Common Market Reports
EUROMARKET NEWS

Issue No. 81

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Cut in French bank rate rumored

PARIS -- Downward drifts in Eurodollar rates recently led the Banque de France to intervene on money markets at 7-7/8% instead of at the official discount rate of 8%. The move was made originally to stem rising influxes of volatile funds from abroad. There is now some speculation that France may officially cut its bank rate. Finance Minister Valéry Giscard d'Estaing is thought to be sympathetic to the idea,since the cut could lighten France's interest burden without affecting the volume of credit supplied to the economy. It could also offer evidence of the success of his economic policies. But the Banque de France has historically opposed reducing the discount rate, preferring instead to loosen volume controls on credit. Banque governor Olivier Wormser may suggest using the situation to implement money market reforms. The French Government has often announced important economic moves in August, a month when most of the country is on vacation.

EEC, Britain to compare statistics

BRUSSELS -- The EEC Commission hopes to have statistics on Britain's Common Market entry problems ready by October 15. This would permit their examination and comparison with British figures at the next negotiating session. Earlier this month, Britain told Community representatives that it would submit its figures to the Commission soon. The U. K. representative,Anthony Barber -- since replaced by Geoffrey Rippon -- indicated that he was satisfied with the system of fact-finding proposed by the Common Market. This leaves the task to the Commission in collaboration with British experts. Differences are thought likely to crop up on the cost to Britain of the EEC system of farm finance, New Zealand dairy exports, and Commonwealth sugar.

Blessing joins bank rate criticism; industrialists worry over possible recession

FRANKFURT -- Latest to join in criticism of the Bundesbank's decision to lower the West German discount rate is Karl Blessing, a former Bank head. Blessing told the business publication Volkswirt that the move was premature and should not have been taken until West Germany's overheated econmy had cooled slightly. His remarks came as recession fears for 1971 appear to be gripping many West German industrialists. A new worry is that wages and prices would be further escalated by pay raise demands scheduled by the unions for October. I. G. Metall, West Germany's largest union, which counts 4 million members,reportedly plans to settle for nothing less than a 15% increase. Wages are already 13% higher now than a year ago; prices, 12%. If these increases continue, many German industrialists are predicting tough times -- especially for smaller concerns -- in 1971.

Germany's external reserves fall

BONN -- West Germany's gross external reserves fell by $172 million during the third week of July. The drop suggests that a recent cut in the country's discount rate has been a short-term success. The latest Bundesbank figures show a gross reserve of $9.53 billion. Gold holdings remain unchanged at $4.08 billion.

Warning to U. K. banks on lending growth

LONDON -- The Bank of England cautioned U. K. banks to slow the rate of growth in their lendings in coming months. The action came on news that total lendings had increased by $904.8 million,or over 2%,during the four-week period ended July 15. In March,the Bank of England had set a 12-month acceptable growth rate of 5%. After dipping in mid-April, restricted lending by U. K. banks has grown by almost the full 5%. During the latest period, borrowing by nationalized industries rose by $65.2 million. Borrowing in the private sector jumped by about $240 million.

British dock strike settled

LONDON -- British dock workers have gone back to work, thus ending their 15-day walkout. Settlement of the strike came when union leaders voted to accept a compromise plan drafted by a fact-finding panel. The settlement will give workers up to $6 a week more pay, mostly in the form of overtime and extra holiday pay, since they lost out in their demands for a higher basic wage. The added payments are expected to cost employers up to $12 million.

EEC concerned over U. S. protectionist moves

BRUSSELS -- EEC officials have expressed concern over U. S. Treasury Department intentions to open proceedings leading to increased American import duties on some Common Market farm products. New U.S. levies on French barley and molasses appear almost certain. The American contention is that the products are subsidized imports and under present statutes must be taxed. Community spokesmen point out that U. S. laws governing such imports have rarely been invoked and the threatened increases -- equal to 90 cents a bushel on barley and $38 a metric ton on molasses -- are out of line with the small amounts of barley (20,000 tons) and molasses (70,000 tons) that France exports to the U. S. each year. The EEC is expected to bring the matter before the General Agreement on Tariffs and Trade.

Zurich group sues Hill Samuel

LONDON -- The Zurich-based Swiss Israel Trade Bank has issued a three-line writ, suing Hill Samuel, the British merchant banking group,for negligence in the affairs of Spiraflite, an agricultural machinery producer. Spiraflite, which is now in receivership, encountered severe liquidity problems in May, one month after publication of an optimistic annual report. The firm was originally backed by loan and equity capital from Hill Samuel, a stake which cost the merchant bank more than $7.2 million. Reportedly, Swiss Israel lent Spiraflite some $1.4 million in May, secured by a large part of the equity. But the move was made without the knowledge of Hill Samuel.

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Swedish production growth slows

STOCKHOLM -- The fast growth of industrial production in Sweden during the last quarter of 1969 and the first quarter of 1970 slowed during the second quarter of this year. According to the latest report from the Swedish Institute for Economic Research, it will continue to level off in the second half of the year. In iron and steel, orders were well off from what had been predicted in March. Backlogs,which have been a permanent feature of the industry since 1967,have also fallen. The Institute predicts a further drop in industrial growth toward the end of 1970 attributable to a shortage of resources as well as a decline in demand.

Spain faces trade-gap problems

MADRID -- If provisional figures prove correct, Spain suffered a $225.3 million foreign trade deficit in June. This represents a gap 18% wider than that of a year ago. Spanish exports brought revenues of $1.167 billion during the first half of this year, but imports cost the country $2.-418 billion. Spain's Commerce Ministry recently created a General Bureau for Exports to push sales abroad and cut bureaucratic red tape at home. Now, new export efforts may include special tax rebates on products going to new markets. However, the Matesa scandal has badly shaken confidence in such plans.

Social security reform gets rough treatment in France

PARIS -- Government attempts at reform of the deficit-ridden French social security system have met stiff opposition from all sides. The result is that most short-term cures have had to be abandoned, and efforts now have been directed toward finding a long-term solution. Minister of Public Health Robert Boulin indicated that the Government may never be able to bring the system out of the red. One of the service's three funds, the health fund, will operate on a deficit of $165 million this year. If allowed to run unchecked, this deficit could increase to $1.8 billion by 1975. However, suggested changes in the system invariably meet opposition from one or another pressure group. One minor point that was adopted by the National Assembly -- a drop of 1.5% in retail drug markups -- brought closings of all of France's 15,000 pharmacies for one day, in protest.

Petrofina's I. C. M. move

PARIS -- Petrofina denied rumors that it was planning an increase in capital through a rights issue. Sources at the Paris Bourse had said that the Belgian oil concern would make the move as a result of its bid to acquire The Netherlands' International Coating Materials. Petrofina will admit only that it plans an increase in capital. An eleventh hour counterbid by West Germany's Bayer has forced changes in Petrofina's original I. C. M. takeover plans.

Demand forces Eurobond issue up

LONDON -- Strong demand from investors has pushed the amount of Swedish Atlas Copco's Eurodollar bond issue from $15 million to $20 million. The coupon rate remains the same at 9-1/2%. The issue price, expected to be fixed near the end of this week, is likely to be at a small discount. Observers feel that the reception given the Atlas Copco issue should convince other borrowers to try straight-debt Eurodollar bond loans soon.

Tasminex jumps again

LONDON -- The 25-cent shares of Australia's nickel prospector Tasminex jumped another $4.80. The rise came despite warnings from the company to investors that assessment of Mt. Venn nickel prospects would not be complete until October. Last January, Tasminex soared from $7.20 to $96,then nosedived to $30, all in one day. The new gamble values the company at $26.4 million.

Fiat takeover denied by Citroën president

PARIS -- Citroen president Pierre Bercot told a radio interviewer that Fiat's increased stake in Citroën will not result in Italian control of France's second largest auto producer. Most likely Fiat will be permitted to increase to 49% its interest in the Citroën holding company, the firm that controls Citroën. Bercot indicated that Umberto Agnelli's remarks to the French magazine L'Express confused the holding company with a new firm -- to be set up in Switzerland -- which would direct the combined resources of the two auto giants.This company will be open to other participants and might serve as a basis for the realization of Agnelli's plan to create a European car concern on the scale of the U. S.'s General Motors. Although Citroën is a much smaller firm than Fiat, Bercot noted that cooperation will take place on equal terms because of Citroën's advanced technology. It also appears that truck and heavy vehicle manufacturer Berliet will remain closely linked to Citroën. Speculation was that Fiat, which has a highly competitive heavy vehicle division, would attempt to convince Citroën to sell Berliet--possibly to the French state-controlled firm Saviem.

Veith - Pirelli expands in Germany . . .

FRANKFURT -- Veith-Pirelli will build a new plant at Merzig in the Saar,in Germany. The project will be carried out in cooperation with Continental Tire of Hanover and the German subsidiary of Dunlop. Cost of putting the plant "on line" will be about $3.5 million, and will be divided evenly among the three. Metal trams for radial tires will be produced.

. . . and Michelin in Britain

PARIS -- France's giant tire manufacturer, Michelin, plans construction of three new tire plants in the U. K. This brings to ten the number of installations that Michelin is building or plans to build outside of France. The British units will be located at Dundee, Aberdeen, and Burnley. All will be assigned special tasks in Michelin's tire production processes. They will cost about $31 million to bring into service -- reportedly toward the end of 1972 -- and are intended to complement Michelin's other three U. K. plants. Recently, the French firm announced construction starts on three West German installations, two Canadian ones, and one installation each in Spain and Italy. Michelin's management has been especially anxious to expand in North America, where its radial tire could score early successes against U. S. rivals.

Bourse report

LONDON -- Equities dull ahead of dock strike vote. PARIS -- Irregular. Quiet trading in electricals. Banks well maintained. FRANKFURT -- Resistant, with prices narrowly mixed. MILAN -- Hesitant, awaiting outcome of cabinet talks. BRUSSELS -- Generally firm. AMSTERDAM -- Most local industrials show gains.

Common Market Reports
EUROMARKET NEWS

Issue No. 82 August 11, 1970

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G. A. T. T. hosts textile talks

GENEVA -- A conference attended by representatives of the major trading nations in an 11th hour effort to forestall a threatened trade war ended with no firm agreement on the question of voluntary textile export curbs. The forum was initiated by Olivier Long, Secretary General of G. A. T. T. (General Agreement on Tariffs and Trade), to discuss obstacles to free world trade in general and the United States' so-called Mills Bill in particular. This bill seeks to limit U. S. textile imports under a quota system and, if adopted,could spark a protectionist wave throughout the world.

Delegates at the conference had no real negotiating powers, but it was hoped that the Japanese would make some sort of a commitment that would postpone legislative action in Washington. To do this, Japan would have had to agree to do on a multinational basis what it refused to do in bilateral talks with the U. S. Most representatives concede that if an accord is reached, Japanese textile exports will be affected the most. EEC officials particularly fear that a unilateral move by the United States to restrict Japan's textile exports to the U. S. would turn those exports to Europe, a move that would destroy the present structure of the market. Therefore, the EEC will press the Japanese to voluntarily limit their Common Market exports as well as their American ones.

For the short term, European countries will probably be ready to help the U. S. out of its textile problems. For the long term, the EEC may attempt to work out a new agreement that would cover not only cotton textiles but also woolens and man-made fibers. Such an accord would have to carry provisions for orderly growth in market areas. Here, European interests differ. West Germany will be anxious to protect its synthetic fiber trade; Italy and Britain their woolens.

Another conference will be convened soon, the intention being to keep all discussions within a G. A. T. T. framework. If the world's trading nations are ready to negotiate an agreement, the G. A. T. T. Ministerial Council, which meets formally on September 29, probably will appoint an official working party to consider the elements for a settlement.

France relaxes exchange controls; foreign investment given boost

PARIS -- Claiming that the recovery plan has ended,French Finance Minister Valéry Giscard d'Estaing ordered a virtual lifting of exchange controls for individuals. Frenchmen can now carry $720 abroad on travels in comparison to the $306 to which they had been restricted. Business transfer regulations were also relaxed,but,although movements of capital into France have been reversed during the past year, controls on large capital movements will be maintained.

New incentives will be offered to French companies to invest abroad. Oil and mining operations will be able to export 66% of their approved expenditures in lieu of the 50% currently permitted. This means that French oil and mining concerns need borrow only 34% of their investment expenditures abroad. Commercial investment ventures will receive a more sympathetic review, and exchange facilities will be allowed for any project that does not exceed $456,000. Industrial investors will be able to export freely amounts up to $456,000. One final measure instructs the Banque de France to buy back at par all French bank notes sent into France by foreign banks.

Colombo forms new Italian government; budget approved

ROME -- Emilio Colombo has been sworn in as Premier of Italy. Long a familiar figure in Italian politics, Colombo has been a Minister of Agriculture, Foreign Trade, Industry, and the Treasury. He succeeded in putting together a 27-member cabinet made up of his own Christian Democrats, Socialists, Unitarian Socialists, and Republicans.

Earlier, a caretaker government, largely influenced by Colombo, approved Italy's budget for 1971. It will be in deficit by about $3 billion. Income next year should reach $19.4 billion. Expenditures are estimated at $22.4 billion. Although the budget deficit has been geared to be the same as that for 1970, Italian financial experts point out that there will be a 10% drop in deficit spending because of rising prices. Government expenses should be $20.5 billion this year. Revenues are estimated at $17.5 billion.

O. E. C. D. warns Belgium to hold prices down

BRUSSELS -- The O. E. C. D. has told Belgium -- in the latest report on Belgian economic prospects -- that it must keep a tight rein on prices. Most Belgian wages are linked to the cost-of-living index, and an intended shift to an added-value tax system next January risks sparking price increases, if the move occurs during an inflationary period. The O. E. C. D. points out that thus far Belgium's cost performance has been favorable, but a wage-price spiral could be particularly disastrous in an economy so closely tied to foreign trade. Current indicators show that a boom which had been gathering strength over the past two years began to falter in early 1970. This year, Belgian GNP can be expected to grow by about 5% in real terms -- less than last year, but in line with long-range needs.

Predicted growth rate drop for West Germany in 1971

BONN -- The West German Economics Ministry thinks that economic growth in the Federal Republic will slow in 1971,but prices and costs will rise substantially. Ministry officials feel that real growth in the German GNP -- which for 1970 has been estimated at 5.8% -- will drop to 3.6% next year. Consumer prices should jump by 2.8%,compared to this year's estimated rise of 3.8%. Otto Schlecht,a senior Ministry official, recently indicated that the Economics Ministry was planning for a GNP growth rate of about 4.7% each year between 1971 and 1974. Price hikes here, he said, would hit the state and investors rather than the consumer.

French price forecast revised

PARIS -- The French Finance Ministry said that prices rose by another 0.5% in June. This means a total hike of 3.2% on the price index for the first

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half of this year. Finance Minister Valéry Giscard d'Estaing now indicates that French prices will rise by 1% more during 1970 than the 4% which he originally forecast. Giscard d'Estaing claimed that a higher than expected increase in wages -- estimated at 8% - 10% -- was the main reason why his earlier prediction could not be met. At Common Market financial discussions, he has characterized French inflation as being imported. Pierre Fourcade, director of the prices section in the Finance Ministry, anticipates a rise of 4.7% in French prices during 1970.

Experts feel that inflation has cut about 6% away from the 11% advantage that last year's franc devaluation gained for French exporters. However, measured in terms of its currency,France's overall trade position is good. Officials at the International Monetary Fund rate the franc as one of the world's stronger currencies. Inflows of foreign funds into France have pushed reserves up to $4 billion. One year ago, they stood at $1.3 billion. In addition, France has repaid all of its medium-term foreign debts. During the month of July,visible reserves at the Banque de France increased by $46.5 million -- the largest one-month post-devaluation inflow.

U. S. conglomerate fails on Eurobond interest payments

LONDON -- Commonwealth United, a U. S. conglomerate in which I. O. S. had staked an estimated $50 million, has defaulted on interest payments due on a $30 million Eurobond offering. The firm's principal paying agent, Chemical Bank,said in New York that it had no idea when or if the money needed for payment would be available. Last March, Commonwealth obtained a $13.5 million loan from three U. S. banks in a move that company president Louis Nicastro characterized as putting the firm on "a sound financial footing." At the moment,Eurobond traders are unable to quote a nominal price for the bonds, which are convertible and carry a rate of 5-3/4%.

Earlier this year, Four Seasons Nursing Centers of America,which floated a $15 million Eurobond loan,filed for bankruptcy and defaulted on its interest payments.

German firms interested in French automotive market...

PARIS -- Two leading West German producers of automotive equipment,Mannesmann and Bosch, may benefit from merger moves within France's fragmented auto parts industry. Mannesmann, in partnership with West Germany's Kugelfischer, has acquired two-thirds of the Société Lyonnaise des Eaux's controlling interest in Sigma,a manufacturer of hydraulic and injection pumps. Bosch, through a minority holding, finds itself in the middle of plans to reorganize Paris-Rhône, an automobile starter producer. Cibie, a French headlight firm,which holds the majority Paris-Rhône interest, is negotiating contracts which should give Paris-Rhône 65% of the auto-starter market in France. Bosch was thwarted in moves to take over Sev Marchal, another headlight concern, earlier this year by a Government veto.

...while D. B. A. expands German sales

PARIS -- France's leading auto parts manufacturer, D. B. A., plans to attack the West German market. Shedding former policies of complete concentration in France, the firm will open a factory at Saarbrücken. The unit will produce disk brakes for sale in the Federal Republic. D. B. A. hopes soon to be big enough to compete with Germany's Bosch and Britain's Lucas. The company was formed in 1959 through the merger of Ducellier, Bendix, and Air Equipment.

U. K. firm eyes Danish electronics possibilities

COPENHAGEN-- Rank Bush Murphy, a division of the U. K.'s Rank Organisation, will become majority stockholder in a new firm set up in cooperation with Hede Nielsen, the Danish electrical company. The new company, called Rank Arena A/S, will continue and expand the hi-fi, radio, and television business carried out by Hede Nielsen under the name of Arena. Nielsen's Arena output was hard hit following a fire at its main plant last May. Before the disaster, Arena products held one-third of the Danish radio-TV market. Terms of the deal have not yet been announced.

B. S. N. to seek Frankfurt listing

PARIS -- France's Boussois Souchon Neuvesel (B. S. N.) glass firm is ready to seek a listing on the Frankfurt bourse. Company spokesmen said that the date will depend on technical problems, such as exchange control regulations. B. S. N. is involved in West Germany's newly formed Delog-Detag group. Also, subsidiaries, such as Brasseries Kronenbourg, have interests in the Federal Republic's food and drink industry.

Fashion merger mooted

AMSTERDAM -- The Dutch fashion firm Gebr.Gerzon's Modemagazijen is talking merger with an unnamed firm. Reportedly, the offer is a cash bid for all of Gebr. Gerzon's outstanding shares. According to sources at the Amsterdam bourse, the firm's share capital amounts to about $333,000 worth of preferred stock and $777,000 of common stock. Gebr. Gerzon had a loss in 1969.

Brown Boveri expands in Iran

ZURICH -- Switzerland's giant electrical firm, Brown Boveri, will form a holding company in Iran. The new concern will handle sales, assembly and servicing. Brown Boveri spokesmen indicate that recent promotion efforts in Iran have paid off. Although reluctant to disclose figures, the same spokesmen say that turnover has risen sharply in the past three years.

Rhône - Poulenc to buy out Dow Corning interest

PARIS--Société des Usines Chimiques Rhône-Poulenc, a subsidiary of France's most important chemical concern, Rhône-Poulenc, plans to acquire the 40% Dow Corning holding in Société Industrielle des Silicones (S. I. S.). Part of the deal involves agreement on a Dow Corning technical production license. Rhône Poulenc already holds an indirect interest in S. I. S. via a 51% stake which it recently acquired in Pechiney-Saint-Gobain. Pechiney-Saint-Gobain controls 60% of S. I. S.

Alusuisse chooses German engineers for plant project

FRANKFURT--Farbwerke Hoechst's subsidiary Friedrich Uhde will supply know-how and engineering talent for the construction of Alusuisse's giant alkali-chloride electrolysis project at Wilhelmshaven. The plant's initial capacity has been projected at 115,000 metric tons of chlorine and 130,000 tons of sodium hydroxide a year. The unit should begin production in 1972.

Philips in Belgian modernization moves...

