinfection products, and is a 50% subsidiary of the Chicago group, DIVERSEY CORP (see No 423), which is linked in it with PRODUITS CHIMIQUES PECHINEY-SAINT-GOBAIN SA, Neuilly, Hauts-de-Seine; PROGIL-KUHLMANN SA, Paris, and PIERREFITTE SA, Paris, whose respective holdings are 20.31%, 21% and 8.69%. One of its most recent moves has been to make its Brussels branch a subsidiary named Diversey SA, giving it Bf 2 million capital, and moving it to Huizingen.

** B.A.S.F. ANTWERPEN NV and BADISCHE-PHILLIPS PETROLEUM - BADPHILL NV, the two Belgian subsidiaries of the German group BADISCHE ANILIN- & SODA FABRIK AG, Ludwigshafen (see No 458), which, in association with the Düsseldorf building company A.H.I. - BAU ALLGEMEINE HOCH- & INGENIEURBAU AG and the Belgian FERNAND GILLION & FILS SA, Forest-Brussels and a number of other Belgian interests, are working on the B.A.S.F. complex in Antwerp (see No 447) are now to incorporate a major ethylene oxide plant in the scheme.

The three main production plants planned for Antwerp in the B.A.S.F. scheme so far have been for caprolactam and phosphate fertilizers, chiefly the concern of BASF Antwerpen (see No 327) and for PVC, for which BASF in fact linked with Phillips Petroleum Co, Bartlesville, Oklahoma (see No 454) in the 50-50 joint subsidiary Badische Phillips Petroleum (see No 362). The latter project envisaged a full output capacity figure of 75,000 tons a year, and the new projected plant will in fact be producing 100,000 tons of ethylene oxide, plus quantities of glycol. The unit will come into operation in the first quarter of 1970.

COMPUTERS

** ENGLISH ELECTRIC CO. LTD. London (see No 440) has made delivery of Europe's first micro-electronic computer to Ostrava in Czechoslovakia. For use in the Vitkovicke Zelezarny Klementa Gottwalda (VZKG) steelworks, it is one of a number of System 4 machines which have been ordered by concerns in Eastern Europe. It is planned to use the unit for stock control and other managerial functions, but later there is a possibility that its function will be switched to an on-line system similar to the English Electric production control system at present being introduced at the Nova Hut Klementa Gottwalda (NHKG) steelworks also at Ostrava. English Electric will also be delivering "System 4" machines to Yugoslavia, the Soviet Union and Poland, and the Czechoslovak market seems able to take twenty more units in the near future.

CONSUMER DURABLES

** The German domestic appliances group HERMANN ZANKER KG MASCHINEN- & METALLWAREN FABRIK, Tübingen, (mainly washing machines and dish-washers), which recently diversified (see No 430) by gaining control of the heating equipment concern Forbach GmbH & Co KG, Neustadt, Saale, plans to extend its foreign sales network by forming a subsidiary in France, where until now it has been represented by ETS FITCH H.M., Boulogne-Billancourt, Hauts-de-Seine.

In the Benelux, Zanker is represented by Zanker NV, Brussels, and Zanker Nederland NV, Amsterdam (in association with NV Eximport Handels-Compagnie, Amsterdam); in Vienna by Zanker Haushaltsgeräte GmbH & Co KG, and in Zurich by Zanker Haushalts-geräte AG.

ELECTRICAL ENGINEERING

** The Italian group, CARLO GAVAZZI SpA, Milan and Marcallo (electric control instruments and equipment etc - see No 456) has joined 50-50 with its local agent, the Brussels company VERCO Sprl, (director M.C. Verstraete) in forming a company under the name of CARLO GAVAZZI-BELGIUM SA, Brussels with Bf 25,000 capital.

ELECTRONICS

** The Detroit, Michigan group BURROUGHS CORP (see No 424) is to build a factory at Hautes Sarts near Liege in Belgium, which will require the investment of some Bf 425 million between now and 1972. The plant will employ some 1,000 skilled workers, in the manufacture of circuitry for the B 500, third generation series of computers.