BRUSSELS -- S. A. Philips, a Belgian subsidiary of Philips Gloeilampenfabrieken, plans an outlay of some $59.7 million to expand and modernize six of its seven Belgian factories. Roughly half of the money will be used in a modernization effort for a unit at Hasselt. Of the rest, $21 million will be invested in factories at Turnhout and $1.2 million in facilities at Lommel. Philips will receive parallel financial assistance from the Belgian Government. The plants are all in the Flemish area of Belgium.

...Ford, too

BRUSSELS -- Ford-Werke, the West German subsidiary of the U. S.'s Ford Motor Company, will spend $42.2 million in the expansion of its production facilities at Genk, Belgium. The plant turned out 270,000 cars and 41,500 light trucks last year. About 90% of Genk's production is exported to other markets in Europe.

Irish exports set record, but volume rise sluggish

DUBLIN -- Although exports from the Irish Republic hit a record $969.6 million in 1969, the volume increase reached only half the original Government target. Disinflationary trends in Britain were cited as the main reason for the shortfall. Export prices rose by 6%,reflecting severe cost inflation.

Tube Investments in expansion move

LONDON -- Tube Investments (T. I.) has spent $4.5 million in cash to acquire Crypton Triangle, a producer of engine diagnostic and brake testing equipment. T. I. now holds a commanding position in the field of transport service equipment in Britain. Crypton will join V. L. Churchill and Joseph Bradbury as parts of T. I.'s machine tool department. Each firm will make and market its own products. In a parallel move, T. I. announced that it had sold its interests in Churchill Tools and Services, a small tools distributor, for $2.6 million.

Bosch factory planned for Belgium

BRUSSELS -- The Belgian Regional Economics Ministry admitted intentions of helping West Germany's Robert Bosch finance the early stages of construction of an electrical auto parts plant. Total cost of the unit has been estimated in the range of $24 million. Tirlemont in Belgium has been chosen as the site.

Bourse report

LONDON -- Gilts easier, but resistant. Equities off slightly. PARIS -- Quiet and weaker. FRANKFURT -- Prices down slightly in very dull trading. MILAN -- Light trading. Industrials and insurances gain on selective buying by mutual funds. BRUSSELS -- Dull; leaders in downward slide. AMSTERDAM -- Internationals weak, local issues maintained in very light trading.

Common Market Reports
EUROMARKET NEWS

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U.K. economic expansion may have to wait

LONDON -- Robert Carr, secretary of state for employment and productivity, warned that the U. K. is headed for "economic disaster" unless inflation is quickly brought under control. He also indicated that government plans for tax reductions and measures to stimulate the British economy might have to be postponed. According to official estimates, the average rate of wage increases in the U.K. will remain above 10%. Several major claims for wage increases, which remain to be negotiated, may push this higher. Carr told Britain's labor leaders that the government can plan no economic expansion or tax reductions until control over wage demands was regained. He claimed that British wages were rising twice as fast as prices.

EEC - IMF loan link urged

BRUSSELS -- The EEC monetary committee has urged the Community to link its system of medium-term monetary aid to the International Monetary Fund (IMF). However, in its annual report, the committee also notes that the Common Market countries are far from agreement on how close the ties should be. Current EEC plans call for the creation of a $2 billion pool of funds which would be available to Member States encountering two-to-five year balance-of-payments difficulties. At present, this idea has run into a West German and Dutch roadblock. The two do not want to adopt the medium-term money pool until plans for medium-term economic cooperation are ready to be implemented. The committee thinks that decisions to allocate funds from the pool could be taken by majority vote, and conditions for the loans could be made similar to those of the IMF. In this way, EEC states would have two loan sources. An IMF link could also ensure repayments into the EEC pool if Community creditors needed their money back.

French miffed over G. E. - Honeywell deal

PARIS -- The transaction in which General Electric sold its 66% holding in Machines Bull, the French computer company, to Honeywell severely tested French pride. After weeks of hesitation, the French government approved the deal. Part of the delay was due to the opening of old wounds which have only partially healed since G. E. bought control of Bull in 1964. At that time, the government realized that France's computer industry was in a difficult state and created a national company--Compagnie International pour l'Informatique (C.I.I.)--to produce computers. This time, the directors of C. I. I. tried to persuade the government to repurchase Bull and merge it into their national operations. But the government decided otherwise because of the cost. However, officials at the department for industrial and scientific development succeeded in imposing a number of conditions on Honeywell. Honeywell will not only have to keep Bull's staff, operations, and research programs, but must also continue to buy Bull's components from French sources. In addition, Bull exports must be pushed. To satisfy C.I.I.,which now has links with the U. S.'s Control Data, a new Plan Calcul will be launched. It will start in 1971,and at that time C.I.I. will receive new capital for expansion.

Battle threatened at IOS

GENEVA-- Top management officials at Investors Overseas Services (IOS) are trying to persuade ousted chairman Bernard Cornfeld to accept a compromise and call off the proxy war which he has threatened. Reportedly, they are ready to offer him a management role. This would fall short of Cornfeld's demand to be director. Cornfeld intends to bring suit in New Brunswick, Canada (head office of IOS's parent firm) in order to have the Toronto shareholders' meeting of June 30 declared invalid. It was at that time that he was voted off the IOS board.

International Investment Trust, the largest IOS mutual fund, will promote a financing operation by International Controls Corporation (I. C. C.), an electronic equipment concern which has pledged to lend IOS $10 million. The fund will exchange its holdings in I. C. C. Eurobonds for a new issue of I. C. C. stock.

September fixing for Canadian dollar?

LONDON -- The Canadian dollar made sharp gains in unsettled trading on London money markets. At one point, a level of just over 98 cents (to the American dollar) was attained, the highest since early June. Canadian government bond issues were thought to have played a part in the rise. But London experts argue that the Canadian currency has been trending upward on suspicion that a new parity would be fixed soon. Recently, the International Monetary Fund board urged Canada to return to a fixed rate by September. Official Canadian reaction to the IMF request is that Canada's balance of trade and trade position,and international money markets, rather than IMF pressure will determine the pegging of the dollar. Privately, many experts state that the eventual rate will not be very far above the old rate of 92.5 cents. In their view, upward pressure has been exerted by short-term funds which are still making their way into Canada.

Colombo hints at fiscal controls

ROME -- Prime Minister Emilio Colombo told Parliament that Italy's new coalition government will intervene soon to protect the Italian economy. The measures envisioned will probably not hit total consumption or production costs. But certain of them will be of a fiscal nature. Colombo felt that the Italian economy was not yet in a dangerous state. However, he appeared to believe that interventions which would move real resources from the area of private to public consumption were needed. Another aim will be an increase in productive investment. The Prime Minister also promised a government white paper on public expenditure in an effort to evaluate its compatibility with Italy's resources. Colombo denied once more that the lira would be devalued.

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EEC prepares currency contingency plans

BRUSSELS -- Common Market officials are readying contingency plans for use if the International Monetary Fund adopts wider margins for currency fluctuations. The EEC is committed to maintaining the present spread between the parities of member countries' moneys and the dollar. But at the same time, Community officials are worried that the IMF may accept wider bands at its annual meeting in September. EEC economic experts hope to devise a mechanism for joint action on international foreign exchanges to support any of the EEC currencies. The basic problem confronting them is how to avoid creating a stabilization fund into which the Member States would pool their reserves.

Nordic ministers meet

STOCKHOLM-- The Prime Ministers of four Nordic countries--Denmark, Finland, Norway, and Sweden--met to discuss trade relations. Denmark and Norway have opened formal talks for entry into the Common Market. Sweden is a reluctant bidder. Finland withdrew from the proposed Nordic customs union last April--a move which killed the project. It is apparent that if the Danes and Norwegians enter the EEC, the Swedes and Finns could suffer. The latter are intent upon reviving some sort of trade cooperation among Nordic countries.

Swiss trade gap jumps . . .

ZURICH -- Switzerland's trade gap rose during the first six months of this year to about $708.3 million. It stood at $298 million for the first six months of 1969. The chief cause of the deficit was expanded Swiss imports, up by 29% to $3.2 billion. At the same time, exports gained by only 14%, totalling revenues of $2.4 billion. In June, imports jumped by 29.6% over June of last year, and exports rose by only 19.9%. This produced a one-month gap almost double that of the year before.

. . . and so does Greece's

ATHENS -- The Greek balance-of-payments gap widened to $189 million during the first five months of 1970. For the comparable period in 1969, the deficit was $184 million. The January-May trade deficit for this year was $414 million, despite a 16.9% increase in exports. Imports cost the country $654 million. Invisible earnings totalled $321 million. The Greek government plans to float its fourth and largest loan since 1967 on October 12. It will be a $73.2 million bond issue of 20 years' duration at 6.5%.

Lufthansa places option on DC - 10's

FRANKFURT -- Lufthansa, West Germany's principal airline, has signed a letter of intent to buy five McDonnell-Douglas DC-10 tri-jets. Although in no way binding, the letter should enable the German firm to purchase its aircraft--even in the future--at the current price. Lufthansa will continue to test applications of the Boeing 747 before confirming the order. Its top management is thought to be sympathetic to Boeing's sales pitch that the 747 will eventually be economic on shorter routes once traffic increases. Lufthansa is a member of the Atlas Consortium of European airlines, along with Air France, Alitalia, and Sabena. Alitalia has placed a firm order for four DC-10's, and Sabena has options on two. One of the intentions of the consortium is to pool equipment and resources in order to keep support costs down.

White Weld in European expansion

LONDON -- International investment banker White Weld plans an expansion of its European operations. The move comes as many other Eurobond houses are trimming staffs--especially in their secondary operations. Stanislas Yassukovitch, White Weld's London-based general partner, said that W. W. Trust, a new holding company, will be formed in Switzerland. But existing European units will continue under their present names, with the exception of the secondary Eurobond section, which will be turned over to White Weld Securities. An area that has been earmarked for considerable development is that of Euro-equities. White Weld was the second leading manager of internationally syndicated issues during the first six months of 1970. Most experts regard the firm as the leading market maker in secondary issues.

New strikes plague Leyland

LONDON-- A wildcat strike by 16 pieceworkers stopped production of British Leyland's best selling 1100 at its Austin-Morris plant at Cowley. The walkout triggered others, resulting in a total shutdown of body output at Swindon. Leyland has been hurt by labor troubles throughout the year. During the first half of 1970,production was especially slowed by disputes at the factories of components suppliers. The Austin-Morris division has not had a quiet day since Monday, August 3,the day when its managing director, George Turnbull, appealed to his work force to buckle down to more production.

Pirelli - Dunlop merger progresses

ROME -- Pirelli president Leopoldo Pirelli told shareholders in a semi-annual report that merger talks under way between Italy's largest tire company and its British counterpart, Dunlop, would likely succeed. Approval of the details of an agreement will be sought at an extraordinary general shareholder's meeting in late 1970. Pirelli profit figures for the first half reveal that the firm's electric cables--an area in which Dunlop is not active--had the fastest growth. General sales of rubber goods remained unspectacular.

German firm may help Soviets build truck plant

BONN-- West Germany's Daimler-Benz soon may conclude an agreement to build a truck factory in the Soviet Union. Observers familiar with the negotiations, now nearing completion, say that Daimler would supply the USSR with technical know-how rather than actual construction help. Reportedly, no Daimler vehicles will be built by the Soviets under license. Significantly, the West German Economics Ministry has not received any applicantion for assistance with export credits. The factory would be located near Moscow.

Swiss merger move

ZURICH -- Contraves, a Zurich-based member of the Oerlikon Buehrle electronics group,has taken over two Swiss electronics firms, Keltron and R.U. Schild. Both market electronic control equipment. Contraves plans to merge the two with one of its divisions to form a new concern,Contraves-Antriebstechnik. Production facilities will be located at Aegerten. Headquarters will be at Ruemlang.

Citibank to offer computer service for Britain

LONDON -- The U.S.'s First National City Bank is in final negotiating stages with a number of U. K. banks to provide a computerized corporate planning and financial analysis service. Citibank hopes to introduce two of its forecasting models. One, called Modfun, can test a customer's credit potential in 20 minutes. It can also forecast a financial performance for small companies from a minimum of data. The other, called Command, will produce a detailed financial forecast covering every aspect of a large firm's operations. Observers in the U. K. feel that Citibank's effort will be directed at the traditional customers of Britain's clearing banks.

Bank of America creates London headquarters

LONDON -- Bank of America, one of the major operators on the Eurodollar market, has formed an International Financial Center in London. The unit will coordinate money and exchange activities abroad and will provide a consulting service for customers and financial institutions. It will also act for the bank's San Francisco headquarters. The center will include Bank of America's London Eurocurrency unit.

Parz plans takeover

ZURICH -- Parz Finance, the holding company of the Schindler elevator and engineering combine, is seeking a takeover of Inventio, a concern which manages Schindler's patent and licensing operations. Parz plans a two-stage capital increase, raising its present $7.1 million to $7.9 million, to effect the move. The final stage should provide shares for the takeover offer. Success is dependent on at least 80% agreement to the bid by Inventio's shareholders.

Bayer withdraws I. C. M. bid

AMSTERDAM -- West Germany's Farbenfabriken Bayer has withdrawn its 3-1 bid for International Coating Materials (I. C. M.), a Dutch paint and varnish concern. The move came after an I.C.M. announcement indicating preference for the 12-5 offer of Belgium's Petrofina. Earlier this summer,it appeared that a real battle would be waged by Bayer with Petrofina for control of I.C.M.

Bourse report

LONDON -- Gilts fall to four-month low on inflation warning. Equities resist Wall Street setback. PARIS -- Dull and inactive. FRANKFURT -- Leading chemicals and electricals well maintained in overall quiet conditions. MILAN -- Most sectors gain ground in quiet trading. BRUSSELS -- Dull and irregular. AMSTERDAM -- Local industrials mixed. Shippings and plantations featureless.

EUROMARKET NEWS

Common Market Reports
EURO MARKET NEWS

Issue No. 84 August 25, 1970

German labor chiefs ready autumn demands

FRANKFURT -- Leaders of I. G. Metall, West Germany's largest and most important labor union, are making final preparations for their autumn round of wage negotiations with employers. Talks with the metal industry will be held this year on a regional basis. Certain to be one of the chief points of union attack is the industry's high margin of profit. I.G. Metall's representatives have not revealed just how much of a raise they will ask for, but observers feel that a hike of at least 12% to 15% will be demanded. In two moves designed to place heavy pressure on employers, the union revealed that its total membership has grown by 2.2% in the past year, and that its strike fund is larger than ever before. Recently, union officials lashed out at Daimler-Benz and Volkswagen price increases, stating that the raises came before the union had presented its demands. Employers are challenging I. G. Metall's figures on industry profits. Last year's negotiated increase of 8% came before the Europe-wide trend of large wage settlements started. Reportedly, the union now feels that it must make up for lost time.

F. H. A. cuts links to British bank rate

LONDON -- The Finance House Association (F.H.A.),the representative of the U. K.'s leading credit firms, will stop using the official British bank rate as a guide to the lending rates its members should apply. The F.H.A. plans to apply its own base rate as an alternative. In practice, this Finance House rate would be used for loans to commercial and industrial customers--some 30% to 50% of F.H.A. members' total business. In the past, the rates on commercial and industrial loans were closely tied to the bank rate. Last year,when money market rates moved far ahead of the bank rate, U. K. finance houses lost business--and money. Now, the F.H.A. will work out its own rate each month. If the method which the F.H.A. will use to calculate its rate had been applied last year, the lending rate would have varied between 8-1/2% to 10%. At present, the rate should be 8%.

New Italian tax measures in preparation

ROME -- Italy's new coalition Government is readying new tax proposals. Most experts believe that an increase in the tax on gasoline is inevitable, even though Italy's gasoline prices are already Europe's highest, and oil companies are contemplating new hikes. Another easy tax target is alcoholic beverages and luxury goods. Also, higher taxes on automobiles, including purchase and road use taxes, will probably be adopted. Premier Emilio Colombo will try to satisfy two of his main economic objectives with the increases. One is to raise about $480 million as quickly as possible, and the second is to curb consumption while avoiding accelerating inflationary price pressures.

France to go ahead with tourism project

PARIS -- Despite outcries from both government and public sources, France's regional development authority plans to push ahead with its massive tourist development project in the coastal area of Languedoc Roussillon. The government is presently committed to invest almost $15 million in public funds there by 1973. So far, about $8.2 million has been spent. The main difficulty is that the project has failed to attract private investments. As a result, only one of the planned six tourist towns is complete.

EEC finds competition with U. S. firms difficult . . .

BRUSSELS -- The EEC Commission, in a newly released background document on American investment in the Common Market, says that Community firms are not capable of competing with their giant U. S. counterparts under existing conditions. The U. S. organizations are better managed, show higher profitability, and spend more money on research. European companies have been hampered in their efforts to cut the American lead by the lack of a unified EEC industrial policy. The Commission coupled these observations with a call for quick implementation of its blueprint for industrial integration.

According to the paper, U. S. investments in Europe are currently running at three times the rate of transnational investments of Community firms. Among the major barriers to such types of investments by EEC companies are national monetary and fiscal restrictions, lack of a European company statute, and the dispersion of research and public works contracts. The Commission also thinks that Community firms have less access to international capital markets than do American firms. The paper criticizes a new upward trend in investment aids offered by EEC Member States to attract U.S. investment.

. . . and O.E.C.D. says overcoming U. S. computer lead almost impossible

PARIS -- According to an O. E. C. D. study, one of the U. S.'s greatest strengths in the computer field is the ability of American firms to bring inventions swiftly and successfully to the market. The report, prepared by experts representing the science ministers of the O.E.C.D. countries, goes on to say that the exploitation of an invention depends on successfully combining multiple hardware technologies into a total system which is operationally and commercially viable. Such an approach calls for an orientation of research and development toward a defined market strategy and the financial support to bear not only high development costs but also certain risks of failure. The O.E.C.D. team attributed the origins of the U.S. computer lead to the early existence of extensive American sales outlets in Europe. Also, U. S. manufacturers were aided heavily by American government purchases when the computer market was just developing. For the future, the O.E.C.D. thinks it will be extremely difficult for the firms of other countries to break the American lead. One reason: most new sales prospects respect the reputation of the American leaders. The O.E.C.D. finds that many potential customers for other than American firms simply refuse to look or think of anything but a U. S. brand name.

Ireland to float Eurobond issue

DUBLIN -- The Government of Ireland will once again seek money on the international market, this time through a $27.6 million Eurobond offering

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timed for early September. The borrowing, to be denominated in D-marks, will help make up a shortfall in the financing of this year's Irish public capital program. Almost one year ago, Ireland floated a $2.4 million D-mark-denominated issue, which was heavily oversubscribed. The action comes despite heavy criticism leveled at foreign borrowing by T. K. Whitaker, Governor of the Irish Central Bank, in his recent annual report. S. G. Warburg,which is represented in the consortium that will manage the issue, has also arranged a standby credit of $30 million for Ireland, which will be available any time over the next five years.

French auto prices up

PARIS -- French automobile manufacturers have announced a 2% to 3% hike in the prices of all but a few models. This follows a wave of price increases affecting almost every sector of France's economy. Last month, the cost of gas and electricity was raised by 5%. Only railway charges remain unaffected. However, the S.N.C.F., France's national railroad, is studying the possibility of implementing new rates soon.

Yugoslav oil hunt

BELGRADE -- Drilling operations for oil and natural gas will begin shortly just off the Adriatic coast of Yugoslavia. The INA crude oil company of Zagreb recently finished prospecting the area. Naftaplin, another Yugoslav firm,reportedly is ready to join the effort. Both firms have independently spent about $25.2 million researching the region in the past ten years. Yugoslav experts are betting that the Adriatic seabed is as rich in oil as that of the Gulf of Mexico.

Bon Marché reorganizes mail-order operations . . .

PARIS -- Bon Marché, the French department store chain recently acquired by the Agache-Willot textile combine, plans to streamline its mail-order operations. The goal is to trim about $1 million of expected losses during the last half of 1970. Last year, Bon Marché's mail-order business lost some $2.1 million. Increased charges will be levied to cover catalog printing expenses, and catalog distribution will be halved--to 80,000--as part of the effort. Also, Bon Marché's buying operations will be combined with those of Belle Jardinière, another department store chain controlled by Agache-Willot.

. . . while Galeries Lafayette calls it quits

PARIS -- The Frankfurt-based firm Friedrich Schwab will acquire the mail-order interests of France's Galeries Lafayette department store chain. For the moment, Schwab, which is 87% controlled by the U. S.'s Singer Corporation, intends only to direct the French firm's mail-order sales and agent organizations, while holding a two-year option to purchase warehouses and equipment. Reportedly,Singer is highly interested in setting up a Europe-wide mail-order network.

Addmaster eyes U. K. decimal market

LONDON -- Addmaster of California has formed a U. K. firm to market its decimal electric adding machines and cash registers in Britain. Spokesmen for the company indicate the move was taken after long and detailed surveys of the U. K.'s market potential. Britain will shift to a decimal monetary system on February 15 next year.

Four Seasons bondholders postpone meeting

LUXEMBOURG The meeting of bondholders of the $15 million Eurodollar loan floated last year by Four Seasons Overseas was postponed until September 21. Four Seasons is a subsidiary of Four Seasons Nursing Centers of America, the firm which declared bankruptcy earlier this year and defaulted on its Eurobond interest payments. The Luxembourg Stock Exchange suspended trading in Four Seasons bonds in June, and no quote for the issue is currently available in the over-the-counter market. At the August 17 meeting, bondholders were required to form a quorum. In September, a simple majority will be enough. Subjects to be discussed include possible recovery actions by Finimtrust, Four Seasons Trustee.

Iceland seeks Swiss power plant help

ZURICH -- The Government of Iceland has asked Switzerland's Electro-Watt Ingenieurunternehmung to supply know-how for a new power station. The installation will be built in the southern portion of the island and have a capacity of 150 megawatts. Like the Burfell power project--in the same general region and already in operation--the new station will supply power primarily for aluminum production.

Spanish firm sells trucks to Cuba

MADRID -- ENASA,a Spanish state-controlled heavy vehicle manufacturer with links to the U. K.'s Leyland, has won a $12 million order for 780 trucks and buses to Cuba. The company recently received a contract to supply 1,000 cross-country trucks to the Spanish Army.

French auto-equipment makers talk

PARIS -- Discussions are continuing on a possible joint-operations agreement between Projecteurs Cibie and Paris Rhône, two leading French manufacturers of electrical automotive equipment. Cibie holds about 69% of the French auto industry market, Paris Rhône about 40% of the market for electric starters. Combined turnover of the two is about $96 million annually. Reportedly, the talks are aimed at forming a giant new group capable of taking on the entire European market.

Toyota - Daimler-Benz safety equipment cooperation mooted

FRANKFURT -- Japan's Toyota Motor Company is reportedly studying proposals made by the Federal Republic's Daimler-Benz concerning an exchange of data on automobile safety devices. Daimler has long been interested in Toyota's air-bag crash protection device. The Japanese bag is triggered by an electronic sensor to inflate before impact. Most conventional models inflate on impact.

Bourse report

LONDON -- Share index rises on U. S. credit easing. Gilts, equities edge higher. PARIS -- Quiet and firm. FRANKFURT -- Scattered gains in overall firm market. BRUSSELS -- Dull in light trading. AMSTERDAM -- Local industrials mainly higher. Most internationals quietly firm.

EUROMARKET NEWS

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EUROMARKET NEWS

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Eurobond demand and interest rates to remain high

LONDON -- Private and public demand for medium- and long-term funds is so strong that interest rates on the European capital markets are likely to remain high for many months. International bankers point to the fact that borrowers who issue loans denominated in dollars, D-marks, Swiss francs, and guilders are currently paying record interest rates. However, this has failed todiscourage cash seekers from forming long borrowing lines in several markets. Biggest present source of long-term funds is the Euro-dollar bond market. Some $987 million was raised there during the first half of 1970. At the moment, a borrower is obliged to attach a 9-1/2% interest coupon to issues which nominally cannot exceed $25 million. However, a counter-note to this trend is the City of Oslo's $15 million five-year offering. This will have a 9% coupon. Five-year notes normally produce a better yield and investors here can be satisfied with 9% instead of the higher coupon attached to 10 and 15-year offerings. Also, much depends on the quality of the borrower. One new swing, which could become a trend, is that toward D-mark denominated bonds. The last D-mark denominated issue was sold at 8-1/2%. The next one,to be floated by Japan's Industrial Bank, should sell at the same rate.

Heath to confront business and labor soon

LONDON -- Both sides of U. K. industry will talk to Prime Minister Edward Heath on general economic problems. Two items high on both labor and employers' lists are Britain's rapidly escalating wages and prices. A short time ago, the U. K. Government clearly indicated to Trade Union Council representatives that it was ready to face strikes--even in the public sector, if necessary--in order to curb rapidly rising inflation. In his coming confrontation with Victor Feather, T. U. C. head, and John Partridge, Confederation of British Industry leader,Heath is also expected to outline aims on economic expansion and tax reduction. Clouding the event will be new strike outbreaks all across Britain's troubled motor industry. The pound is now trading at $2.38-3/8, its lowest since September 1969, while gold on the London market registered the best advance--to $35.60--in the past several weeks.

Heavy fall activity for EEC money plans

BRUSSELS -- The EEC will probably direct most of its activity this fall to preparation of a time table for monetary and economic union. The effort will be parallel and probably central to the entry negotiations with Britain. The Common Market, which aims to lay the groundwork for a nine-year transition to full integration by the end of this year, has already chosen the name of its currency. This will be the Ecu (European Currency Unit), the coin of the French king, Louis XIV, which had the singular distinction of never being devalued. At the moment the EEC uses a dollar equivalent--known as the unit of account--in their joint dealings. Its major field of application is the Community's farm financing system.

French Finance Ministry wants income tax, TVA changes

PARIS -- The French Finance Ministry is hoping to persuade the Government to make important changes soon in France's income tax system and the rate of value added tax (TVA) on food. The Finance Ministry would like to harmonize the present, differing rates of income tax for salaried and self-employed persons. The new rates would be adjusted regularly to price increases in order to protect the poorest taxpayers from inflation. Also, the Ministry hopes to cut TVA on a wide range of processed food products from 17.5% to 7.5% to protect food purchasing power. The big difficulty is that the TVA reductions would mean a loss of about $181.8 million for the Government in annual revenues.

New regulations for French auto sales?

PARIS -- Worries over a continuing slump in new car sales may push the French Government to relax current installment sales regulations. Up to now, the slack in domestic demand has not been particularly noticeable because of efforts by the automotive industry to export most of its production. Now, many French businessmen are arguing that the franc has lost its previous edge over other foreign currencies, and auto manufacturers are reassessing their home sales situation. Early this year, the burden of light domestic business fell on foreign importers trying to sell their cars in France. Statistics show that the sales of French producers fell by 3% during the first six months of this year. This is not much in comparison with the 30% that foreign importers suffered, but enough to produce pressures for credit changes--especially in the restriction that requires at least a 50% down payment when buying a car in France. France's automakers also want a lengthening of the 18-month period now stipulated for full payment under installment sales plans.

European air fares under attack

ZURICH--Current methods of fixing European air fares have come under sharp attack from the Consumer Research Committee, an organization made up of consumer experts from Britain, France, Germany, Sweden, Norway, and Switzerland. The group argues that fares are kept artificially high and that what amounts to geographic discrimination is commonly practiced. Passengers traveling from Stockholm to London, Paris, Frankfurt, or Milan pay 3.6 times more than those traveling from Amsterdam, and 3 times more than those from Switzerland. However, the distance differential is less than 3. It is also argued that European travelers, flying in Europe, pay more for the same flights than overseas travelers. The Committee feels that airlines practice discrimination in the use of standard and creative fares. The latter can be maintained only by keeping standard rates at arbitrarily high levels.

B. A. S. F. complains over reactor ruling

BONN -- B. A. S. F., West Germany's chemical giant, is disputing a German Government decision on the construction of twin nuclear reactors at the company plant in Ludwigshafen. Recently, the Government decided to delay the project for two years pending a final ruling on whether the reactors should be built at all. The action was taken on grounds that Ludwigshafen

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is a heavily populated area and no absolute guarantee exists against accidents that could cause serious harm. Furthermore, the Government statement explaining the decision says that B. A. S. F. was in full agreement on the delay. B.A.S.F. representatives say they had been trying to contact West Germany's Science Minister for the past two weeks and could not obtain details of the decision until it was announced. The firm began research on the safety factors in 1968, consulting foreign and native scientists, and concluded that all danger had been eliminated. Kraftwerk Union, the joint Siemens- A.E.G. subsidiary which was to build the reactors,backs B.A.S.F., stating that concrete cases, twice as strong as those normally used, were to be employed. According to B.A.S.F., precautions went so far as to outline safety plans for use in the event that an airplane crashed directly into the plant. The firm has now submitted all of its research plans to the Science Ministry in the hopes of a reversal of the decision.

O. E. C. D. counsels expansion to Portugal

LISBON -- The O. E. C. D. has told Portugal--in its latest economic survey of the country--that it must adopt more expansionary economic policies in order to bring growth up to self-dictated targets. The O. E. C. D. experts felt that overall economic expansion was "reasonably satisfactory" in 1969 --GNP grew by 5%. However, it was still 2% short of the average annual growth required by Portugal's Third Development Plan. The O.E.C.D. counseled Portugal to refrain from either price or balance-of-payments restraints. The steep 1969 hike in prices is probably due more to inadequate adjustment of the structure of supply to demand than a tendency for demand to become excessive.

Italy's first half capital deficit improves

ROME -- A major factor in Italy's improved balance of payments performance during the first half of 1970 was a reduction in capital deficit. This dropped from $1.3 billion in the first half of 1969 to $22.4 million in the first half of 1970. Officials say the decrease reflects inflow from foreign bond and credit operations and also reduced unofficial capital outflows after the central bank's February restrictive measures. The total first half Italian payments deficit stood at $572 million.

Quiet promotion of Eurobond regulation plan

ZURICH -- The European banks that are actively involved in Eurodollar bond issues are quietly promoting regulations on the flow of new offerings. Their worries stem from a widely-held contention that lack of self-discipline by borrowers and advisers has contributed in large measure to the current depressed state of the Eurobond market. One idea being promoted is that of a queue system similar to those used on capital markets in Switzerland and Germany. However, most bankers appear reluctant to immediately impose this system on Eurobond dealings. Also, although it could work in theory, application in practice could be difficult. Priorities would have to be given not only to companies and banks, but also to governments.

Federal help for Daimler's Soviet truck bid . . .

BONN -- West Germany's Government has admitted helping Daimler-Benz in attempts to secure a contract to build a giant truck factory in the Soviet Union. The Soviets have reportedly asked the Federal Republic to foot half the construction costs, a first $270 million coming through state-guaranteed credits,and an equal amount coming from Daimler-Benz. The truck plant, which is to be built by Daimler and Italian, Dutch, and French companies, reportedly will have an annual capacity of 150,000 heavy vehicles. The Soviet Union's present annual output is about 100,000. Nabereshniye Tschelny, a town on the Kama River, has been chosen as the site.

. . . With France's Renault to be dealt in, too

PARIS -- Spokesmen for Renault, France's state-run and largest automobile concern, said that Renault was talking contract with the Soviet Union for construction of a complete truck factory. When built, the unit would be capable of turning out 150,000 heavy vehicles per year. Reportedly, USSR officials initiated the discussions in Paris last February.

Swedish reserves rise

STOCKHOLM -- Sweden's total gold and currency reserves rose by about $56.6 million in July, pushing total reserves to the $848.7 million mark. Since the beginning of this year, the inflow has been about $73.5 million. Recently, the crown, Sweden's currency, came under speculative pressure on European money exchanges.

Four Seasons bondholders pressure bankruptcy ruling

LUXEMBOURG -- Finimtrust,trustee of the $15 million Eurobond issue floated last year by Four Seasons Overseas, told reporters that Luxembourg's commercial court has declared the firm bankrupt. Four Seasons' parent company,Four Seasons Nursing Centers of America,has already been declared bankrupt by an Oklahoma court. The case has become important because it threatens to set a precedent for defaulted Eurobond interest payments. Luxembourg's court ruled that creditors should file claims by September 3. Most major creditors of Four Seasons Overseas were thought to be actively seeking the bankruptcy action in order to protect their interests in the face of possible action against Four Seasons Nursing Centers in the U. S.

Dow reportedly eyeing Swedish setup

STOCKHOLM-- Although company officials insist that a definite decision has not been taken,the U.S.'s Dow Chemical is thought to be planning to locate a factory at Norrkoping in central Sweden. The firm will not disclose what kind of products it hopes to manufacture there. However, the investment will total about $4 million. Construction will start next year.

Ford chooses Bordeaux for plant site

PARIS--France's long-awaited Ford plant will be built near Bordeaux. Company officals were not expected to make the announcement of the chosen site until late this year. Jacques Chaban-Delmas, National Assembly representative of the city as well as France's Prime Minister, is currently in the heat of a reelection battle,and the Government apparently felt an early announcement of the Ford decision opportune. Ford's decision should have a big impact on Bordeaux voters, indicating to them that much of the city development plans depend on the present Government's good will. The proposed Ford plant will represent an investment of some $72 million. These, of course, are French statistics. Ford, more close-mouthed than French officials, places investment costs at half this figure. Also, the eventual number to be employed at the unit varies, according to source,between 1,500 and 3,000--the lower figure being Ford's. However, it is apparent that the company intends the plant to be one of its largest in Europe. The auto firm probably will begin operations in Bordeaux with a transmission plant, but plans already on the boards include units for other auto parts and eventually an assembly operation. Ford's plant will be located in Bordeaux's Blanquefort industrial zone.

No bankruptcy for Sainrapt and Brice

PARIS -- Sainrapt and Brice, a bankrupt French public works concern, has been spared liquidation through a takecover by Devars Naudo, a small construction company. Devars, which had a 1969 turnover of $1.1 million, specializes in reinforced concrete. Sainrapt had a turnover last year of $3.3 million. Devars will get one-quarter of Sainrapt's capital in return for repayment of the $8.8 million which the bankrupt firm accumulated in debts to subcontractors and suppliers.

German S. K. F. acquires Seeger Orbis

FRANKFURT -- The West German subsidiary of Sweden's S. K. F. ball bearing company announced the acquisition of Seeger Orbis, a German production tool maker. Seeger will be organized within the S. K. F. group as a subsidiary of the German concern. The new acquisition has a share capital of some $2 million and operates three factories near Frankfurt.

Rumored Daimler-Benz agreement gives boost to Steyr's stock

VIENNA--Persistent rumors of an impending agreement with Daimler-Benz have created a strong demand on the Vienna Bourse for the shares of Austria's Steyr automotive firm. Steyr directors recently admitted regular contacts with Daimler but denied that merger plans were being laid. However, recent articles in Austrian newspapers have indicated that Steyr might soon become a major supplier of axles and gearboxes for Mercedes. This deal would depend largely on easier E. E. C.-Austrian trade barriers. Steyr and Italy's Fiat just extended their cooperation contract for ten more years.

Bourse report

LONDON -- Leader stocks ease after early week rise. PARIS -- Well maintained, in light trading. FRANKFURT -- Bayer mid-term profit announcement dampens interest in other shares. MILAN -- Most sectors down amid almost complete lack of buying interest. BRUSSELS -- Oils firm, most sectors off in moderate trading. AMSTERDAM -- Local industrials quietly mixed. Shippings and plantations off.

EUROMARKET NEWS

Common Market Reports
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France lowers discount rate . . .

PARIS -- A Government decision to lower France's discount rate by 0.5% apparently caught currency dealers by surprise. They had expected a decrease of at least one full point and had earlier worked out a new exchange rate on this assumption. Economic observers took the half-point drop as an indication of continuing Government determination to hold consumer spending in France to an absolute minimum. Since June, hot international money has poured into France seeking the high 8% interest rate. The Finance Ministry's problem was how to discourage this capital but at the same time to do so in a way that would not encourage - through low interest rates - increased private domestic spending. Finance Ministry officials now hope that the half-point drop in the discount rate will do the trick. French businessmen who have long had expansion plans held up by financing problems will find their task no easier. Money in France will be cheaper, but bank lending ceilings remain. Thus, although many can now afford to implement their plans, they will still find it hard to obtain ready capital. Some businessmen are betting heavily on what they hope will be two quick developments: That the discount level is found too high to maintain (only Belgium among EEC countries has a higher rate); and that the Government, knowing that the franc is losing its post-devaluation edge over other currencies, will relax lending and credit restrictions further.

. . . rumored hike coming in Britain's . . .

LONDON -- Sterling, which has been floundering throughout the summer, has now hit near bottom, sinking to $2.3813, its lowest dollar rate this year. August is usually a weak month for Britain's currency, but balance of payments fears plus strikes, especially in the auto industry, have added to traditional problems. Trading remains light, with lack of confidence especially evident in forward dealings. The Bank of England is thought to be intervening, using dollars to support the price. One particular fear is that current action may start a "circular" pullout. As confidence in sterling drops, U. K. balance of payments figures are affected and more sterling holders pull out over balance of payments fears. Reportedly, the Government will counterattack soon by raising Britain's bank rate.

. . . third Canadian reduction

LONDON -- The Canadian discount rate has moved from 7% to 6.5%, the third official reduction since May. Canadian Government sources in London said that the action was taken to ease upward pressure on the still floating dollar and lower the domestic unemployment rate. Reports persist that the Canadian dollar will be pegged before the September meeting of the International Monetary Fund. Currently, Canada's currency is trading at $98.-11/14.

Italian banks renew mutual interest rate agreement

ROME-- Italy's 13 largest commercial banks have agreed to pay no more than 6% interest on savings deposits and 7% on current accounts which average $400,000. An older cartel agreement to 3.75% and 3.5% expired at the end of 1969. In the interim, rates soared as high as 10% as banks competed for deposits. Officials explained that the Colombo government's new economic package, a sharp drop in capital outflows, and a trend toward easier international interest rates have produced a situation under which such an agreement can function.

Lloyds Bank acquires BOLSA

LONDON -- In a major international banking move, Bank of London and South America (BOLSA),will merge with Lloyds Bank Europe to become a direct subsidiary of Lloyds Bank. Most technical aspects of the move will be ironed out only after further discussions, but the merger will be effected by a transfer of Lloyds Bank Europe to BOLSA in a share exchange that will give Lloyds Bank a 50% stake in the operation. The deal already has the support of Mellon Bank International,an American concern which holds 14% of BOLSA's equity. Mellon will continue to remain a major shareholder in the merged facility. BOLSA's international involvement is mainly in Latin and South America; however, it has recently expanded business in Europe, especially in the London Eurodollar market. Lloyds Bank, which has deposits of some $6 billion, formerly held a 25% interest in BOLSA.

Italy reportedly set to join reactor group

ROME -- Italy is expected to join the nuclear reactor combine set up by Britain, the Netherlands, and West Germany. Negotiations to permit entry should start soon. The Italians made a bid one year ago to participate in the original formation of the organization, but it failed, reportedly because of internal problems within CNEN, Italy's nuclear authority. The result of the action was considerable embarrassment and resentment among Italian nuclear scientists and industrialists. The prevailing opinion is that exclusion of Italy could open up a dangerous gap between the interests of the combine and those of the Common Market.

Esso prepares novel Eurobond offering . . .

LONDON -- Esso Overseas Finance N. V., wholly-owned subsidiary of Standard Oil of New Jersey, will add a new twist to Eurobond dealings. The firm, backed up by its solidly credit-rated parent, plans a $50 million Eurodollar bond offering for September 11. Curiously, the issue will be divided into two loans. One consists of $30 million worth of five-year notes with an expected interest rate of 9%. The other is a $20 million, 15-year debenture offering, carrying a 9-1/2% coupon. News of the proposed floatation took the market by surprise, but upon reflection, most observers thought that it would attract a strong investor response. In view of recent bankruptcy proceedings involving certain U. S. Eurodollar borrowers, the market has tended to shy away from American offerings. However, a name like Esso could restore lost confidence. Morgan & Cie. of Paris will handle both Esso operations.

. . . CEDEL ready to incorporate

LUXEMBOURG -- CEDEL,the so-called "neutral" Euro-security clearing and delivery organization devised by several Luxembourg banks, will be incorpo-

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rated on September 28. Operations should start next January 1. Reportedly, 44 banks and financial houses have agreed to subscribe to the share capital of the new operation, and subscriptions actually received exceed the estimated $700,000 required. No real details of how CEDEL will work and what rates it will charge have yet been published, but it appears that the firm will bank on a "cost plus" arrangement, with about 750 trades a day to break even. January could mark the start of a bitter battle between CEDEL and Morgan Bank's firmly established Euroclear. What worries many dealers is the thought that CEDEL's establishment may have been motivated more by political than by economic considerations.