Burroughs has two subsidiaries in Brussels: Burroughs SA (directed by M.L.Fradin) and Cie Belge Burroughs SA (formed late in 1966). The second, which has just had its capital raised to Bf 42.25 million, is controlled by the group's Swiss holding company, Burroughs International SA, Fribourg (directed by C.R. Stark), in association with a number of affiliates, in particular G. & Z Realty Co, Detroit; The Impress Co, New York, and The Todd Export Corp, Detroit.

** The British DATA DYNAMICS LTD, Uxbridge, Middx (punched tape and card systems, data scanning and transmission etc - payroll 100), which is British agent for the American TELETYPE CORP, has linked with the Viennese businessman Herr Paul Egerer, in forming TELEPRINT GmbH in West Germany to sell and service equipment similar to that produced by the British company. The new firm will have as its managing director Herr Oskar Hoffmann, formerly sales manager in the Federal Republic to the American, Addressograph-Multigraph Corp, Cleveland, Ohio (see No 434).

The new subsidiary is planned to open offshoots of its own in Austria, Spain and Switzerland, and in all four countries it will, like the parent company, handle the Teletype agency. Estimated sales are for £1 million in five years.

ENGINEERING & METAL

** S.K.F. -CIE D'APPLICATIONS MECANIQUES SA, Clamart, Seine, French member of the Swedish engineering and precision castings group, S.K.F.SVENSKA KUGELLAGER FABRIKEN A/B, Gothenburg, (see No 457), has made an agreement with LA TECHNIQUE INTEGRALE SA, Paris (power transmission and control equipment) by which it will gain control of the latter.

The second company is headed by MM. Nordling and Perrin and specialises in the manufacture of "Transval" self-tapping screws.

** SALZGITTER AG, Salzgitter (see No 430), the West German state group which in 1966, despite a rise of 6% in turnover, to Dm 3,571.5 million still made a net loss of Dm 183 million (see No 417) is adopting stringent measures to effect its financial recovery and rationalisation, and has lowered its capital from Dm 460 million to Dm 50 million to write off losses. All the capital is held by the state, which has undertaken to contribute Dm 300 million to the group in four annual instalments.

This move follows efforts made last year to attract other groups to Salzgitter, in particular with a view to improving its position in steel and the road transport sector. First, it made an agreement, pooling raw materials supplies (see No 391) with ILSEDER HUETTE AG of Peine, and the object now is to increase this cooperation, and also to forge such links with the KLOECKNER WERKE AG group of Duisburg (see No 460). One of Salzgitter's main problems is that it is sited on a low-grade ore-field, and orientated towards pre-war trading patterns in Germany, whereas Klöockner's main centres are the Ruhr and the coast near Bremen.

Secondly, it negotiated the sale of a half-interest in its vehicle-building subsidiary, BUESSING AUTOMOBILWERKE AG, Brunswick (see No 393) to MASCHINENFABRIK AUGSBURG NUERNBERG AG - M.A.N. (see NO 456), of the Gutehoffnunghütte Aktienverein group of Nuremberg, although there has been some hold-up in this operation since that time. It is to be hoped that the re-financing of Salzgitter may instil some momentum into these and other moves mooted last year.

** The International division of the FLUOR CORP, Los Angeles, California (see No 451) has linked in a consortium with LURGI GESELLSCHAFT FUER MINERALOEL-TECHNIK mbH (see Nos 428;457) one of the seven sister plant-building companies in Frankfurt belonging to the METALLGESELLSCHAFT AG, German/Swiss group of Frankfurt (see No 460). This consortium is to build the first state-controlled South African oil refinery at Sasolburg at the cost of Rands 52 million (about £30 m.), according to designs produced by UNIVERSAL OIL PRODUCTS CO, Des Plaines, Illinois (see No 436). The refinery is due to come into operation late in 1970, processing some 2.5 million tons of crude oil a year, and producing various by-products with what, because the refinery is a long way inland, necessitating the distillation of lighter products, is a fairly sophisticated complex of plant.

With a turnover of Dm 708 million and 30,600 on its payroll, the Metallgesellschaft group was ranked 24th in Germany in 1967. The Fluor Corp has several European interests, and in Germany itself its subsidiary is called Fluor Germany AG. It has no direct interest to date in South Africa, although the German group, which has Lurgi subsidiaries throughout the Commonwealth, owns Lurgi South Africa (Pty) Ltd.