Lloyd's thinks premiums will increase

LONDON -- Lloyd's of London,the world's leading unlimited liability insurance organization, warns that a premium increase may be coming soon on all of its markets. The warning accompanied release of the firm's latest global figures. Oddly, most of Lloyd's underwriters predict profits, once business written in 1968 and 1969 can be closed. Lloyd's latest global figures pertain to 1967, the year the pound was devalued, and the company lost some $3.8 million. Some observers argue that that year the firm actually made a profit if interest earned on capital put up by way of deposits is taken into account. However, Lloyd's feels that the only way to avoid disasters - such as the record $81 million overall loss recorded in 1965 - is to charge realistic premiums in all classes of business. Translated, this means premium increases.

Phillips confirms success at two more North Sea sites

OSLO--Phillips Petroleum has announced successful tests at two more wells, confirming earlier hunches on the existence of a giant oilfield in Norway's sector of the North Sea. The new finds are some 185 miles southwest of Stavanger and are capable of producing almost 10,000 barrels of oil a day each. Phillips has also begun drilling at two other exploratory sites. Company officials appear to believe that these wells will also produce at the 10,000-barrel-a-day mark. Oil so far discovered has a gravity of 35 degrees and a low sulfur content. Phillips, which first announced discovery of the field last April, is operator and principal partner of a consortium which includes Belgium's Petrofina, France's Petronord and Italy's Agip. Actual production at the sites is expected to begin during the first half of next year.

Cornfeld back at IOS

GENEVA -- In return for a seat on the company executive committee, Bernard Cornfeld has agreed to drop suits which he filed against Investors Overseas Services (IOS). Cornfeld will now have a voice in the day-to-day operations of the mutual fund complex. Lurking behind the settlement was a report that IOS losses have continued to climb during the second quarter of this year. Unofficially, they now total $25.86 million for the first six months of 1970. Unaffected by Cornfeld's return are arrangements for a loan to IOS by International Controls Corporation (ICC). Cornfeld had filed suit in New Jersey to prevent the transaction. His view was that the move would give virtual control of IOS to ICC.

Rollei plans battle with Japanese camera makers

FRANKFURT -- West Germany's Rollei Kamerawerke, under mounting competitive pressure from Japan's camera manufacturers,intends to fight back, partially adopting Japanese methods. Rollei will transfer part of its production to Singapore in an effort to cut labor costs. The firm's new single lens reflex camera to be introduced in the fall, will eventually be entirely produced in the former British colony. Company director Heinrich Peesel asserted that Germany's wage scales are six times higher than Singapore's and twice those of Japan's. An estimated 60% of the total costs have formerly gone for labor. Rollei already has set up three subsidiaries in Singapore.

Philips finds washing machine partner

AMSTERDAM -- Philips Gloeilampenfabrieken,the giant Dutch electrical firm, will cooperate with West Germany's Bauknecht to manufacture household appliances, especially washing machines. Both firms will take a 50% stake in the basic capital of Bauknecht-Hausgeraete, a company that will act as vehicle for the effort. Joint production is expected to start near the end of this year.

Major South European Pipeline expansion

PARIS -- The South European Pipeline Company, jointly owned by at least 16 major international and European refiners, has received French Government authorization to carry out a $19 million program designed to triple capacity over the next three years. The pipeline is used mainly to carry Libyan and Algerian crude from Marseilles to 11 refineries in the Rhône valley, Switzerland,Alsace, and the Rhineland. Present capacity is 35 million tons a year. Shareholder studies indicate that a 90-million ton capacity will be needed by 1981, at the latest. Project financing will come one-third from the firm's reserves, one-third from a capital increase and one-third from long- and medium-term loans.

German machine tool wave

FRANKFURT -- Belzer-Werk, West Germany's important machine tool company, has been acquired by Zaarbergwerke,a holding concern whose majority shareholder is the Government, and minority shareholder the Saar state. The move will be effective October 1, and comes, according to reports, because of Belzer's inability to obtain expansion funds. Belzer is a family concern, and spokesmen have emphasized that order books are full for at least six months ahead. No details on takeover arrangements or purchase price have been released.

Du Pont, Dutch firm cooperate

AMSTERDAM -- Oranje-Nassau Mijnen will set up a fully owned subsidiary, Ornatex, to implement an agreement it has reached with Du Pont de Nemours International. Ornatex will supervise construction and then operate a plant at Kerkrade. The unit will finish Du Pont synthetic fibers. The initial investment is expected to be about $2 million.

Bourse Report

LONDON -- Quiet conditions, Australian mining issues hold spotlight. PARIS -- Slightly lower in light trading. FRANKFURT -- Leader stocks sag, second line chemicals register highest gains under dull conditions. MILAN -- Off, but above the worst. BRUSSELS -- Local issues firm and well maintained. Interest centered on Petrofina following Ekofisk reports. AMSTERDAM -- Local industrials lose ground. Shippings and plantations quietly mixed.

Common Market Reports
EUROMARKET NEWS

Issue No. 87 No. 143, September 15, 1970

Major reforms not likely at IMF conference

PARIS -- Most European money men seem to agree that the movement for major reform in the world's monetary system has run out of steam. The International Monetary Fund (IMF), preparing for its annual meeting this month, notes in its annual report that an early 1970 instability on exchange markets is now no longer evident. The devaluation of the French franc, the revaluation of the D-mark, and the recovery of Britain's balance of payments have eliminated the main causes of tension. European economists point out that with no pressure on central banks and governments, the arguments for change lose their sense of urgency and become hypotheses on what might or might not be ideally desirable. The floating of the Canadian dollar has had no real effect on markets and thus has not spurred interest in improving parity flexibility. The September 21 IMF meeting will not be likely to end with major decisions being taken, and the IMF will probably confine itself to saying that timely changes of parity, by both surplus and deficit countries, are necessary parts of the monetary system. However, the IMF is also aware that the present exchange stability could easily be undermined. The annual IMF report indicates that the U.S. and most European countries have in the past placed too much weight on monetary policies alone. Not enough interest has been given to fiscal measures, and when the interest was there, the measures were not applied strongly enough. The IMF is counselling a better mixture of the two. Also, better demand management, and perhaps other instruments, are needed if industrial countries are to combine stable prices and low unemployment.

EEC trade talks

BRUSSELS -- The Common Market will soon open trade talks with Japan, Egypt, and Lebanon. The negotiations with Japan start on September 17. Both parties seek a non-preferential agreement which would free mutual quota restrictions and other non-tariff barriers. Now that the Japanese are faced with U.S. trade restrictions, they appear to be anxious to increase their commercial relations with Europe. However, the Community will insist that any agreement carry a provision to safeguard the Community against any excess market disturbances that increased Japanese imports into the EEC could create.

The discussions with Egypt and Lebanon will be on a preferential trade basis. Reportedly, the Community is ready to offer the two tariff cuts of up to 55% on a wide range of industrial products, 40% on citrus fruits, and varying cuts on other farm goods. This offer represents a compromise with views advanced by France and Holland. The two agreed to a trade pact with Israel last June on condition that the EEC explore similar arrangements with Arab countries. France originally asked for a 60% tariff cut on Arab industrial products. Israel got a 50% reduction.

Surplus in U.K. balance of payments?

LONDON--Britain's balance of payments remained comfortably in surplus during the second quarter of this year. Overall trade transactions showed a \$127.2 million surplus. Total currency inflow hit \$544.8 million. The U.K. registered a visible trade deficit of \$127.2 million, but invisible earnings of nearly \$333.6 million filled the gap. In the previous quarter, both sectors had been in surplus. Government sources attributed the visible trade deficit to increased exports from Canada following the settlement of the dock strike, plus the delivery of three Boeing 747 jets. Also, there was some possibility that imports of food and some manufactured goods were increased in the period just prior to the strike. Of the currency inflow, \$463.2 million went immediately toward repayment of short- and medium-term debts owed to foreign monetary sources. The rest went into currency reserves. Britain's total debt now stands at \$3.9 billion.

French tax reform to get some labor union help

PARIS -- Labor union leaders have not shown marked enthusiasm for most of the tax reform proposals recently outlined by France's Finance Ministry. However, one has caught their eye. This is a stipulation that the income tax scale be related to the cost of living index. The unions are likely to put as much weight as they can muster behind this proposal and it probably will become law. The Finance Ministry had asked the unions for broad support of the whole reform. However, labor leaders remain critical of most of the package, stating that there is little in it for the worker. The point of the reform is not to cut taxes at present, but to rebuild what is considered to be an inefficient and highly inequitable system.

More North Sea oil

OSLO --Norway's Ministry of Industry has announced a new oil strike in the Norwegian sector of the North Sea. The find was made by Amoco-Noco, a U.S.-Norwegian exploration group, controlled by Standard Oil Co. of Indiana. The consortium struck oil in a well near the Ekofisk field, where Phillips recently established the existence of a vast quantity of reserves. No report has yet been issued on the extent of the new find.

Revival in U.K. consumer spending

LONDON--Early indications of a revival of British consumer spending interest are supported by the Board of Trade's latest figures on retail sales and installment credit debt. During the last six months of 1969 through April of 1970, U.K. sales appeared static, and higher wages seemed to be swallowed by price increases. Although the index of retail sales fell one point between June and July, the latest three-month average--May, June, July--indicates the sales volume rose at an annual rate of 4%. Instalment credit for automobiles and other durables was progressing at a 2% clip. Credit sales in July of this year increased by almost 27% over similar sales in July 1969.

\$30 million loss reported by Basel bank

BASEL -- Because of unauthorized commodity trading, the United California Bank of Basel is believed to have sustained losses amounting to some \$30

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million. A special audit is now under way to determine the extent of deficit. Meanwhile, a vice chairman and a manager of the Basel bank have resigned, and the parent United California Bank of Los Angeles has drawn up a contingency plan to provide funds to prevent losses to depositors and creditors. At the moment it is uncertain whether the Basel operation will be able to continue activities. These include interests in Eurocurrency and Eurobond markets. United California Bank of Basel was formed through acquisition of Switzerland's private Salik Bank in 1969.

Air France opts for A300B . . .

PARIS -- Air France has announced its intention to buy six 261-seat short-haul European airbuses, the A300B. The firm plans a further option on ten of the jets. Production on the A300B has already been started by a European consortium. Britain's Hawker Siddeley is making the wings and West Germany's Deutsche Airbus the tail assembly and fuselage. France's SNIAS is responsible for final assembly. The European airbus is expected to make a maiden flight early in 1972, and deliveries should start in 1973. Air France will get its initial order of six planes sometime in 1974. The A300B, in its original version, has a range of about 1,500 nautical miles.

. . . BEA won't budge on Three-Eleven

LONDON -- British European Airways (BEA) has denied a reputed interest in the A300B airbus and has decided to stick with its original plan to buy British Aircraft Corporation's Three-Eleven short-to-medium range jet. BEA has already told the U.K. Government that it wants an initial 20 of the Three-Elevens. The move is a blow to the plans of the A300B's producers. They were planning a stepped-up version of their design, the B-7, for offer to BEA.

Soviet truck factory now developing

PARIS -- A behind-the-scenes contest for the leading role to construct a truck factory in the USSR appears to be building up between France's Renault and West Germany's Daimler-Benz. Renault so far has refrained from comment on reports that Daimler was seeking its participation in a Daimler-led consortium. Instead, company officials point to Renault's long experience in automotive investments in the Soviet Union. Renault, which is state-owned, is thought to be counting heavily on French Government help to persuade the Russians to buy either its know-how or sign an overall agreement. Daimler officials, on the other hand, are becoming restive in their failure to close what appeared to be a completed transaction. The French Government is known to be miffed at the failure of the Soviets to live up to the expectations of earlier trade treaties. France currently stands in sixth place among the USSR's principal Western trade partners, behind Britain, Japan, Finland, West Germany and Italy.

Wider bank cartel foreseen in Italy

ROME -- The Italian Government and the Bank of Italy are expected to propose incentives to induce small banks to join a cartel on maximum interest rates agreed to by Italy's 13 major banks. In this way, some of the fierce competition between banks for deposits might be eliminated. The 13 major banks are now placing a ceiling of 7% on rates payable on large deposits. Government officials would like to see a rate of under 7% applied for deposits of less than $250,000.

French chemical combine formed

PARIS -- France's two largest oil firms, Elf-Erap and Total, will join forces to form a single oil and chemical group. In France, the new combine's resources will rank second only to Rhône-Poulenc. Close coordination of activities will start in plastics. Total will get a 50% stake in Elf's Aquitaine-Organico subsidiary; Elf will be given a part of Total's holding in Ethylox.

Demand for plastics has risen by almost 144% in France during the past seven years, and Aquitaine's output has barely managed to keep pace. Aquitaine's turnover increased by over 37% within the past year. Total, which is relatively new to petrochemicals, is expected to seek Elf's advice on utilization of its recently acquired steam cracking holdings. In return, Total will provide Elf with stronger financial depth.

Reports on airline link-up called premature

ZURICH -- Reports suggesting a Swissair link-up with Austrian Airlines have been described as premature by a Swissair spokesman. Supposedly, plans had been laid by the two to begin joint services within 18 months, and Swissair would have supplied the lion's share of the necessary capital. Now, Swissair claims that all negotiations between the two firms have been conducted on an informal basis and that any binding agreement must await a decision by Austrian Airlines to buy Douglas DC9 jets. AUA is thought to be ready to do so, but credits for the purchase must be authorized by the Austrian Finance Ministry.

ICC participation in IOS revealed . . .

GENEVA -- Investors Overseas Service (IOS) has signed a $15 million loan agreement with ICC Investments Ltd., a subsidiary of International Controls Corp. As a result, ICC Investments will have two seats on the IOS board, two seats on the mutual fund firm's executive committee, and two seats on a new five-member finance committee. The finance committee has the right to veto any financially significant company action. It is also busy in an effort to trim IOS's 1970 operating budget to about $40 million. The first $5 million of the ICC loan will be available on September 17 and will carry warrants to purchase $4 million shares of IOS common stock at $2 a share. The next $5 million will allow ICC to buy a further 1 million shares and the last $5 million, to be supplied only on agreement between both parties, carries an option on 2.3 million shares. The entire loan is repayable on May 24, 1971.

Capital of two Moeller subsidiaries doubled

COPENHAGEN -- A. P. Moeller, the Danish steamship company, said that the capital of two of its main subsidiaries - Dampskibsselskabet AF 1912 and Dampskibsselskabet Svendborg will be doubled. Respective share capitals of the two firms will now be $16.6 million. The action will come through the use of scrip issues. Moeller recently announced new orders for ships worth about $100 million.

Bourse report

LONDON -- Prices drop across the board. PARIS -- Well maintained in quiet conditions. FRANKFURT -- Electricals and steels well maintained, but motors and banks register sharp drop in quiet trading. MILAN -- Firm, following heavy mutual fund buying. BRUSSELS -- Firm under active conditions. AMSTERDAM -- Local industrials off, shippings and plantations weak.

Common Market Reports

EUROMARKET NEWS

Issue No. 88 September 22, 1970

IMF suggests fluctuation figures

LONDON -- A new International Monetary Fund (IMF) report appears to emphasize the right of the IMF director, Pierre-Paul Schweitzer, to discuss informally exchange rate changes with member countries. In the report, entitled "The Role of Exchange Rates in the Adjustment of International Payments," the IMF reaffirms its belief in the existing system of normally fixed rates, but also points to the need for prompt changes in rates by countries suffering from an acute balance of payments disequilibrium. For the first time, the IMF uses precise figures for guiding margin changes. The Fund suggests that any country be allowed to change its rates automatically by up to 3% in one year and up to 10% in a five year period. These moves could be made without seeking IMF permission.

EEC position on international rates still undefined

BRUSSELS -- Common Market finance ministers have reaffirmed an earlier decision not to widen fluctuation margins within the Community, even if the IMF opts for wider parity bands. However, the Six have not yet taken a unified position on the broader issue of international exchange rate reform. The leading EEC proponents of greater rate flexibility, West Germany and the Netherlands,have softened their approach. They are now saying that any widening of international rate margins should be very small. However, the Germans may have convinced the French, the Community's leading hardliner on rigid rates, that a modest widening of permissible currency fluctuations on an international scale would not necessarily disrupt plans for full EEC economic and monetary union by 1980. The French appear to be ready to adopt a more flexible position on international rates if sufficient guarantee is given that exchange rates between EEC countries will remain rigid.

EEC - Britain set for next round in entry talks

BRUSSELS -- Representatives of the Common Market and Britain have prepared a broad agenda for use at the next round of EEC entry talks. Community negotiators are expected to ask for clarification of specific British positions revealed during the last meeting in July. A tough look will be taken at the U.K. request for a one-year initiation period to complete legal and administrative adjustments. Reportedly, the EEC would like certain steps toward tariff alignments to be taken within a few months of Britain's entry into the Community. Other issues likely to be discussed are the U.K.'s requests for institution of an annual farm review in an enlarged Community and the settlement of minor problems after actual entry.

The Commission is now openly questioning U.K. estimates of Britain's contribution to the Community budget (latest is $1,099 billion). The EEC view is that many expenditures in the estimate have been exaggerated.

Decline in French exports seen in second half

PARIS -- The semi-official National Institute of Statistics and Economic Studies forecasts an upswing in French consumption and a flattening in the rate of price increases during the remainder of this year. The group also predicts a slower rate of growth for incomes accompanied by an increase in French unemployment. The institute thinks that France's strong exporting position will decline slightly--imports will go up--but this trend should not endanger current balance of payments surpluses.

Renault gets big Soviet contract, but biggest not yet settled

PARIS -- Renault,France's state-run and leading auto producer,which lately has entered the running for the U.S.S.R. truck plant that West Germany's Daimler-Benz hoped to build, has won a contract to supply the Soviet Union with machine tools and related equipment. The material will be used to modernize the Soviet's heavy vehicle industry. The value of the award has been estimated at $140 million. Soviet sources in Paris have insisted that this contract bears no relation to the projected Kama River project, the plant bid on by Renault and Daimler after it was turned down by the U.S.'s Ford. Observers were left to wonder whether this was the U.S.S.R.'s way of silencing French Government criticism before choosing Daimler to build at Kama River. A high level Soviet official further clouded the issue. He told EUROMARKET NEWS that the U.S.S.R. was hoping to see Ford reopen its bid.

West German truck builders to cooperate

FRANKFURT -- West Germany's two biggest truck producers, Daimler-Benz and MAN, plan a joint production effort. By 1972, the two firms will have stopped duplicate manufacturing of engine and axle parts and will have started dividing production between them. Although company spokesmen insist that the cooperation will be of limited scope,they admitted that some joint decision on investment and purchasing policy will be necessary.Also, the same spokesmen did not rule out the possibility of cooperation in lines other than engines and axle parts. Last year, Daimler and MAN worked closely together on turbines and early this year established a joint turbine subsidiary. Rumors persist that Daimler has sought MAN cooperation in connection with its proposed Soviet truck plant project.

IMI takeover of Fonditalia negotiated

MILAN -- Negotiations reportedly are in progress between IOS (Investors Overseas Services) and IMI,Italy's state-controlled financial institution. At stake is the future of Fonditalia, one of IOS's best performing mutual funds. Fonditalia is aimed at the Italian market and is among those foreign funds that have agreed to place not less than 50% of their investments on Italian bourses. As a result, its importance to the Milan bourse -- Italy's largest -- is enormous. Fonditalia has assets of some $250 million. $90 million of this is cash; 74% of the remaining $160 million is invested in Italian shares. IMI, which has important shareholdings in several large Italian firms, hopes to purchase Fonditalia.

IRI looks at Innocenti

ROME--Italian observers are certain that the IRI, Italy's state industrial reorganization group,will acquire at least a minority holding in Innocenti.

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Reports that the IRI is planning a complete takeover have been consistently denied. Innocenti builds cars, heavy steel making equipment, and motor scooters. At present, it has close links with British Leyland, and its hottest selling product is Leyland's Mini, manufactured under license. A distinct possibility is that Innocenti, including a Leyland interest will be lumped with Alfa Romeo, an IRI auto company, to form one firm. The steel interests would be spun off to the IRI's Santeustachio, and the motor scooter interests, now badly in the red, would be dropped. An Innocenti-Alfa linkup, plus cooperation from Leyland, would result in an automotive firm capable of eventually turning out 600,000 units a year, after completion of Alfa plants now under construction.

Michelin weighs new Austrian move

PARIS -- Expansion minded Michelin, France's major tire company, is talking collaboration with Austria's Semperit tire firm. Most observers expect Michelin to acquire a piece of Semperit before the end of this year. At present, Semperit is controlled by Creditanstalt-Bankverein, Austria's leading bank, and has two subsidiaries in Germany, one in Ireland, a staff of 11,000, and annual turnover of about $1.4 billion. Ever since the announcement of Dunlop and Pirelli's intended linkup, Michelin has had fears of being closed out on world tire markets and has initiated vigorous capacity increase plans as well as contacts with other European tire companies. Semperit would like to strengthen its position in the Common Market through a tieup with Michelin and, perhaps, with a takeover of a smaller West German rubber company. Recently, Michelin announced a capital increase, the second this year, to about $89 million, from $80 million. It may also seek a further $60 million through a convertible bond issue within the next 12 months.

Swissair - Austrian Airlines linkup

ZURICH -- The board of Swissair has decided to open negotiations with Austrian Airlines on the possibility of forming closer links between the two. Initial talks will be concerned only with the problems of technical-operational rationalization. Swissair will require that Austrian Airlines modify its European fleet to match that of Swissair. Reportedly, the Austrian Finance Ministry will soon grant credits which will enable Austrian Airlines to buy Douglas DC9 jets, the first step required by Swissair toward eventual cooperation. At the moment, both firms deny merger intentions. However, they both would like a far reaching coordination of business interests.

CII signs Cuban contract

PARIS--Compagnie Internationale pour l'Informatique (CII), France's state-run computer firm, has signed a contract with Cuba. First stage of the agreement calls for delivery and installation of five of the company's Iris-50 models, plus the training of Cuban technicians to operate them. The Iris-50 is the first range of machines produced by CII under the Plan Calcul, the French Government program which was designed to boost France's computer industry. CII, which recently signed a similar contract with Rumania, appears to be banking heavily on Communist bloc sales to boost turnover and applications know-how. Most Western nations, including France, have regarded the Iris series as not only being inferior technologically to other computer companies' products, but also as far too expensive. CII in both deals has agreed to supply full technical assistance and components through Seacosem, nominally a subsidiary of Thomson Brandt.

U.S. firm bids for Dagra

ROTTERDAM -- International Chemical and Nuclear Corporation of Pasadena, California, has made an agreed bid for Dagra, the Dutch pharmaceuticals and cosmetic company. Dagra has undergone several lean years. No dividend has been declared by the firm since 1965-66.However,in 1968-69,net profit did increase by 5%.The number of International Chemical and Nuclear shares to be offered for each Dagra share, although depending on average New York Stock Exchange quotes during the next two weeks, should give Dagra stockholders a 190% return on the nominal value of their investment. (Dagra has been valued at $2.016 million.)

Air Liquide-Equipment Hospitalier linkup

PARIS--Air Liquide, the major French producer of medical and liquid gases, has signed a three-year agreement with Equipment Hospitalier, a subsidiary of Euromedico. Equipment Hospitalier will now have exclusive rights to Air Liquide products in Africa and the Middle East. Air Liquide, which has a worldwide network of subsidiaries closely linked to hospital product markets, will in turn be able to sell Equipment Hospitalier's "turnkey" units in Iran, Chile, Lebanon, Syria, and Jordan. Euromedico could prove valuable in arranging export credits.

Bank loss pinned to cocoa trading

BASEL -- A large part of the $30 million loss incurred by United California Bank of Basel appears to have been sustained as a result of unauthorized trading in cocoa futures. However, further details on the nature of the deals are unlikely to be known until completion of a special audit. Frank King, chairman of the Swiss bank and its U.S. parent, United California Bank of Los Angeles, insists that no facts have yet come to light indicating that bank personnel profited from the unauthorized trading. Swiss authorities appear to disagree. Three of the Swiss bank's officials have been taken into custody. United California of Los Angeles has drawn up contingency plans to ensure reimbursement of creditors and depositors. Half of the Basel bank's losses could be recovered in the U.S. in the form of tax offsets.

BP finds Japanese outlets

LONDON -- British Petroleum (BP) plans to cooperate with four Japanese oil firms in developing BP's newly opened El Bunduq field in the offshore area of Abu Dhabi. In return, BP will probably receive an important share of Japan's market for crude. The Japanese companies involved,Qatar Oil, North Slope Oil, Abu Dhabi Oil, and Alaska Petroleum Development, have agreed to sell BP's share of the oil, as well as their own,in Japan. They will also find a market for BP crude from other areas. Shareholders of the Japanese firms include three power stations and nine refinery concerns. No details of forecast production at the field are yet available.

French pharmaceutical firms merge

PARIS--Robert et Carrière and Establissements Dausse,two giants in France's pharmaceuticals industry, have joined forces. Through merger, a new firm--Synthelabos--will be created which will have an annual turnover of some $4 million.Robert et Carrière is France's foremost producer of surgical products. Dausse specializes in cardiovascular aids. Synthelabos plans big marketing efforts on an international scale.

Bosch to open new plant in Belgium

BRUSSELS -- West Germany's Robert Bosch, the well-known producer of autobile equipment,has decided to produce electrical and electronic auto equipment in Belgium. Bosch plans a $2.2 million plant near Tiennen. The firm will receive Belgian Government investment aid.

Hitachi seeks TV production licence

FRANKFURT -- Japan's Hitachi reportedly is seeking to negotiate an AEG-Telefunken licence to manufacture PAL system color television sets. AEG-Telefunken has asked for more time to work out conditions for the deal. If Hitachi gets the licence, it could produce TV's for sale in Western Europe and the U.K.

Du Pont plans new Dutch investment

AMSTERDAM -- A new Du Pont plant worth some $25 million will be built at Dordrecht in the Netherlands. It will come on stream in 1973, and will produce Delrin, an acetal resin. The unit will represent Du Pont's first effort to manufacture the resin completely from raw materials in Europe, although the firm has finished Delrin at Dordrecht from imported intermediate products shipped from the U. S. since 1963. Initial capacity of the new plant has been estimated at 25,000 tons.

Geigy - Ciba iron out merger plans

BASEL -- To facilitate their merger plans, Switzerland's J. R. Geigy and Ciba both plan capital increases. Geigy's capital will be upped to $41 million (from $25 million). Ciba's will first be set at $41 million, then increased to $82 million. Both firms will create new shares which will eventually be exchanged for the shares of a merged Geigy-Ciba concern. Stockholders will be asked to approve the plan on October 20.

Deutsche Bank in Luxembourg

LUXEMBOURG -- Deutsche Bank has established a Luxembourg subsidiary, Cie Financière de la Deutsche Bank. With a capital of $28 million, the new firm will handle foreign exchange and security dealings and also international financing.

Austrian paper merger

VIENNA -- The Austrian paper producer, Laarkirchen, has bought control of two other paper firms - Heinzel-Nicolaus and Oberoesterreichische Papier und Pappenfabrik. Observers attributed the action to failure of a previous tieup effort between Laarkirchen and bank-controlled Steyrermuehl Papier. The latter merger was canceled last July because Austrian interests refused to cede control to the Nicolaus group of Munich, a holding firm which has a majority interest in Laarkirchen. Laarkirchen's capital recently was increased from $2.4 million to $4 million.

Bourse report

LONDON -- Market remains steady but at very low level. PARIS -- Easier in quiet trading. FRANKFURT -- Well maintained in moderate trading. MILAN -- Most leading industrials advance, quiet conditions overall. BRUSSELS -- Generally well maintained. AMSTERDAM -- Local industrials narrowly mixed; plantations, shippings firm.

Common Market Reports
EUROMARKET NEWS

Issue No. 89 No. 144, September 29, 1970

German companies face rash of problems

BONN -- Prices of the shares of the average West German company are currently about 30% lower than the highs attained in 1969. The reason: lower profits, thus lower dividends. But West German bourses can take heart in the fact that price levels have increased by 5% over those of the month of July--the dreariest days of the past two years. Many stockbrokers are predicting that prices are now ready to surge despite much evidence that seems to indicate the contrary. New pressure on company profits is certain to come from labor demands for a 12% to 14% increase in wages . . . plus hikes in workers' benefits. Labor unrest in Germany in October appears likely to be across the board. I.G. Metall, the largest union, representing some 4.2 million metal workers, will spearhead the attack. What's even more dangerous is that other unions are taking their cue from Metall. According to the Industrial Institute, unions representing almost 14 million people--white-collar and blue-collar--will present demands to industry between now and next spring. The long-quiet German labor organizations are closely watching actions in other Common Market countries and in the U. S. The tactics used by Dutch strikers to win large salary hikes in Holland, and those employed by GM strikers in the U. S., can be expected to be adopted by the Germans. Also, the current tight labor situation in the Federal Republic makes this labor's best year to press strong demands.

Last spring, when the three "giants" of the West German chemical industry--Bayer, Hoechst, and BASF--reported their annual figures, each was careful to hedge on profit predictions for 1970. Now, the reason for their prudence is clearer. At the moment, profits at the big three are running about 10% below those of last year. Bayer is a case in point. The firm has evaluated its profit drop in terms of a 25% increase in added financial and social charges. Not only have Bayer's workers gained higher salaries (they will demand more this year), but the firm has to pay Germany's high rates on borrowed funds needed to pursue expansion plans.

Why are German stockbrokers predicting better share prices soon? It appears that the export handicap of the D-mark's revaluation is being lessened for German industry. The French franc, for one currency, has obviously lost steam lately. German firms are beginning to recoup markets lost to the French and the British late last year. The Germans will certainly sell more now outside Germany than early in 1970. Also, Government economic policy is changing direction. After the revaluation, the economy could be cooled only in two ways--through interest rate hikes and through tax increases. The two methods have just about run their course. Last July's drop in the discount and Lombard rates barely stemmed hot money flows into the Federal Republic. Most financial men are betting that another cut is on the way. Also,it is highly unlikely that taxes will again be increased. At the moment, the West Germans appear ready to chance an increase in the rate of inflation rather than wind the economy down to the bottom.

Surge in new Eurobond offerings

LONDON -- A spate of new issues--some $70 million worth--brightened activity on the Eurodollar bond market. Morgan and Cie. International, using the highly successful techniques of recent Esso loans, will manage a $40 million offering in two issues for Transocean Gulf Oil. One loan will consist of $20 million worth of five-year notes; the other, $20 million worth of 15-year debentures carrying an interest rate of 9%. Smith, Barney will raise $15 million through subordinated debentures for Holiday Inns Overseas Capital Corporation. This offering, due in 1985, will be the first equity-linked Eurodollar bond loan floated since last April. It will carry a record 8% coupon and probably a conversion premium of between 5% and 10%. Finally, Hambros Bank will manage a $15 million straight-debt dollar issue for the City of Copenhagen. This loan will bear a 9% interest rate and will probably go off at a discount. Eurodollar market men reacted typically to the announcements. Two months ago, most of them feared that the market would collapse due to lack of activity; now, many feel it will collapse because of too much.

More labor troubles in Britain . . .

LONDON -- Britain faces the risk of new outbreaks of strikes. Most imminent is one by 200,000 coal miners. Their leaders have refused a 10% pay increase. Negotiations with the National Coal Board will continue for the moment. In the public sector, busmen and some government manual workers have already walked out. Railwaymen may also strike soon. The recent Trades Union Congress conference revealed that UK labor is opposed to almost all government social policies. The transport union is the most adamant. Its head, Jack Jones, refuses to consider almost any dialogue.

. . . but French unions calm

PARIS-- Taken aback by statements from Georges Seguy,head of France's communist-thinking CGT labor union, that it was easier to negotiate with the Patronat--the representative of French employers--than with the French Government, Prime Minister Jacques Chaban-Delmas promised to speed along adoption of many of labor's minor demands. One is reform of payments given for the salaire unique, France's system of compensation to families in which only one person works. Others involve better wage negotiating formulas for use by public and nationalized industries. For the moment, French unions appear reluctant to provoke any real labor unrest. An exception, the small CFT, a politically independent group, has started a campaign for national recognition. The first step was a strike at Chrysler-France's Poissy plant, and the second will be stoppages at large department stores. The CFT's battle, however, is as much against other unions as against employers.

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Storm warnings on Concorde flight path

PARIS-- As U.S. experts weigh the pros and cons of supersonic aircraft, the Concorde, France and Britain's joint supersonic plane, is passing through its most critical moments. Advance flight testing on the giant jet has begun, and soon it will be clear whether the craft will meet its promised performance expectations. These are to carry a 25,000-pound payload--approximately 125 passengers and baggage--from Paris to New York at a speed of Mach 2, about 1,400 miles per hour. $1.2 billion is riding on the Concorde, plus seven years of painful labor, in workshops and parliaments. At the moment, both the French and British Governments are reluctant to let costs of the project continue to spiral upward. France's governing Gaullist party recently accepted a report criticizing the need for Concorde and especially the harm done to France's medium-range jet development plans through complete concentration on Concorde, and neglect of other aerospace projects.

Apart from assessing whether Concorde will live up to technical promises, the testing should reveal whether the plane can meet normal standards of noise and exhaust emission. In neither of these categories has the plane been acceptable so far. In takeoff, it is far noisier than the Boeing 747, and its exhaust is reported by experts at Olympus (the British engine builder) to be worse than any other jet now in regular commercial use. SNECMA, the French partner on engine design, is working on a silencer, based on widening areas of contact between the hot jet thrust and the cold outside air. Olympus is designing a system of chemical additives to cut down smoke. The French and British Governments are committed only to financing Concorde's development. Presumably, they would put down the cash needed for production tooling and capital costs if orders justify production. Orders are, however, precisely where the Concorde faces its biggest problems. Even if the jet is a spectacular technical success, it is at present doubtful whether it will be a commercial one . . . at least right away. The airlines, which have taken 76 Concorde options, appear to be in no rush to firm them up. American firms are especially hard-pressed, loaded down financially by big spending on 747's. None of them will want to be pushed into another round of costly outlays. However, in three months, Concorde's builders will begin asking for firm orders, especially from U.S. airlines. The American reaction will determine Concorde's short-term fate.

IMF head criticizes U. S. on payments deficits

COPENHAGEN-- In an apparent move to convince the United States to take its balance-of-payments deficit more seriously, Pierre-Paul Schweitzer, managing director of the International Monetary Fund, roundly criticized recent U.S. deficits at the IMF's annual meeting. He seemed to suggest that countries holding dollars should cash some in for gold, but IMF sources denied this intention. Instead, they stated that the idea was simply for the U.S. to sell more gold and, perhaps, draw on credit in the IMF if necessary. No particularly new ideas were developed during debates on flexibility in the exchange rates of the world's currencies. However, advocates of less flexibility appeared to gain some ground. EEC representatives expressed determination to move toward more rate rigidity, and Britain--also opposing floating rates--backed them up.

Pechiney and Ugine Kuhlmann combine forces

PARIS -- Two of France's leading metallurgical firms -- Pechiney and Ugine Kuhlmann -- plan to merge. The move will create a giant, with an estimated annual turnover of $2.5 billion, in France and worldwide. The two firms produce all of the alumina used in France, Pechiney is Europe's largest copper refiner, and Ugine Kuhlmann is Europe's leader in stainless steel and steel alloy. The two also have numerous chemical interests. Spokesmen for the companies said that studies on how to effect the merger in all sectors will not be finished until the end of 1971. The first move, however, will most likely be to unify aluminum interests. This will create the world's fourth-largest aluminum firm. The most difficult project will be to align chemical interests. Pechiney is already established in the U.S. through its Intalco and Eastalco subsidiaries. An announcement on redistribution of shareholdings will be made some time in the next four months.

BAC and Messerschmitt in on U.S. space effort

LONDON -- Two European companies -- the U K's British Aircraft Corporation and Germany's Messerschmitt Boelkow-Blohm -- will participate in at least one U.S. space project. The two will join with North American Rockwell and General Dynamics Corporation in the design and construction of a space shuttle. Financing help in the effort will also come partially from Europe. BAC and Messerschmitt will be paid by their respective governments -- something that NASA, at the moment hard pressed for funds, must appreciate. France's Avions Marcel Dassault and Italy's Fiat were hoping to be selected, but weren't. However, McDonnell Douglas reportedly has contacted Dassault and Fiat in the hopes of including them in some of its space plans.

Europe's first laser firm created

BRUSSELS --Belgium's Optiques et Instruments de Précision (OIP) has linked with France's Compagnie Industrielle des Lasers (CILAS) to form Europe's first laser firm. The new company -- as yet unnamed -- will be headquartered at Gand for easy contact with Europe's NATO countries. It will start operations with a capital of $2 million and hopes for fast sale of a new generation of lasers. These are capable of power up to 100 kilowatts. OIP is a subsidiary of the Société Générale de Belgique. CILAS is a subsidiary of the Compagnie Générale d'Electricité and Pont-à-Mousson-Saint-Gobain.

Philips to introduce mini-computers

AMSTERDAM -- Philips, the giant Dutch electrical firm, plans to enter the mini-computer market. Nominally oriented toward electrical and electronic products, Philips first got into information in 1968,with the introduction of a series of third-generation computers. This time, the firm will be banking on two multiple-usage minis -- the P 850 and the P 880.

Bourse report

LONDON -- Equities and gilts firm at low levels. PARIS -- Hesitant trading, all issues lose some ground. FRANKFURT -- Slightly firmer in light trading. MILAN -- Gains early in the week lost to profit taking later on. BRUSSELS -- Oils firm, other sectors mainly lower. AMSTERDAM -- Local industrials quietly mixed. Plantations and shippings down but well off the bottom.

Common Market Reports

EUROMARKET NEWS

Issue No. 90 October 6, 1970

West German budget debate

BONN -- The West German Government appears to be opting for a slight bout of inflation rather than risk the severe production cutbacks that many industrialists have predicted for 1971. One problem is that budget plans now being worked out in the German Parliament are coming under heavy attack from the political opposition. Not only that, but the expansionist budget that has been hinted at may run counter to the economic cures proposed by the Bundesbank, West Germany's central bank. So far, across-the-board budget increases of 12% have been requested by the Government. Spending for education and national research would go up by 42.8%;for housing construction and urban planning by 35.5%; and postal and telecommunications services, 37.9%. All this is welcome grist for the Government's opponents, who are predicting rack and ruin if the national annual inflation rate rises by much more than 4%. (The world average at the moment is a rate of around 5%.) Arguments pro and con will continue on October 7. West Germany may yet adopt a suggestion first made by Economics Minister Karl Schiller to vote on two budgets. The second would include much more generous spending plans but would be used only when the economy could support an across-the-board expansion.

France's next five-year economic plan almost ready

PARIS -- France's next economic plan -- the VIth, covering 1971 through 1975--will be ready for Government scrutiny in early March 1971. Although objectives outlined in the "Plans" are rarely met, the "Plans" do serve as valuable guides for the allocation of Government expenditures. The VIth plan, almost 200 pages long, reportedly calls for increased accent on private finance and investment as solutions to France's economic problems. If so, this will be a radical turn away from past thinking, which placed heavy emphasis on state aid to underfinanced and/or ailing industries and institutions. There are two reasons behind the change. The French now appear reluctant to continue to finance nationalized firms that continually run up big annual deficits. Instead, efforts will be made to force them to operate on a profit motive. This would also apply to the power industries and the railroads, but no new moves will be made to nationalize private companies. Also, the Government wants to be sure that French concerns are big enough and strong enough to stand up to the competition that other firms in an enlarged Common Market might pose. Despite words to the contrary, the Government and the French Patronat (an employers' association that also serves as an unofficial planning organization) will let weak firms fail, and concentrate the official help that will be available on what appear to be viable operations. One very important section of the VIth plan calls for more investment and tax aids to be given to companies that either export heavily or are pushing foreign expansion.

Joint U.S. - European space effort

VIENNA -- Over 400 specialists from Europe and the U.S. have just finished a long and extensive examination of possible courses for future European-U.S. space cooperation. Their work at the 4th Eurospace Conference covered not only such heady plans as joint work on post-Apollo space missions, but also relatively simpler tasks such as cooperation on telecommunications and navigational satellites. It appears that the U.S.'s NASA is anxious to have heavy European participation in its projects. The American space agency is suffering from budget cuts and seems ready to accept European financing in an effort to take up some of the slack. Prime NASA contractors have been scouring Europe, searching for partners. North American Rockwell, for one, has just announced it is taking on the UK's British Aircraft Corporation and West Germany's Messerschmitt-Boelkow-Blohm as subcontractors for the space shuttle contract which it hopes to receive. McDonnell Douglas is expected to make a similar announcement shortly.

The Europeans are determined to play their few cards for all that they can get. One hope is a regional satellite system comparable to the worldwide Intelsat. Intelsat is presently directed by the U.S.'s Comsat Corporation. The Europeans would like to set up their own system (Eurosat) but to do this, they would need American rocket know-how. It appears that the U.S. is ready to supply Europeans with the needed knowledge -- or actual rockets -- in exchange for financing for post-Apollo programs. One hitch, however, is that Eurosat signed a cooperation agreement with Intelsat.