The new complex will be run by NATIONAL PETROLEUM REFINERS OF SOUTH AFRICA PTY LTD, which was formed late in 1967 for the purpose (see No 439), under the chairmanship of Dr P.E. Rousseau. This is a $52\frac{1}{2}$-30-$17\frac{1}{2}$ joint interest of SASOL - South African Oil & Gas Corp, Johannesburg; Total Refining South Africa (Pty) Ltd, formed for the purpose by the French C.F.P. - Cie Francaise des Pertroles SA, Paris (see No 453), through its local subsidiary Total Oil Products (Pty), and INOC - the Iranian National Oil Co, which has made a long-term contract with the South African government to supply it with crude oil.

** DEGUSSA - DEUTSCHE GOLD & SILBER SCHEIDEANSTALT VORM ROESSLER AG, Frankfurt, (capital Dm 421 m.; payroll 12,700 - see No 460) has joined 50-50 with MITSUBISHI METAL MINING CO LTD, Tokyo, of the Mitsubishi Heavy Industries group (see No 445) in forming NIPPON AEROSIL CO LTD in Japan to produce the German partner's "Aerosil" and other highly dispersed metal oxides.

In Germany, the Japanese group recently formed its first subsidiary, Bruhl Machinery Manufacturing Co GmbH (capital Dm 2 m.) to build plastics moulding plant, whilst Degussa's own move follows similar efforts to gain footholds in Japan on the part of other German companies. In particular, Reinz-Dichtungs GmbH, Neu-Ulm (see No 433) has formed links with Mitsubishi's Dainichi Nippon Densen, and B.A.S.F., Ludwigshafen (see No 439) has raised its stake in Yuka Badische Co Ltd, also affiliated to the Tokyo group.

** MACHINEFABRIEK STORK-JAFFA NV, Utrecht, a member of The Hague group V.M.F. - VEREINIGDE MACHINEFABRIEKEN NV (through Kon Machinefabriek Gebr. Stork NV, Hengelo - see No 457) has gained outright control of another Dutch firm in the sector, WEEGWERKTUIGENFABRIEK ALFRA NV, Bladel. This has a payroll of about 60, and will continue to operate under the new name of Stork-Alfra NV.

Another concern in the group, V.M.F. Stork-Volma NV, Gosvedrijk and Gramma, recently backed the formation in Leeuwarden of the dairy machinery concern, Nicoma NV (see No 460), in association with Cooperatieve Condensfabriek Friesland, Leeuwarden, and Tanufabriek Ido NV, of the Holvrieka group.

** An agreement has been signed between Austria's major steel company, VEREINIGTE OESTERREICHISCHE EISEN-UND STAHLWERKE AG - VOEEST AG and the Soviet state foreign trade agency, PROMSYRIOIMPORT, following approval by the Austrian government. The deal, which is the largest single trade project concluded between the two countries, involves the sale of 520,000 tons of pipes to the U.S.S.R. in co-operation with the two large German steel concerns, MANNESMANN AG, the Düsseldorf giant (see No 437) and AUGUST THYSSEN-HUETTE AG, Duisburg-Hamborn (see No 448) - the Austrian share of the deal amounting to some £24 million - in exchange for supplies of Russian natural gas. During 1968 Austria will receive some 300 million cubic metres of gas, during 1969 some 800 million, during 1970 some 1,000 million and from 1971 deliveries will be running at the rate of 1,500 million cubic metres per annum. The deal is a temporary answer to the shortage of natural gas from which Austria is at present suffering. Natural gas has increased in importance rapidly as a source of domestic power, from 2% in 1959 to 10% in 1966. Last year production fell by 4% and is expected to fall even further this year.

Final signing of the agreement is expected to follow shortly after some of the minor points of the deal have been talked out. Pipes for the actual pipe line within the Soviet Union will be supplied by the Austro-German consortium so that the scheme will be independent of the giant Italo-Soviet gas project. OESTERREICHISCHE MINERALOLVERWALTUNG-OMV (see No 460) the Austrian state oil concern, has already completed the link with the Soviet-Czech gas pipeline at Bratislava, near the Austrian border; pumping of gas is expected to begin as from October.