Most European governments want to be assured of a significant stake in the U.S. space ventures. For the moment, they will allow firms to accept subcontracts. But the big hope is for prime contracts for essential elements in a certain program. As Belgian minister Théo Lefèvre stated, this is the only way the Europeans can be assured of a valuable fallout of technical information.

Showdown coming between Government and unions in UK?

LONDON -- The rift between the Government and Britain's labor unions appears to widen daily. Employment minister Robert Carr is putting the finishing touches to an Industrial Relations Bill that workers oppose violently. Some union leaders have openly criticized the Government as seeking a showdown with labor. Prime Minister Edward Heath has done nothing to dispel this opinion. He stated on British television that he was ready to face even a general strike in an effort to curb UK inflation and to push through the Carr legislation. The Labour Party, ousted from power early this summer by Heath's election victory, has also condemned the Industrial Relations Bill. At its annual congress, the Labour Party expressed total opposition to restrictive measures on collective bargaining and attacked the Heath Government for its alleged efforts to interfere in the internal affairs of unions. At the moment, Britain faces the possibility of a strike by 200,000 coal miners. Two-thirds of the UK's tinplate production is at a halt because of a walkout of 370 British Steel Corporation craftsmen.

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Although claiming that it does not intend a return to any form of wage or price controls, the Government will ask private industry for notification of any major wage settlements and price increases.

American car firms in thick of Europe's labor rows

PARIS -- American automobile firms, under heavy pressure from labor unions in the U.S., are finding the situation no different in Europe. Production at the West German plants of General Motors and Ford has come to a standstill. An estimated 100,000 metal workers, who have long promised strike action, have walked off jobs, and automobile manufacturers in the Federal Republic were the first affected. GM's Opel Division, its second largest after Chevrolet, has shut down. Ford has similar problems. Ten men were injured in fighting which broke out when strikes were called at its plants. In West Germany, laborers are demanding a 15% increase in salaries and, because of a tight labor market, most of the cards are stacked in their favor. Automakers cannot breathe easy in Britain either. Sporadic strikes since the beginning of this year at components manufacturers have crimped production. Workers at Pilkington -- the largest supplier of glass to UK automakers -- were out for over 8 weeks last spring. Borg-Warner and Dunlop were also completely shut down. As a result, Ford's Dagenham plant was idled for almost a month. Wildcatting also hurt. A strike by 15 crane-drivers at Dagenham tied up shipments of all cars sent abroad for delivery. GM's Vauxhall was hit by almost identical problems. Most recently, 3,000 Vauxhall workers were off the job because of strikes in related industries. Two of Chrysler's major UK plants have not assembled a car since August 21. To top it all off, Chrysler France was the first target of a small French labor union -- the CFT -- which was simply trying to gain national attention. The CFT recently managed to shut down Chrysler's plant at Poissy for several days. In France, it is unlikely that there will be any real labor unrest this fall. However, if there is, one of the first targets will be the automakers.

U.S. takes argument with EEC to GATT

GENEVA -- The United States is expected to lodge a formal complaint with GATT (the Geneva-based General Agreement on Tariffs and Trade) against the Common Market for practices which the U.S. thinks are a direct violation of GATT trade rules. Nominally, GATT countries are required to extend to all member countries trade concessions granted to one. There are exceptions to the rule. One governs the creation of free-trade areas. However, the U.S.-- backed up by most of the non-Common Market GATT members -- says that the EEC,especially in recent trade concessions granted to Morocco and Tunisia, has failed to live up to GATT's stipulations. The EEC-Morocco-Tunisia agreements do not cover all trade between the countries and do not set up a timetable for the creation of a free-trade area. Ironically, it was the EEC that brought this long-simmering dispute to the GATT forum. The Community hoped to have GATT support in the current controversy on world textile trade and the U.S.'s Mills Bill,a piece of trade legislation now under debate in the U.S. Congress. The Common Market is now trying to stall further discussions on the subject in GATT because of U.S. attacks on EEC trade policy. France also suspects that the U.S. will use the forum to air differences on British entry into the Common Market. On this score, the U.S. position is not entirely clear. Once a firm advocate of British entry, the U.S. now appears to believe that it is in no position to make short-term sacrifices in the interest of European integration.

Westinghouse nuclear plan chosen for Fessenheim

PARIS -- In a surprise move, Electricité de France (EDF)has named Jeumont-Schneider to construct the principal parts of France's next nuclear power station. It will be built at Fessenheim. Jeumont-Schneider, which uses Westinghouse licenses, was thought the least likely candidate to win the contract. The firm is still controlled by Belgium's Baron Empain, and the Government, which late last year vetoed a Westinghouse bid for the Empain holding, was thought to be leaning wholly toward a French solution to France's nuclear problems. The contract should give Jeumont-Schneider a new and sorely needed stake in France's nuclear market. Also, it would appear to indicate that France is not now so adamantly opposed to direct American participation in its prime power projects as it was a year ago. Framatone (Société Franco Américaine de Construction Atomique), a Jeumont-Schneider subsidiary, is expected to handle most of the planning for Fessenheim.

. . . and desalinization project for Malta

VALLETTA -- Westinghouse has been awarded a $3 million contract by Malta's Electricity Board to construct a water desalinization unit. The board hopes that operations at the facility can begin in about two years.

Fiat renews Hungarian contract

ROME -- Fiat, Italy's number one automobile producer,has announced renewal of its long-term contract with Mogurt,Hungary's import agency, and Merkur, Hungary's distribution agency. Under the contract, which was originally signed in 1966,Fiat will be permitted to sell 10,000 automobiles and handle after-sales servicing in Hungary.

Moves toward new UK airline expected soon

LONDON -- Caledonian Airways is expected shortly to submit a takeover bid for British United Airways. The move, if successful, could lead to the creation of a major British independent airline. The two parties have been conducting detailed talks for some time. It is thought that Caledonian has now lined up substantial financial support from a number of UK institutional investors to back up the bid. If the merger is accomplished, Caledonian's next step would be to petition state-owned British Overseas Airways Corporation (BOAC) to give up certain routes. This is in line with current British Government airline policy.

Bourse report

LONDON -- Equities,especially oils, rally despite Middle East news. PARIS -- Steep declines across the board. FRANKFURT -- Most industrials off in quiet trading. Banking shares slide. MILAN -- Slight losses predominate in generally featureless trading. BRUSSELS -- Dull market. AMSTERDAM -- Local industrials register slight losses over a broad front. Shippings and plantations mixed.

Common Market Reports
EUROMARKET NEWS

LT GV JB KL EK BS M

Issue No. 91 No. 145, October 13, 1970

Britain joins EEC on Mills Bill outcries

LONDON -- Britain is ready to join the EEC in retaliatory action if the so-called Mills Bill, now before the Congress, becomes law in the United States. The UK view is that the bill poses a threat to the growth of UK exports to the U.S. Also, about one-fifth of Britain's present trade with the U.S. could be seriously affected. Europeans are especially concerned over provisions in the bill that give not only U.S. companies but also U.S. workers the right to demand tariff or quota adjustments. The U.S. has repeatedly assured Britain and the EEC that such restrictions would not be applied against them. However, the British argue that such actions would violate the GATT (General Agreement on Tariffs and Trade) most-favored-nation clause.

Common Market ministers, meeting recently in Brussels, expressed grave concern over the impact that the Mills Bill could have on world trade. They estimated that up to $1.9 billion in Community trade with the U.S. could be affected. Commissioner Ralf Dahrendorf will visit Washington late this month to convey the EEC estimates to U.S. authorities. The American reaction to his visit will determine whether or not the EEC will attend the four-power trade talks scheduled to be held in Geneva soon after. These talks were called as a follow-up to the informal discussions held between the Six, the U.S., Britain, and Japan last July on protectionist threats to world trade.

Italian economic outlook continues good

ROME -- Treasury Minister Mario Ferrari Aggradi told the Italian Parliament that Italy's economy should continue to expand at the 6% rate that has been the average for the past five years. Aggradi thought that underutilized capacity and two years of heavy investment should make up for a threatened slowdown in construction. Private and public productive investment should rise in Italy by 10% in 1971.

The Treasury hopes that borrowing in the public sector--although plans for housing, health, and education will be carried through--can be limited to about one-quarter of Italy's present capital market. This would allow the market more resources for productive investment. Limits on public spending will be set soon by a new mixed commission of the Treasury and the Ministry of the Budget.

Investment by state-controlled enterprises, which should rise by 45% in 1970, are expected to rise by another 11% in 1971. Aggradi estimated that private consumption in Italy would increase by 7% next year.

EEC to be flexible on UK transitional period

BRUSSELS --The Common Market will be flexible on the question of Britain's transition to full membership in the EEC. However, it appears that the Six will use the issue as a major bargaining point. The transitional period will now be used as part of an overall arrangement on the major problem in the negotiations--the cost to Britain of entry. Previously, the EEC has insisted that Britain's industrial and agricultural transition be made over the same period of time. Now, the UK will be permitted a longer period to adjust to common agricultural policies than the three years that it has demanded for its industrial adjustment. Britain faces severe difficulties from EEC farm arrangements, which penalize food imports from third countries--a major source of the UK's food products. The British estimate that Common Market membership will mean across-the-board increases in food bills of about 18% to 25%.

The EEC is divided on how long the agricultural transitional period should be. Italian representatives think that a total of five years is the likely compromise to be reached. In return, the Six will ask a greater British contribution to the Community budget.

Britain faces winter power problems

LONDON -- Electricity in England and Wales may be in short supply this winter. Problems stem from two sources: the weather and the possibility of a miners' strike. Early this year, the Central Electricity Board (CEGB) said that it would have a maximum 46,000 MW available from its power stations this winter. Now, the CEGB says that it will have only 41,000 MW. This means that there will be little margin to spare during peak usage periods. Last year, prolonged cold spells plus breakdowns at six power stations forced voltage reductions. This year, 200,000 coal miners may walk out. If a strike lasts more than six weeks, serious power shortages could be created. Over 75% of the CEGB's electricity requirements are met by coal. New capacity in Britain's power plants fell by 21.5% this year in comparison to 1969.

Some agreements signed in German labor dispute

BONN -- Some 110,000 West German metalworkers in the Rhineland-Palatinate will receive an average 10% wage increase. This agreement with employers follows similar arrangements signed by laborers in Hesse and Lower Saxony. This year, IG Metall, Germany's largest union, has been following a policy of regional negotiations. In some areas of the country, wage claims have been settled quickly; in others, the disputes continue. Bundesbank president Karl Klausen recently complimented the unions on a decision to lower demands for a 15% wage increase to 10%.

Eurodollar rates now influenced by Europeans

PARIS -- For the first time in nearly two years, the Eurodollar market is responding to primarily European influences and not those of the United States. In the past three weeks, rates have climbed by about 0.75 points. In 1968 and 1969, massive Eurodollar borrowing by U.S. banks sent the three-month rate soaring to as high as 13%. This dropped to 7.75% early in September, but recently the rate climbed to 8%. This upswing took place while

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U.S. banks were repaying borrowings. At the moment, it is West German financial institutions that are taking most of the available dollars. In the Federal Republic, anti-inflationary policies have created a shortage of finance.

Labor problems continue for UK automakers

LONDON -- Chrysler UK, the British subsidiary of the U.S.'s number three auto manufacturer, says that so far this year it has lost production of 22,000 Avenger cars. This is 20% of the total that Chrysler UK had planned to make this year. Total vehicle loss through mid-September because of strikes was 29,778, or a revenue loss of some $38.4 million. Company spokesmen say that the biggest losses came through wildcat stoppages. Meanwhile, Vauxhall, General Motors' UK subsidiary, faces official action. Workers there are seeking a $28-a-week wage increase. No action on the claims is expected until the end of this year. Vauxhall management is determined to avoid the situation it faced during negotiations last March. At that time, Ford startled British automakers by granting a quick $10-a-week pay raise to its workers. Vauxhall was caught in the middle of pay negotiations and had to match the Ford terms or face a strike. Most auto industry labor contracts in the UK are for one year.

Gramco considers blocking redemptions

LONDON -- According to sources close to the company, redemptions of Gramco Management's USIF Real Estate Fund, the largest offshore mutual fund group after Investors Overseas Services (IOS), will be suspended. Like IOS, Gramco has had problems with frightened investors who want their money back. Although about 20% of the fund's value has always been held in cash (some $55 million at the beginning of September), redemptions have been so heavy that Gramco's management company is reported to be considering not only suspension of redemptions but also an immediate sale of residential properties to raise a quick $38 million in cash. The properties are thought to be worth about $140 million. Early in September, investors had some $275 million invested in USIF Real Estate. The Gramco board is now trying to decide whether a suspension should be accompanied by a liquidation of the fund's assets and a promise to return all money to investors over a period of three to five years. Pierre Salinger, a London-based director of the fund, has assured European investors that portfolio properties continue to be valuable and that there will be no problem in returning any investments. IOS's problems have been a major factor in Gramco's change of fortunes. Trouble first hit Gramco in September when the firm stopped sales of USIF in West Germany. The West German Government then banned the fund. Publication of company earnings for the first six months of 1970--they showed a sharp drop, except for $6 million in special income--started the redemption runs. Most of the investors who want their money back are Europeans. They constitute some 30% of the fund's members. It appears that even if the real estate fund closes, Gramco's management company may continue to function.

Mediobanca plans new bond issue

MILAN -- Shareholders of Mediobanca, a leading Italian investment bank, will be asked to approve the issue of a series of lira-denominated convertible bonds--up to $160 million worth--on October 28. Contrary to usual Italian practice, Mediobanca, which specializes in medium-term finance to Italian industry, plans to issue the bonds not in one single subscription, but in several. The subscriptions will be linked to specific financing projects. Also, the units will not be convertible into Mediobanca shares, but into those of the contracting company. For firms already quoted on Italian bourses, this plan will not pose much of a problem. However, for those that are not, it could prove difficult. Spokesmen for the bank think that the best move for finance-seeking firms in the latter category would be to seek a listing. Observers in Rome noted that Mediobanca's bond plan coincides nicely with Government plans to interest companies in wider bourse participation. A large percentage of Italian firms are not quoted on Italy's stock exchanges.

McGraw-Hill in European expansion

PARIS -- McGraw-Hill, Inc., one of the U.S.'s leading publishers of business information, has acquired a majority holding in France's Ediscience, a firm that publishes and markets scientific books. McGraw-Hill already holds a 51% interest in Technic Union, the concern that produces France's number one weekly news magazine "l' Express." It also has a foothold in West Germany through its association with Spiegel Publications. Recently, the U.S. firm denied any intention to form links with Britain's Penguin Press.

Michelin-Goodyear talks confirmed

PARIS -- France's largest tire producer, Michelin, has confirmed newspaper reports that it is talking with the U.S.'s Goodyear Tire and Rubber Company about a possible joint effort to produce synthetic rubber. In 1966, the two companies formed a joint firm, Compagnie de Polyisoprene Synthétic (CPS), for exactly this purpose. Michelin held a 51% stake in the concern. Plans were finally interrupted because of French Government opposition. Michelin would like to see the CPS resurrected. If new plans can be agreed upon, a joint plant will be built at Le Havre.

Rottneros and Haindl'sche plan pulp project . . .

STOCKHOLM -- Sweden's Rottneros paper group and West Germany's G. Haindl'sche Papierfabriken hope to cooperate in building a pulp refining mill near Gothenburg. The project must have the approval of both the Swedish and West German Governments. If the two firms are allowed to proceed, Haindl'sche will acquire a 20% interest in Rottneros' Gota Cellulosa subsidiary and shelve plans to build independently a 67,000 ton-a-year mill in Germany. Output at the new mill at Gothenburg is expected to reach 5,000 tons per year by mid-1972. Eventual capacity will be 220,000 tons of ground wood pulp per year plus 30,000 tons of unbleached sulphite pulp. This would mean that Rotternos would be responsible for almost 30% of world pulp production.

. . . and Feldmuehle and Stora a newsprint subsidiary

BONN -- Feldmuehle, West Germany's largest paper producer, and Stora Kopparbergs Bergslags, a Swedish paper concern, plan to form a joint subsidiary to market newsprint. The two companies already hold stakes in a recently established venture for opening new newsprint sources in Scandinavia.

Polystyrene production stepped up

PARIS -- Ugine Kuhlmann, which recently announced intentions to link up with Pechiney in an effort to create a giant French metallurgical and chemical combine, says that annual production of polystyrene by its subsidiary, Dispersions Plastiques, will double by next year. The increase, to 50,000 tons a year, will be achieved through expanded facilities at its Villiers-Saint-Paul plants. West Germany's BASF also holds an interest in Dispersions Plastiques.

UK bank loans up

LONDON -- Bank loans to Britain's private sectors rose by almost 5% during the first half of this financial year. This was the target fixed for the whole of the March 1970 to March 1971 period. This unofficial relaxation of credit restrictions, some observers feel, may make official moves unnecessary.

ICI forms North American holding company

LONDON -- Imperial Chemical Industries, Britain's ICI, has created a wholly owned subsidiary, ICI North America, to oversee its interests in the U.S. and Canada. Headquarters for the firm will be in New York. ICI Americana, a U.S. manufacturing, sales, and distribution organization, registered a 1969 turnover of $52.8 million. Under construction at Hopewell, Virginia, is a $50 million polyester film complex. Production there will be geared toward computer and recording markets.

Eurosat to be formed soon

VIENNA -- A new multinational company is expected to be formed soon to create and operate European communications satellites. The firm will be called Eurosat and will be based in Geneva. A final decision to form the company will be announced soon. This will be accompanied by a call to European countries interested in the project to subscribe to the estimated $1 billion in needed share capital. Each of the eight countries represented in the founding consortium will have a seat on the board of Eurosat, if at least one company in the country concerned purchases shares.

Allen Electric buys out German carwasher

FRANKFURT -- Under the terms of an agreement signed last July, the U.S.'s Allen Electric and Equipment Co. has purchased all of the capital--estimated at about $1 million--of West Germany's A. Rohe GmbH. Rohe was also the chief German licensee of California Car-Wash, Inc., an Allen subsidiary. Allen will get Rohe's British and Australian subsidiaries.

Bourse report

LONDON -- Leading equities firm, gilts higher. PARIS -- Reserved market, narrowly irregular. FRANKFURT -- Slightly irregular in dull trading. MILAN -- Most sectors advance. BRUSSELS -- Generally firm, with oils well maintained. AMSTERDAM -- Mixed under quiet conditions; plantations firm.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.

Common Market Reports

EUROMARKET NEWS

Issue No. 92 October 20, 1970

Werner report goes to EEC Council

LUXEMBOURG -- Representatives from the six Common Market countries have reached agreement on a plan that they think will lead to economic and monetary union in the EEC--including a common currency--by 1980. The plan prepared by a committee chaired by Luxembourg Prime Minister Pierre Werner envisions an early narrowing of the exchange rates between Community countries. How the margins will be cut from a present 3% effective rate to one of about 1% or 1.5% has not yet been spelled out; final realization of the move may depend on several changes in the Treaty of Rome. These would involve transfer of monetary and economic policy powers from the individual countries to EEC institutions.

If the Werner Committee's report is adopted by the Council of Ministers (expected by the end of this year), Community central banks may try an experimental narrowing of currency margins early in 1971. It is thought that the entire reduction would be carried out in three stages, the second beginning in 1974, the third in 1980. The moves will depend on increases in the coordination of economic and budget policies among the Six. Binding decisions on any plans such as the Werner Committee's are not expected to be made by the EEC until 1973. This would leave candidates for Common Market membership an opportunity to help frame the final plan. The Werner Committee made recommendations on the time for creation of a joint stabilization fund. Most EEC experts feel that such a fund would be necessary to coordinate central bank operations when margins are finally narrowed.

German wage talks in critical stage

FRANKFURT -- Wage talks are continuing between West German workers and employers. Many labor experts feel that unless a settlement can be negotiated within the next ten to fifteen days, the Federal Republic will face its worst strikes since 1945. Problems are complicated by the division of Germany into 14 major negotiating regions. Unions are bargaining on a regional basis and playing gains won in one against proposals made in another. I.G. Metall, the largest union, with some four million members in the metalworking, electrical and automobile trades, has obtained settlements in five of the regions. These involve about a million men. Officials of the union have indicated that some regions can be considered critical and could face the danger of prolonged strikes. Strikes in one area could provoke shutdowns in others.

Concessions granted in the successful talks amount to a 10% hike in salaries plus special bonuses. In one area, workers were granted a thirteenth month. (This is an arrangement under which employees receive thirteen months' wages for twelve months of work.) In regions where settlements have not yet been signed, Metall has insisted that its opening demand of 15% wage increases would be steadfastly held. Industrialists have contended that this is a price they cannot afford to pay and that it would only lead to inflation and possible unemployment. The union's reply has been that a 15% hike can be granted without putting undue pressure on prices. Union officials strongly believe that employers will back off at the last minute, grant their demands, and thus avoid a strike.

GM chooses London headquarters

LONDON -- General Motors, parent company of Opel and Vauxhall, two large European auto firms, has chosen London as the site of its integrated European operations. Recently, GM announced that it was completely reorganizing its formerly scattered European units. GM in Europe now has one head, L. Ralph Mason, and will probably start making interchangeable parts for most of the cars it sells in Europe at its UK, French, and German production plants. In choosing London, GM will join Ford and Chrysler, who much earlier formed integrated European units and based their headquarters there. Also, most observers felt that a London base indicates that the automobile firm does not intend to downgrade its Vauxhall operation in favor of Opel. Opel has grown to be GM's second largest division after Chevrolet; Vauxhall has remained mired in management and labor problems and expects to lose about $24 million in 1970. Mason has insisted that Vauxhall and Opel will retain their separate identities, product lines, and dealer organizations. Persistent rumors among company employees appeared to indicate that a centralized GM European operation would soon turn to manufacture of one line of cars for the entire European market. The reorganization over which Mason is presiding is probably the most drastic ever undertaken by GM.

More growth this year for EEC industries

BRUSSELS -- Industrial production in the EEC should increase by 7% to 10% this year in comparison to 1969. A new report by the EEC Commission notes that increases are expected for all the Common Market countries. The growth of industrial production in West Germany should be about 8%,that in the Benelux 8.5%, in France 7%, Italy 9%, and the Netherlands 11%. The gains will be realized despite stiff increases in costs and a limited labor supply, especially in West Germany and the Netherlands, and sporadic strikes, mainly in Italy. The Commission pointed out that slackened demand from outside countries, particularly the United States, has hardly affected EEC firms' order books. New orders have continued because of the high level of exchanges in intra-Community trade. However, one dark spot remains on the Common Market economic horizon. This is a continuing deterioration in the Community trade balance.

Denmark freezes prices . . .

COPENHAGEN -- As a first step toward introduction of a national incomes policy, Denmark has adopted price and profit controls. The freeze will last through next February. Employers, edgy at the thought of wide-ranging

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salary negotiations with workers due to take place in November, thus are forbidden to pass on in the form of higher prices any wage increase which they may grant. Wider profit margins are also restricted. By March, the Danish Government expects to have pushed an incomes policy through the Folketing, the country's Parliament. Here the Government has repeatedly warned that if cooperation from legislators is not forthcoming, it will simply use its majority to push acceptance of the necessary measures. Key elements of the incomes policy are still secret. The Government has already introduced some fiscal and monetary measures in order to trim Denmark's inflation and huge balance of payments deficit. This is expected to soar to almost $35 million this year. No direct restriction on wages has been threatened. However, trade unions have been warned not to make unrealistic demands in November.

. . . and so does Sweden

STOCKHOLM -- Sweden has frozen prices on all products and services, and Government officials have promised that more and tougher economic measures are yet to come. Most of these will be aimed at taking more money out of Sweden's overheated economy. Some ideas reportedly under consideration include higher taxes on gasoline and liquor, and restrictions on imports and foreign travel. Early this summer, the Swedish krona was under considerable pressure on world money markets.

Ford produces most popular UK cars

LONDON -- Ford now has the hottest-selling cars on Britain's auto market. New figures, compiled by the Society of Motor Manufacturers and Traders, show that during the first six months of 1970, Ford's Cortina edged ahead of British Leyland's Austin Morris 1100/1300 to become the UK's top selling car. Ford's Escort held third place, and its Capri seventh place, on the list. In all, Ford sold 164,041 automobiles--27.8% of the total British market--during the first six months of this year. Chrysler's new Avenger, introduced in February, was the sixth most popular British auto.

Spanish insurance firms gain more investment freedom

MADRID -- Because of new rules issued by the Ministry of Finance, Spanish insurance companies will have more freedom to maneuver when investing their reserves and surplus funds. Until recently, 40% of the reserves or surpluses had to be held in cash or bank deposits, or invested in loans and mortgages. Another 30% had to be kept in Government securities. These two regulations will remain. However, the remaining 30%, which previously had to be invested in debentures -- with preference given to the issues of state-controlled companies -- can now be freely used to buy the shares and debentures of private Spanish commercial and industrial firms. It is hoped that this will lead to a gradual revitalization of Spain's stock market, plus an easing of current liquidity problems in many private companies.

Gulf eyes West German distribution increase

FRANKFURT --The U.S.'s Gulf Oil hopes to increase its West German petroleum distribution network--currently 750 installations--to 1,000 units soon. The quickest way to accomplish this appears to be to integrate the installations selling products under the "Frisia" label. This is the brand name of Gulf's recently acquired German subsidiary, Erdoelwerke Frisia. Gulf recently revealed plans for extension of its Emden refinery. Production there could easily include petrochemicals.

Continental Illinois expands in Europe

FRANKFURT --Continental Illinois National Bank and Trust Company of Chicago plans to increase and strengthen its position in West Germany and Austria. It will soon open its second German branch at Munich. The first was established at Frankfurt two years ago. Continental also plans to set up a wholly-owned subsidiary in Vienna. This firm will be called Conill Bank AG, and should begin operations by the end of this year.

French firm moves into U.S. market

PARIS -- Ets Lucien Ferraz, one of France's largest producers of circuit-breaking equipment,and The Carbon Corporation, a U.S. manufacturer of carbon and graphite base products for engineering, have agreed to establish a joint American subsidiary. The new firm will be called Carbo-Ferraz, Inc., located at Rockaway, New Jersey, and produce circuit breakers for the protection of semi-conductors. Lucien Ferraz techniques will be used.

Tenneco acquires new German stake

FRANKFURT -- Tenneco, Inc., an American group whose interests range from oil and petrochemicals to shipbuilding and construction machinery, has acquired a major stake in West Germany's Losenhausen Maschinenbau, a vibro-compactor specialist. Most of Losenhausen's production is sold to materials-testing plants. The firm has subsidiaries in the UK, Switzerland, and the U.S. Tenneco will manage its new acquisition through a subsidiary, J. I. Case, of Racine, Wisconsin.

Degussa opens Belgian plant

BRUSSELS -- Degussa, one of West Germany's leading precious metals refiners, has opened a $40 million industrial chemicals plant at Antwerp. Although the firm has twelve other foreign production units,this is the biggest. Currently, the facility occupies 20% of a 267-acre site bought nearly three years ago. The plant produces Aerosil, Degussa's patented high-dispersion salicylic acid filler, used chiefly in rubber, plastics and paints. About 90% of the production is slated to be exported.

Danish group plans to shut down Swedish operations

STOCKHOLM -- Svenska AB Christiani and Nielsen, the Swedish subsidiary of Denmark's Christiani and Nielsen engineering concern, plans to shut down its operations in Sweden by the end of 1971. The chief reason for the move is tighter credit in both Sweden and Denmark, plus increasing competition on Swedish markets. The group reported a turnover of about $5 million in Sweden last year.

Bourse report

LONDON -- Equities quiet but firm, gilts uneven. PARIS -- Market maintains overall improved position. Foods well maintained. FRANKFURT -- Slight decline. MILAN -- Most sectors drift lower on lack of incentive buying. BRUSSELS -- Firm recent trends indicate close link with New York. AMSTERDAM -- Local industrials steady; plantations and shipping mixed.

Common Market Reports
EUROMARKET NEWS

Issue No. 93 No. 146, October 27, 1970

France lowers discount rate, eyes credit ease

PARIS -- Claiming that French economic policy since devaluation has been a resounding success, French Finance Minister Valéry Giscard d'Estaing announced that France would again lower its discount rate--for the second time within two months. The rate is now 7%, down from 7-1/2%. In late August, France's Finance Minister stunned foreign exchange dealers by approving only a one-half point drop (from 8% to 7-1/2%). They had anticipated a full point cut and had worked out new rates on that assumption. In August, most experts felt that a one-half point cut would never stick. It didn't. From Giscard d'Estaing's point of view, however, the interval permitted France to keep its domestic credit rates at comfortable levels. This meant that the hot international money, seeking the haven of high French interest rates, continued to flow in, but domestic spending, which was influenced by the same high rates, remained sluggish.

It appears that the Finance Ministry has decided that France's economy is now strong enough to withstand a bout of consumer spending. Giscard d'Estaing has held off as long as possible demands from businessmen to lower bank ceilings on the quantitative growth of credit. Businessmen have argued that French goods are rapidly losing the position they held on export markets because of the franc's devaluation. Their view is that only increased domestic interest can keep plants turning at capacity. Now, the Finance Minister has indicated that credit ceilings will come off soon. In addition to the discount rate cut, required advances against securities have been lowered from 9% to 8-1/2%. The big worry for French economic experts is that their plan to turn the economy gradually inward may cave in. A rush in consumer credit hikes could push France back to its original position and the bad balance-of-payments deficits which led to the 1968 devaluation.

Last attempt to convince UK to rejoin airbus consortium

FRANKFURT -- West German and French officials will meet with British representatives in an eleventh-hour effort to convince the UK to abandon its short-haul aircraft plans and rejoin the European A-300B airbus consortium. The Germans and the French are worried that the British will go ahead with plans to build British Aircraft Corporation's projected Three-Eleven plane, thus splitting the short-haul market. They are ready to offer financial and industrial inducements to persuade the UK to do otherwise. Reportedly, this includes cash support for the development of Rolls-Royce's next big engine, which could be used alternatively with the General Electric unit already specified for the A-300B. The Germans and the French will emphasize that they are prepared to push the A-300B project ahead at top speed (it already has an estimated two-year lead time on the Three-Eleven). The

French, Germans, and Dutch have already pumped almost $96 million into their project, and full funding calls for the expenditure of $432 million. Tooling for runs is almost complete, and 85% of the working drawings have already been sent to the shops. In all, experts predict an immediate market for some 350 A-300B's. They insist that even if Britain does go ahead with the Three-Eleven, at least 300 A-300B's will be sold.

Another North Sea oil strike

LONDON -- Although the full potential of current drillings has yet to be evaluated,British Petroleum appears to have made a major oil strike in the North Sea. An exploration well drilled 110 miles east of Aberdeen is producing quality oil at the rate of 4,700 barrels a day. The find lies under 350 feet of water. BP's strike marks the end of the most successful summer that international oil firms have had in their six-year-old North Sea search. The hunt, which is estimated to have cost international oil firms $480 million,has yielded six commercial natural gas fields. In early June, the U.S.'s Phillips Petroleum discovered the big Ekofisk oil field off the coast of Norway and,in September, a potentially good well off the coast of Scotland. BP's discovery is near a well successfully tested by the U.S.'s Amoco-Gas Council. Other groups drilling in the immediate area include Shell-Esso. One big difficulty facing the firms will be to get the oil they discover ashore. The laying of a 100 to 150-mile pipeline to the Scottish coast in 350 feet of water will be expensive. However,for Europe, the prospect of having reasonable indigenous oil supplies is exciting.

Major bank consortium formed

PARIS -- Two major European banks intend to join forces in a trans-national banking agreement,the first of its kind within the Common Market. Crédit Lyonnais, France's second largest bank, and Commerzbank, West Germany's third largest, will link to provide finance to each other's customers, coordinate branch office activities,and cooperate in administration and management. For the moment, the alignment will stop short of merger, mainly because of Crédit Lyonnais' semi-nationalized status. Legally, the two will remain bound by the laws of their respective countries. Personnel will be exchanged, but it is still uncertain whether directors from one bank will join the board of the other. The exact lines of the participation remain to be drawn, and detailed negotiations are continuing. Spokesmen for both banks envisage the possibility that other European banks will soon join in the arrangement. These will come from other Common Market countries. Many Paris bankers view the move as the first of perhaps several big European linkups brought on by a growing realization--especially after the successes of major American banks in Europe--of the advantages of operations which transcend national boundaries. Multi-national organizations would appear better suited to handle Eurocurrency market operations, one of Europe's most profitable banking areas.

Renault eyes machine tool expansion

PARIS--Renault International Equipements et Technique, a subsidiary formed in 1969 by France's state-controlled and largest auto producer to group its machine tool interests, may acquire two smaller French machine tool companies. Negotiations between the firm and Société Spiertz, a producer of shaping presses,and Alcatel,a maker of boring and milling machines plus

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numerically controlled systems, are reported to be well advanced, but no agreement has yet been signed. If the talks are successful,Renault Equipements would become France's largest machine tool manufacturer. Its turnover would then approach $36.3 million. The current French leader is Société Ermault-Somua, a subsidiary of Schneider,which has a $30.9 million turnover. This year,many small French machine tool firms are suffering because of a jump in low-cost imports. The Renault group has big plans for expanding its sales through plants and sales organizations abroad.

Thyssen, Siemens to up interest in German shipyard

FRANKFURT -- Thyssen and Siemens are reportedly ready to increase their holdings in Blohm and Voss, one of West Germany's largest shipyards. Blohm and Voss has admitted heavy losses this year, and the increase--to $15.3 million--is seen by company officials as a way to take up the slack. Thyssen and Siemens, because of their seats on Blohm and Voss's board, were instrumental in a financial rescue operation undertaken last June when the losses were first revealed. At that time, a "cost explosion" was cited as the basis for the troubles. These were unforeseeable when the shipyard signed fixed-price contracts in 1968 and early 1969. Thyssen currently holds one-third, and Siemens about one-quarter, of Blohm and Voss's share capital. The rest is owned by the Blohm family.

Goodyear and Michelin to build French plant

PARIS -- Goodyear, the U.S.'s largest tire producer, and France's Michelin will go ahead with plans to jointly build a synthetic rubber plant at Le Havre. The project has lain dormant for almost four years. In 1966, the French Government vetoed the proposal. Now,a plan almost identical to that of 1966 has been approved. Through a common subsidiary, Société du Polyisophrene Synthétique, Goodyear and Michelin will construct a unit capable of an initial capacity of 45,000 tons of synthetic rubber per year. The factory will cost some $25 million. Company officials blame the delay not on the French Government but on scarcities in the French supply of isoprene,a material basic to the production of synthetic rubber. In 1966, the chief reason given for Government disapproval of the project was that the Institut Français des Pétroles (IFP) in collaboration with Elf was planning a similar project. By early 1970,it was apparent not only that products produced by IFP and Elf were too expensive for the available market, but also that Michelin was about to be squeezed by a merger between Britain's Dunlop and Italy's Pirelli. In addition,West German producers,led by Erdölchemie, have recently threatened to outpace French synthetic rubber makers.

Lazard Brothers signs agreement with Swedish group

LONDON--The British merchant bankers, Lazard Brothers and Co., have signed a financial agreement with Sweden's Kockums Mekaniska Verkstads Aktiebolag. The arrangement calls for a line of credit--to a maximum $4.3 million--for use in financing capital goods purchases for shipbuilding and earth-moving equipment. Contracts signed must value at least $72,000 and be placed before October 1, 1971. Repayments will be made over five years from the stipulated date of equipment delivery.

French liquid gas group formed

PARIS -- Gaz de France, Société Creusot-Loire, and SPIE Batignolles will form a group that will study, design, and construct storage and transport facilities for liquefied gas. One such group, formed by Crédit Lyonnais and Elf-Erap three months ago, already exists in France. Both hope to play an important worldwide role as consultants for gas plant projects. The two consortiums feel they are in the vanguard of world technical knowledge on such projects because of prior experience gained in Algeria and other Arab countries.

Bestobell buys U.S. aircraft parts firm

LONDON -- Bestobell, a UK engineering and chemical products group with interests in Australia, Africa, the Far East, and Canada, has purchased the U.S.'s General Connectors Corporation, a private concern that makes metallic dust connectors and aircraft systems components. Both firms will retain separate trading identities. General Connectors president Harold Shire, however, will join the Bestobell board.

Neckermann acquires French interest

FRANKFURT -- Investment Partners Services (IPS), a subsidiary of West Germany's Neckermann Versand, will acquire a 50% stake in Union Parisienne de Placement (UPP), a subsidiary of France's Banque de l'Union Parisienne. IPS will subscribe 50% to a new UPP share issue. The other 50% will be taken by Cie. Financière de Suez, which holds an 80% interest in Banque de l'Union Parisienne.

Agricultural development organization formed

LONDON -- Fifteen UK firms, including Barclays Bank and the Bank of London and South America, have formed the International Agricultural Development Corporation, a consortium which will provide agricultural development programs to overseas governments. All the companies included have an equal footing.

Dutch want oil firms in Flushing

AMSTERDAM--Dutch authorities are negotiating with West Germany's Rheinisch-Westfälische Electrizitätswerke for establishment of a 10-million ton oil refinery in the province of Flushing. Authorities in the Netherlands also appear convinced that the U.S.'s Amoco oil group will locate some sort of unit there.

New Euro quotation service

ZURICH -- A new European Quotation Service (EQS) will be published by CCH Verlag AG, Swiss subsidiary of the U.S.'s Commerce Clearing House, Inc. The listings, similar to the "pink sheets" produced by National Quotation Bureau of New York, a wholly-owned subsidiary of CCH, will appear initially on a weekly basis. According to Edward Crockett, EQS editor, Friday A.M. prices for more than 300 Eurobonds, both straight and convertible, will be quoted and posted for arrival by first mail Monday in Europe. The sheets offer comprehensive alphabetical listings by bond, and provide a telephone/telex directory of dealers. The dealers are listed alongside bonds in which they are currently making a market.

Geigy shareholders approve merger

ZURICH -- Shareholders of Switzerland's J.R. Geigy have approved a board recommendation calling for merger of the firm with Ciba. Geigy capital will now be increased to $44 million--the level of Ciba's--by the creation of 6,000 bearer shares, 270,000 registered shares, and 54,000 participation certificates, in order to effect the move. Answering dissident stockholders who proposed a free stock issue and payment of a special dividend, Geigy president Louis von Planta insisted that tax considerations demanded a capital increase. A dividend on new shares, however, will be paid. This will be back-dated to January 1, 1970, even though the new shares will not be created until November. Von Planta also affirmed growing stockholder suspicions that adhering to a recent U.S. Justice Department consent ruling on the merger will mean a slight drop in turnover. Ciba stockholders have also recently approved the merger.

U.S.-UK-French cement combine

PARIS -- Lafarge of London,Ciments Lafarge of France, and Lone Star Cement of the U.S. have formed a joint company. The new firm, called Lone Star Lafarge Company, will manufacture and distribute special cements in the U.S. The decision was taken after almost one year of market feasibility studies.

Philips - Matsushita in joint move

BRUSSELS -- Belgium's Philips Gloeilampenfabrieken, and Japan's Matsushita Electric Industrial have set up a jointly-owned Brussels-based firm, Philips-Matsushita Battery Corporation. The new firm will be capitalized at about $2.8 million and will produce batteries for radios, television sets, and flashlights. Plant operations are expected to start at Tessenderloo near the end of this year.

Zanussi expands in The Netherlands

MILAN -- Zanussi, Italy's largest producer of electrical household appliances,has reached an agreement with the Netherlands' Technich Bureau Marynen (TBM), under which TBM will halt all of its own electrical appliance production and market Zanussi products under a TBM trademark. TBM intends to continue and concentrate its production efforts in other fields, specifically industrial refrigerators and freezing units. This output will be aimed increasingly at export markets.

Amtec wins Soviet contract

PARIS-- Amtec-France,in which the U.S.'s New Britain Machine Company holds a 48% interest, has won a $20 million contract to supply auto industry machine tools to the Soviet Union. The contract period will begin late in 1971 and will run for three years.

Austrians and Italians in talks on pipeline

VIENNA -- Austrian and Italian experts are examining construction and financing plans for a 360-mile pipeline which would transport Soviet natural gas across Austria to Italy. The project was approved in principle in 1968. Cost of the effort will be an estimated $96 million. Operations should begin in 1973.

Bourse report

LONDON -- Equities gain strength,gilts very erratic in mixed market. PARIS -- Firm, following news of discount rate cut. FRANKFURT -- Hopes of easing credit restrictions keep most market leaders firm. MILAN -- Most stocks lower in quiet trading. Bourse operators' strike adds to otherwise glum market. BRUSSELS -- Industrials dull, banks mainly steady. AMSTERDAM -- Plantations and shipping lower, losses predominate among industrials.