** HANDS (LETCHWORTH) LTD, a subsidiary of the British aerospace group, HAWKER SIDDELEY (see No 404) which makes trailers, has granted its first foreign manufacturing and marketing licence to a Belgian firm, EKSELSE KONSTRUKTIE WERKEN PVBA, Eksel near Mol. To begin with, production will be concentrated on container-carrying semi-trailers and small light-weight automatic-coupling semi-trailers. Sales of Hands trailers throughout the six EEC countries will be covered by the agreement, which lasts for three years.

FINANCE

** The SCHWEIZERISCHE BANKGESELLSCHAFT AG of Zurich, one of the "big three" commercial banks in Switzerland is to take over the AKO-BANK, Zurich, (Capital Sf3m.) This move will enable Schweizerische Bankgesellschaft to cover the small credit sector and forms a part of the company's effort to provide a comprehensive range of banking services. The bank already owns some eleven banks in the finance sector including Internationale Industrie und Handelsbeteiligungen AG (INTERHANDEL), capital Sf.96.708 million which it took over in 1966. (see No 375).

** TEILZAHLUNGSBANK FINANCIA GmbH, Fribourg, Brisgau, West German subsidiary of the Belgian/Canadian group STE HYPOTHECAIRE & DE GESTION FINANCIA SA, based in Antwerp (see No 434) has had its capital raised from Dm 1 to 2.5 million and its name changed to BANK FINANCIA GmbH. The Belgian group has numerous interests in the Common Market and recently negotiated the absorption by its Paris subsidiary Financia SA, Paris, of an affiliated concern, Banque Generale Lyonnaise Pour Le Credit a Long & Moyen Terme SA, Lyons.

** SOGEMINES LTD, Montreal (see No 430), the Canadian investment company, and a member of the STE GENERALE DE BELGIQUE SA, Brussels (see No 459) is to float a loan of $ Can. 15 million under the title FIRST MORTGAGE SINKING FUND, carrying 8% interest over a period of twenty years. For each $ Can. 1,000 of capital subscribed, the holder will receive a warrant of entitlement to 20 Sogemines shares, at the price of $ Can. 15 each, up to June 1, 1973, and at $ Can. 17 thereafter, up to June 1, 1978. Stock held under the loan will be subject to the 15% Canadian "withholding tax".

** Negotiations are taking place between the two leading banks in Bavaria which may result in a group being formed to compete effectively with the present largest bank in West Germany, the DEUTSCHE BANK AG, Frankfurt (see No 460). The two banks are BAYERISCHE HYPOTHEKEN - UND WECHSEL BANK, Munich (see No 448) and BAYERISCHE VEREINSBANK, Munich (see No 459). Both have considerable stakes in West German business and industry and together have over 500 branches.

The bank owned by the Land of Bavaria, BAYERISCHE STAATSBANK, Munich (see No 448), which shares interests in a number of companies with both of the other banks, may also take part in the proposed move, though this is not yet certain. If the three banks did merge, the group thus formed would be slightly larger than the Deutsche Bank.

FOOD & DRINK

** The West German subsidiary of the British Cadbury chocolate group, (see No 273 - formerly British Cocoa and Chocolate Co Ltd) CADBURY-FRY GmbH, Bremen, is to be closed down in the near future. Formed in 1960, the company was known to have been in difficulties almost from the outset but until the announcement at a recent board meeting, there had been no indication of closure, especially as the company's capital was doubled in 1966 to Dm 12.6 million. Cadbury's are said to have found Germany an "uneconomic market" especially since 1964 when retail price maintenance was abolished for tablet chocolate. In addition to this factor, there has been the increasing cost of the raw cocoa bean which at times during this year has cost some three times as much as it did in 1965 and the increasing competition within the industry brought about by rationalisation and mechanisation.

** The Belgian bread, pastries and biscuit bakery, SA BOULANGERIE PATISSERIE-BISCUITERIE SORGELOOS, Molenbeek-St-Jean, is to raise its capital in two phases from Bf 5 million to Bf 50 million in taking over and absorbing a similar firm based in Brussels, BOULANGERIE LEON PAUWEN SA.

** After over a year of long protracted negotiations three of France's major sugar concerns have finally merged (see Nos 437,408); these are SUCRERIES ET RAFFINERIES BOUCHON & PAJOT, SOCIETE INDUSTRIELLE DES RAFFINERIES DE SUCRE DE SAINT-LOUIS and CIE NOUVELLE DE SUCRERIES REUNIES. A new company has been formed, GENERALE SUCRERIE, SUCRERIES ET RAFFINERIES SOL, BOUCHON, SAINT-LOUIS SA, which will take over the production and distribution facilities of the three former companies. Initial capital of this new company will be F 49.82 million, but this will later be increased to F 120 million by calling on reserves. It has been estimated that the new concern will have a production capacity of some 550,000 tons of sugar per annum, 425,000 tons for the domestic market (ie some 25% of the French market) and 115,000 tons for exports. Group turnover for the financial year 1967-1968 should reach F 575 million gross and sales will be conducted through a company formed at the end of 1967, Commerciale Sucrerie.

In November of last year Sucreries & Raffineries Bouchon-Pajot played a part in the formation of Ste d'Etudes & d'Exploitation de Procedes pour L'Industrie Alimentaire-Sepial SA (see No 433) in association with Socaltra - Ste Alsacienne d'Etudes & de Travaux SA, Neuilly, Hauts-de-Seine and Ste Laiterie Moderne - Le Bon Lait SA, Lyons. With a capital of F 1.5 million (50%) paid up, this concern was formed to study, develop and promote processes for the treatment, preparation and presentation of foodstuffs, mainly along rapid freeze-drying lines.

** N.V. JORDANMILK DEZE, recently formed in The Hague (paid-up capital Fl 92,500) is to join with the Jordanian authorities and various local interests in giving 20% backing to the construction in Jordan of a milk processing plant, and it will give technical assistance to the project.

The Dutch company was formed by fourteen dairy companies or co-operatives, including Produktshap Voor Zuivel (about 7.4%); Nationale Cooperatieve Zuivelverkoop-Centrale G.A. (N.C.Z.), Amsterdam and Meppel (see No 405); Cooperatieve Vereniging Tot Het Verwerken & Verhandelen Van Melk "Cooperatieve Melk-Centrale" G.A. (C.M.C.), The Hague (see No 456); Cooperatieve Condensfabriek Friesland, Leeuwarden (see No 460), NV Firma Bosman, Rotterdam etc.

** The Antwerp food group IMPERIAL PRODUCTS NV (flour, puddings etc - capital Bf 50 m.; director M.G.Kreusch - see No 403), which has subsidiaries in Belgium, France and the Netherlands, is to merge with the printing concern DEVOS-LEMMENS in the newly-named CONTINENTAL FOODS SA, with either company holding 50% of the equity.

Imperial Products has expanded rapidly over the last two years, forming its Antwerp subsidiary Impy SA with Bf 1 million capital in 1966, and in 1967 raising the capital of its French subsidiary Imperial France SA, as well as taking over the Dutch Puddingfabriek Vertrix B.G. Godijn NV, Alkmaar (see No 396).

GLASS

** JAMES A JOBLING AND CO., Sunderland, County Durham, a member of the THOMAS TILLING Group (see Code Designs Ltd No 404) and manufacturers of "Pyrex" heatproof glass utensils, has taken a controlling interest in Spain's biggest producer of chemical glassware, AFORA S.L. The Spanish company has its main offices and warehouses in Barcelona and branches in Madrid and Bilbao.

Joblings have been selling extensively in Spain for some years now and this move was intended to expand the company's sales in the country even more. Mr Brian Turpin, managing director of the British firm has been appointed chairman of Afora, which will carry extensive stocks of Jobling glass as well as Quickfit and Quartz, QVF and H.J.Elliott products.

MINING

** The leading Brussels group UNION MINIERE SA (see No 463) is continuing to carry out a reorganisation of its interests following the nationalisation of its assets in the Congo. A few months ago it extended its stake in Canada and has now proceeded to form two new companies in Australia: UNION MINIERE AUSTRALIA LTD - UMAL (authorised capital Aus $ 1 m. - Aus $ 100,000 paid-up) which is backed entirely by the parent group and UNION MINIERE DEVELOPMENT & MINING CORP. LTD - UNIMIN (capital Aus $ 1 m. - Aus $ 50,000 paid-up) which is controlled by Umal. Both companies are based in Melbourne.

The Belgian group has been studying the possibilities of geological exploration in Australia for some months now along with its London shareholder Tanganyika Concessions Ltd (an 18% stake compared with 14.5% in 1967) in conjunction with the Peka Wallsend Investments Ltd group.

In Canada the group formed Union Miniere Canada Ltd - Umican with authorised capital of Can $ 10 million (Can $ 2.250 m. paid-up) in which Union Miniere has a 90% stake, Tanganyika Concessions Ltd (5%) and Sogemines Ltd (5% - see No 430). Umican has taken over from Union Miniere, the exploration and mining company formed in December 1967, Union Miniere Exploration and Mining Corp. Ltd - Umex (authorised capital Can $ 10m. - Can $ 2m. paid-up), which is also based in Montreal. This was set up to cover the exploitation agreement for non-ferrous ore deposits signed with the Canadian Nickel Co Ltd - Canico, Toronto (see No 439), a subsidiary of the International Nickel Co. of Canada, Copper Cliff, Ontario (see No 459). Umex also has a shareholding in exploration projects in British Columbia through its links with Wenner-Gren Development and a shareholding in Westrim Mining Corp.

At home the Belgian group has also been extending its interests and has set up in conjunction with the nuclear construction group Belgonucleaire (see No 444) a computer centre called Centre d'Information Generale - C.I.G., which has as its aim the resolution of problems connected with the administrative organisation, industrial and commercial management and scientific research of both groups.

OIL, GAS & PETROCHEMICALS

** OFFSHORE SUPPLY ASSOCIATION - O.S.A. which was formed in November 1966 under the same of OFFSHORE SUPPLY ASSOCIATION (NEDERLAND) NV, situated on the premises of NEDERLANDS SCHEEPVAARBEDRIJF "HANSA" NV, almost wholly-owned subsidiary of the Bremen shipping group DEUTSCHE DAMPFSCHIFFAHRTS GESELLSCHAFT "HANSA".

The latter was one of the initial shareholders in the British concern, along with NVG - Nordsee-Versorgungs-Schiffart GmbH, Hamburg) and Offshore Marine Ltd, London and Great Yarmouth, itself a joint subsidiary of the groups PROPRIETORS OF HAY'S WHARF LTD, London (through London and Rochester Trading Co Ltd) and NORTH SEA MARINE CONSTRUCTION CO LTD.

PLASTICS

** KAY BROTHERS (PLASTICS) LTD, Bollington, Cheshire, the manufacturers of Kayfoam urethane foams (see No 358) and a member of the Munich rubber and plastics group METZELER AG (see No 443, 436) has had its name changed to KAY-METZELER. The former Kay Brothers (Plastics) was acquired by Metzeler in November 1964 and was the first British subsidiary of the Germany company (96% of whose equity is held by the German industrialist, HerrWilly Kans). Through Kay Brothers Ltd and Chiswick Products Ltd Kay Brothers (Plastics) Ltd belonged to RECKITT & COLMAN HOLDINGS LTD, Dansom Land Hull, (see No 259).

The German company's other interests in Britain include the urethane foam department of P.B. COW INDUSTRIALS LTD., Woking, Surrey, a member of the "Li-Lo" plastic and rubber group P.B.COW & CO LTD., acquired in December 1965, the plastic foam processing firm (mainly for the automobile industry), PLASTIKADE LTD, Dukingfield, Cheshire(president Mr. John Denby) acquired a few months previously and METZELER MARINE LTD. (capital £1000), formed in association with Wm. J. Wardle of Peterborough. The latter firm imports, markets and manufactures plastic, wood, rubber and fibreglass boats, rafts and canoes. Of its sixteen or so foreign subsidiaries in France, Belgium, Denmark, Italy, Spain etc., it is the former Kay Bros. (Plastics) that has the highest turnover.

** REICHHOLD CHEMIE AG, Hamburg, involved last year in a take-over battle for its control between FARBWERKE HOECHST AG and REICHHOLD CHEMICALS INC., White Plains, New York (see Nos 413,416) has changed its name to REICHHOLD ALBERT-CHEMIE AG, Hamburg, following a decision made at an extra-ordinary general meeting. The former Reichhold Chemie AG (capital Dm 10.5 m.) made synthetic resins and powdered plastics, and with a payroll of 500 its 1966 turnover was Dm 66 million. The American Reichhold company had close links with its West German counterpart, the Hamburg firm being its licensee, while its principal shareholder was the American firm's chairman (Mr. Henry H. Reichholt), and there was a common director, Mr. Stefan Baum of New York. In July of last year however Hoechst outbid the American firm for control of Reichhold Chemie AG and became majority shareholder, whilst Reichhold of America remained a minority shareholder and continues its co-operation with the Hamburg firm.

The Hoechst group will make available its technical know-how to the Hamburg concern through another of its companies in the same sector, Chemische Werke Albert, Wiesbaden, Biebrich (see No 387). Close co-operation between the two firms will include the leasing of the latter's plastics factory to Reichhold.

TEXTILES

The Franco-Belgian concern STE D'EXPORTATION, DE DISTRIBUTION & D'IMPORTATION DE TEXTILES SA , Brussels, (president M.Maurice Debruyne), has made a subsidiary, called SEDITEX Sarl (capital F 30,000) of the branch it formed at Roubaix in France in August 1965.

The new company, managed by M.Jacques Debruyne, has no links with Seditex-Ste d'Etudes Pour Le Developpement De l'Industrie Textile Sarl, Paris (see No 454), formed a few months ago by a link-up of French and German interests (see No 443).

** The Paris RHONE POULENC SA group, which is reorganising its synthetic textiles interests (see No 457), is to have its wholly-owned subsidiary C.T.A. - CIE DES TEXTILES ARTIFICIELS & SYNTHETIQUES SA, Paris (see No 398) absorb STE VALENTINOISE D'APPLICATIONS TEXTILES SA, Paris. The latter makes "Rilsan" thread and hylon fibres and yarn for carpets (factory at Porte-les-Valence, , Drome) and polyester fibres (new factory at Valence, Drome came on line early in 1967). It has F 30 million capital, and until now was under the 83.3% control of RHODIACETA SA (wholly-owned subsidiary of Rhone Poulenc), the balance of the capital being held by C.T.A.

Abroad, the company being taken over holds shares in Rhodia Handelsgesellschaft mbH, Vienna, and in Sodipas - Ste de Diffusion de Produits Artificiels & Synthetiques SA, Ixelles-Brussels, wherein it is linked chiefly with Rhodiaceta and C.T.A. in the first case, and with Rhodiaceta and Crylor SA (80-20 Rhone Poulenc/Rhodiaceta joint subsidiary) in the second.

TOURISM

** GRAND METROPOLITAN HOTELS LTD. (see No 452) of London has acquired a long lease on a £2 million luxury hotel in the course of construction in the Rue de la Loi, Brussels. The new hotel is due to be completed at the end of 1970 and will have 350 bedrooms, each with a private bathroom; it will be close to a new underground railway system and an improved road system, both of which should be completed before the opening of the hotel.

Grand Metropolitan Hotels Ltd. (directed by Mr. Maxwell Joseph) was last in the news in connection with its bid for the Ste des Grands Hotels Associes SA which it finally withdrew in July of last year. Also during that year it formed GRAND METROPOLITAN HOTELS (INTERNATIONAL)LTD. for the express purpose of acquiring hotels in Rome, Brussels and Milan. It already controls Ste des Hotels Reunis SA (see No 352) which manages a number of hotels in Paris and Cannes.

VARIOUS

** The London auctioneers, SOTHEBY & CO, London (paintings, furniture, objets d'art) in association with its American affiliate PARKE-BENNET GALLERIES INC., New York, has opened offices in Florence under Sig. Agostino C. Dauphine.

Southeby & Co has an annual turnover in excess of £20 million and in 1966 was made a limited partnership, the capital being held by Sotheby Holdings, which is jointly controlled by the London Groups N.M. Rothschild & Sons (see No 450) and Anglo-Israel Bank Ltd (subsidiary of the Tel-Aviv bank, Bank Leumi-Le Israel - see No 245).

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