Common Market Reports
EUROMARKET NEWS

Issue No. 94 November 3, 1970

EEC willing to raise Japanese textile quotas

LUXEMBOURG -- In a move designed to discourage passage of the U. S.'s protectionist trade bill, the Common Market has indicated that it would be willing to accept higher imports of Japanese textiles if new U.S.-Japanese negotiations on "voluntary" bilateral textile curbs succeed. This was the gist of a tough but flexible note approved by EEC foreign ministers and delivered to the U.S. mission to the Common Market. Community Commissioner for Foreign Trade Ralf Dahrendorf discussed the compromise with U.S. officials in Washington recently. His visit followed stiff UK and West German warnings of automatic reprisal in the event the U.S. trade bill passed.

The Common Market has been working on plans for increased Japanese textile imports. A special committee has prepared contingency plans that reportedly call for a quota hike of up to 20%. These Community plans, however, run counter to the views of European textile manufacturers. They recently asked exclusion of textile imports from a United Nations plan which calls for abolition of duties on industrial goods from developing countries. Their opposition to increased exports from industrially powerful Japan is expected to be even stronger.

In the official note, the EEC expressed hope that efforts toward freeing world trade will be increased,but the Community also underlined its determination to take steps to protect its trade interests should renewed U.S.-Japanese talks fail, or the trade bill be voted into U.S. law.

Taxes, subsidies cut in Britain

LONDON-- In an effort to break out of a "depressing cycle of high taxation and low industrial growth," the UK Government has announced cuts in taxes, subsidies, and public spending. Anthony Barber, the Chancellor of the Exchequer, outlined the changes to the House of Commons in what resembled a special autumn budget speech. The most startling tax change was a reduction from 41.25% to 38.75% in the standard rate of income tax applied to net income after deductions. Corporation taxes will be lowered from 45% to 42.5%, the first such cut in 11 years. The Government also envisions accelerated depreciation for plant investment.

To balance the tax reductions, some $800 million will be trimmed from public expenditures. The Government will stop making grants and loans for hotel construction and for commuter rail services. There will also be big cuts in farm price and housing subsidies. This will move Britain closer to the Common Market's levy system under which high food costs are passed on to the consumer. Subsidies to welfare services will be reduced. The impact on the consumer of the changes is hard to assess. Nominally, the ordinary Briton will pay less taxes but he will pay more for social services that once were practically free.

West Germany's labor scene still scrambled

FRANKFURT -- Officials at IG Metall, West Germany's largest labor union, appear almost eager to take strike action in the region of Nordbaden-Nordwuerttemberg. Some 500,000 metal workers there are expected to approve the strike call and walk out. Recently, strikes in the Ruhr area were averted when employers agreed at the eleventh hour to give workers 11% pay raises. Earlier this year,IG Metall insisted that it would settle for no less than 15% increases in all of the separate areas where it is conducting negotiations. It has rarely obtained more than 10%. The outbreak of short, unofficial protest strikes which began when talks first started last month has continued, and appears to underline rank-and-file dissatisfaction with the bargains struck so far by union leaders. Nordbaden-Nordwuerttemberg dealings turn on an offer made by a Government mediator of a 12% basic pay increase plus a 16% productivity bonus. The offer has been accepted by the union but rejected by employers. Reportedly, Metall has turned down a new last-minute Government mediation offer to clear the way for a strike. This the union leaders view as necessary in order to convince workers that they have not easily accepted what workers consider soft employer pay proposals.

Britain and EEC reach accords

LUXEMBOURG -- Britain has reached the first of its series of agreements with the Common Market in its bid for EEC entry. The points covered were minor,but Brussels observers insist that they had to be clarified in order for the negotiations to progress. An agreement on pork, eggs, and milk emerged after long consultations between British and EEC officials. It appears that the UK's large bacon market will be safeguarded, egg price stability assured, and milk supplies maintained. The EEC has agreed to meet (at least half-way) UK demands for an annual farm review. The review will consist mainly of farmers' consultations before the Commission publishes its annual reports on the state of Community agriculture. Both Britain and the EEC underlined acceptance of the principle that once in the Common Market, UK trade arrangements with third parties will become part of a Community system. Britain will now try to ensure that all such present trade agreements with other nations can be renegotiated upon entry. In return, the EEC will inform Britain of all decisions it takes in such matters. Britain's dependent territories, with the exception of Hong Kong, will all gain associate status in the Common Market. Geoffrey Rippon,the UK's chief negotiator, and the foreign ministers of the six Common Market countries announced that discussions on key entry issues will open before the end of this year, and efforts will be made to resolve all problems by mid-1971.

And then there were four!

PARIS -- Observers at the Paris Bourse are certain that Mokta,one of France's oldest metallurgical firms,will merge with Le Nickel, one of France's fastest-growing ones. Discussions that will determine Mokta's future are under way between Compagnie de Suez, which controls Mokta, and representatives of the Rothschild group, the largest shareholder of Le Nickel. Mokta

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recently has had all too many problems. Many of these stemmed from the fact that France's nonferrous metals market is now virtually split between two giant combines: Péchiney-Ugine Kuhlmann and Le Nickel-Penarroya. Delineations, however, are not that easily made in France's metals industry. Péchiney and Penarroya cross lines, for example, to work closely together in the United States through their Instel subsidiary; Ugine Kuhlmann is one of Le Nickel's largest clients for Caledonian nickel; and all four cooperate on research--especially copper--within France. Over the past two years, Mokta has found itself increasingly outsold. For 1970, the firm's balance sheets appear to show some black, but much of this was profit due to sales and spinoffs of former properties and companies. Two of its largest manganese operations were simply closed, and one of its important subsidiaries, Coronouaille, sold. Two years ago, Mokta and Péchiney created a joint subsidiary to prospect for uranium, and merger talks were started, but shortly after, Mokta directors were advised that Péchiney would go no further. Mokta's trump in the negotiations with Le Nickel is likely to be its knowledge of metals outside of Le Nickel's and Penarroya's nickel, lead, and zinc range.

Two reports in on Italian firms

ROME -- Two important statistical studies on Italian firms have just been released. One is the annual "Il Sole-24 Ore" listing, which classifies the top Italian groups and companies. The other is a special inquiry carried out by the Institute of Statistics (ISTAT), which reports on foreign holdings in Italy's industries. This year's response to the "Il Sole-24 Ore" poll is the best ever and illustrates a new "open" attitude on the part of Italian firms to publicity and public inquiry. In 1962, the newspaper received responses from only 144 companies. This year, it got 538. The report lists groups and companies not only by turnover, but also by total labor costs, number of employees, and average cost per employee. Topping Italian groups was the IRI, Italy's semi-public industrial reorganization corporation. Its 318,900 employees produced some $4.75 billion worth of goods, representing a 15% increase over 1968. IRI was followed by Montedison, Finsider, ENI, ENEL, and Pirelli. The top company was Fiat, whose 170,883 employees generated a turnover of $2.25 billion, an increase of 6% over 1968. Italsider was next, then Montedison, STET, AGIP, and Esso Italia.

The ISTAT inquiry, which was carried out at the end of 1968, reports on 470 companies, or about 60% of the capital invested in all Italian limited firms. Of the 470 companies, 236 are completely controlled by Italian interests, the remaining 234 list foreign participation. The highest degree of foreign activity is in chemical and rubber concerns. There, non-Italian interests have invested almost $470 million, or 20% of total capital. Foreigners have invested some $300 million in Italy's trade and services sector, an astounding 68.9% of total capital. One curious note is sounded in the ISTAT report. Over 37.7% of total investment in Italian industry by foreigners has come from Switzerland. Given the penchant of Italians for putting their money in Swiss accounts, this appears to suggest that a large percentage of investments attributed to foreigners has actually come from Italians themselves.

Siemens gets license for writing machine

YVERDON -- Switzerland's Paillard will permit West Germany's Siemens to manufacture and market its Hermes Writing Process (HWP) machines in the Federal Republic. HWP, which was invented by the Swiss firm, uses the action of a magnetic field to reproduce signs, letters, and numbers electrostatically. Its principal advantages over other such processes are its speed, almost total silence and, in the mechanism of the machines, an absence of moving parts. Siemens will be permitted the rights to HWP under license. Paillard recently granted similar rights for Japan to Casio, a Japanese manufacturer of electronic calculators.

Thyssen buys into Messerschmidt

FRANKFURT -- West Germany's biggest steel producer,August Thyssen, has acquired a 9.7% stake in Messerschmidt-Boelkow-Blohm, the Federal Republic's prestigious aircraft manufacturer. The U. S.'s Boeing Company also has a 9.7% interest. Thyssen recently increased its holding in Blohm and Voss, a West German shipyard, to 64.7%.

Leyland denies merger rumors

LONDON -- At the recent London Motor Show, directors of British Leyland spent most of their time,as they put it, "scotching one merger rumor after another." Despite their all-out effort, the rumors persist. Britain's biggest auto firm has admitted that it has held discussions with France's Renault, West Germany's Volkswagen, and "other car firms." Leyland insists, however, that the talks were simply routine. Recently, reports had linked Leyland first with Italy's Fiat and then with Volkswagen. The deals suggested ranged from complete merger to sale of the stumbling Austin-Morris car division. Leyland's hottest car this year appears to be its Jaguar X16.

Pullman expands in France

PARIS-- Through a specialized subsidiary,Swindell-Dressler Co., the U.S.'s Pullman, Inc. has taken an interest in a new firm, Cetec-Dressler, just formed in Paris. Cetec-Dressler capital is split equally between the Pullman subsidiary and Cetec (Construction et Etudes Thermiques et Céramiques), a French construction firm. The new company will produce industrial ovens and materials for ceramic industries. Pullman already has large interests in France. Most recently, it acquired Trailor SA, a producer of railroad and trucking equipment.

MCA centralizes in The Netherlands

AMSTERDAM-- MCA, Inc.,an American firm specializing in theater management, film production, and record distribution, has formed a representative subsidiary in The Netherlands. MCA International, the new company, will be capitalized at about $16,000, and will coordinate existing MCA, Inc. interests in Europe. MCA's main European established groups include Decca Records, MCA Music, Universal Pictures,and Universal Education and Vision.

Bourse report

LONDON -- Equities jump on tax cuts; gilts ease. PARIS -- Reserved and quiet buying sparked by renewed interest in gold. FRANKFURT -- Major banks firm; other leading stocks ease in light trading. BRUSSELS -- Average slightly higher on good but not spectacular interest. MILAN -- Most sectors lose ground after substantial early week gains. AMSTERDAM -- Narrowly mixed. Plantations decline, shippings irregular, and local industrials barely steady.

Common Market Reports
EUROMARKET NEWS
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Commission softens short-term approach to Werner Plan

BRUSSELS -- The EEC Commission has softened some of the supranational elements in the Werner Plan, a document which outlines steps toward Community economic and monetary union by 1980, in an effort to soothe the French Government. The Commission will make no reference to the decision-making center -- suggested by the Werner Plan -- in a resolution it will send to the Council of Ministers late this year. Instead, emphasis will be placed on the use of existing Community organizations wherever power transfers are mentioned. Also, the Commission will not ask the Member States to make a commitment to revise the Treaty of Rome by the end of the first three-year phase of the transition to economic and monetary union. Instead, it will ask that this be done only if necessary. Finally, no direct mention will be made in the resolution of the need to strengthen the European Parliament in its role of supervising Community institutions. Instead, reference will be made to "democratic control at Community level."

According to observers in Brussels, the moves are being made in an effort to avoid fresh outbursts from EEC members on the issue of supranationality, something that could delay all steps toward further Community union. The Commission prefers to keep work under way without stirring up too much controversy over final objectives. It is thought that France sometime in the future will change its ideas on supranational control of the Member States' economic and monetary policies. This type of control will be insisted upon by the West Germans.

Big bank venture formed in London . . .

LONDON -- Four of the world's ten largest banks intend to extend their range of services through two joint operations. The U.S.'s Chase Manhattan, the UK's National Westminster, the Royal Bank of Canada, and West Germany's Westdeutsche Landesbank Girozentrale plan to set up two London-based banks, each with an issued capital of $24 million. One will be called Orion Bank Ltd.; the other, Orion Termbank, Ltd. Orion Bank, an investment organization, will manage international underwritings, arrange consortium loans, and assist in corporate mergers and acquisitions. Orion Termbank's specialty will be large Eurocurrency loans of up to ten years for multinational customers. The four partners will also set up a management service corporation, Orion Management Ltd., which will coordinate activities and act as a central planning group for new ventures. According to Chase spokesmen, the new operation should provide customers with a range of services that none of the four banks individually is presently capable of supplying. Orion Termbank's long-term offerings of ten years will outpace the parent banks' current practice of lending for a maximum of seven years. Chase, which cannot offer investment banking services in the U.S. or control such operations abroad, will be able to break into a new field. The

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European banks concerned will now have closer links with the U.S. Together the four partners, which have assets of some $46 billion and outlets in 85 countries, will be able to meet growing capital requirements of multinational firms.

. . . and another in Brussels

BRUSSELS -- Four big European banks, with assets totalling $24 billion, will link up to form a banking venture in Belgium. The four partners are Britain's Midland Bank, the Amsterdam-Rotterdam Bank, West Germany's Deutsche Bank, and Belgium's Société Générale de Banque. They will form European Banks International Co., SA, a Brussels-based organization, which will coordinate and promote their common activities and interests. The new venture will be capitalized at $2 million and will provide joint facilities for international trade and finance, plus coordinate further joint ventures and foreign representations. Recently, two other big European banks, France's Crédit Lyonnais and West Germany's Commerzbank, virtually merged in an effort to increase their multinational services. Many European bankers view the moves as a new trend in which banks will seek to combine in order to meet international customers' needs through providing department-store-type services.

Rise in UK bank deposits . . . and sterling

LONDON -- Investment confidence in the UK, cheered by recent tax cut moves, became unsettled once again as the Bank of England increased its special deposits by a record $240 million. By November 11, all London clearing banks will have to place 3-1/2% of their total deposits--up from 2-1/2%--with the central bank. Most investors feared that to meet this goal, banks would be forced to sell significant amounts of securities. However, in late September, clearing banks were trending toward high liquid holdings. In early October, they were keeping almost 32% of deposits liquid, which was well above the 28% minimum required. Most observers viewed the deposits hike as a warning to banks to cut the rate of growth in lending. A target growth rate of 5% for the 12-month period of March 1970 to March 1971 has been practically shattered. Lending in Britain had risen by almost 4-1/2% by the end of September. The Bank of England did not tell banks to try to meet the 5% target. Instead, a new, more open position appears to have been adopted. Chief emphasis will be placed on restricting loans to consumers. As securities went down, sterling floated higher. Bolstered by news of the deposits increase, the pound climbed to its highest rates since early August and finally settled at around $2.3900. More good sterling news came in with a Government announcement that UK gold and currency reserves (which back sterling) jumped by $72 million in October. They had fallen by a total of $54 million in August and September. British reserves have now risen during 12 of the past 14 months.

Germany gets EEC go ahead for USSR talks

BRUSSELS -- The Common Market will permit West Germany to negotiate a five-year trade pact with the Soviet Union. Under Community rules, Member States need Commission authorization and Council approval to pursue individual treaty talks with Communist countries or nations in which foreign trade is handled by the state. The rule will apply until 1972, when the EEC itself will conduct such negotiations. The Commission has given West Germany the

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necessary authorization. The Council is expected to approve the action at its November 23-24 meeting. Recently, France obtained permission to open trade talks with North Vietnam and Romania.

New satellite consortium

BRUSSELS -- Seven European companies have taken a bold first step toward recasting Europe's aerospace activities. The firms, including Britain's Marconi Space and Defence Systems, France's Société Nationale Industrielle Aérospatiale, and Germany's Messerschmitt-Boelkow-Blohm, have formed a consortium, and hope to snag contracts for much of Europe's communications and air navigation satellite programs. Others in the group are Belgium's Etudes Techniques et Constructions Aérospatiales, France's Société Anonyme de Télécommunications, West Germany's Siemens, and Italy's Selenia. The new consortium has already started on a feasibility study. Hopes are high that contracts funded by the European Space Research Organization for design and then hardware will quickly follow. The group will also turn its sights on satellite projects now under consideration in Canada and Australia, two countries which at present have no space commitment. The consortium will not have a financial structure based on holdings, but it will have a board of directors, backed up by technical and sales consultants. The group presently setting Europe's aerospace pace is MESH, a consortium formed in 1966 by Germany's Maltra ERNO, Sweden's Saab, and Britain's Hawker Siddeley Dynamics.

Lamborghini seeking Ford links

TURIN -- Rumors traditionally haunt auto shows. In London, representatives of British Leyland spent most of their time recently denying reports of an impending link between their firm and either France's Renault or Italy's Fiat. Now the show and the rumors have shifted to Turin. Lamborghini, the Italian firm that makes expensive cars for the very few, reportedly is seeking a merger with the U.S.'s Ford. Owner Ferruccio Lamborghini has insisted that no contract between the two companies has as yet been made, but he would not repudiate published reports that Henry Ford II is expected to visit Lamborghini's Modena plant soon, nor deny that Lamborghini hopes to cooperate in some way with Ford. According to sources in Italy, a Lamborghini-Ford merger is probably not in the making. More likely is a special arrangement resembling one recently concluded between Ford and another Italian auto producer, de Tomasso. Lamborghini produces three cars a day, each with a cylinder capacity of 2,500 to 5,000 cc.

Steel plant financing arrangements reportedly set

PARIS -- The French Government and Société Lorraine de Laminage Continu (SOLLAC) appear to have reached agreement on financing arrangements for a giant new steel complex to be built at Fos, near Marseilles. SOLLAC, a subsidiary of Wendel-Sidelor, one of France's leading steel producers, had asked the Government to supply 40% of the needed $1.1 million. The Government has agreed to provide a $348,000 loan through its Economic and Social Development Fund. The rest will come from a public bond issue and from Wendel-Sidelor. Construction on the unit was scheduled to start last summer. Financial details, however, have proved more difficult to work out than at first imagined. Also, the French Government reportedly has come under heavy Soviet pressure to buy blast furnaces needed for the installation in the USSR as one means of balancing French-Soviet trade. But Russian credit terms have been much stiffer than those accorded Soviet buyers by French finance houses. SOLLAC may finally turn to the Japanese for some supplies. Production at Fos was planned to start in 1973. The complex was to have risen to an eight-million-ton-per-year capacity by 1980.

New West German investment group

FRANKFURT -- Deutsche Bank and Deutsche Gesellschaft für Wertpapiersparen (DWS) plan to set up a joint investment firm, Deutsche Vermögensbildungsgesellschaft, in Bad Homburg. The new concern will have a basic capital of some $300,000, and intends to launch three investment funds. One will deal in West German equities, the second in fixed-interest issues quoted on German capital markets,and the third in international stocks and bonds.

U.S. fund sales hit snags in Germany

FRANKFURT -- International Investors Group (IIG) has decided voluntarily to halt sales of its Real Estate Fund of America in West Germany. Recently, the West German banking commission notified the firm that the fund, which was advertised as having assets of over $100 million,was under study to ensure compliance with the Federal Republic's Foreign Investments Act. Investors' Overseas Services (IOS) and Gramco--two of the world's largest mutual fund organizations--have also had similar troubles. One month ago, Gramco suspended sales of its USIF Real Estate Fund in West Germany. Nevertheless, a few days after the move, USIF Real Estate was officially banned. The Act covers custodianship, redemption, and investment valuation for foreign funds dealing in shares, bonds, and property sold in West Germany. For the moment, IIG's other fund, Fund of the Seven Seas, which invests in shipping, remains unaffected.

GM - Audi-NSU in $50 million Wankel engine deal

FRANKFURT -- The U.S.'s General Motors has agreed in principle to pay West Germany's Audi-NSU $50 million for rights to manufacture and market, on a non-exclusive basis, the Wankel rotary combustion engine. The agreement, which is with Audi-NSU and Curtiss-Wright (holder of current U.S. licenses), must still be approved by the GM board. Once the arrangements become final, GM will pay Audi-NSU $5 million by the end of this year,then $10 million each year for the next four years, and then a final $5 million. The U.S. auto producer will give Curtiss-Wright an initial payment of $2.3 million and then a further $20.5 million spread over the next five years. Audi-NSU, which is almost 75%-controlled by Volkswagen, is counting on the GM deal to swing other U.S. manufacturers to use of the engine. Company sources feel that a similar arrangement will soon be concluded with Chrysler. The Wankel engine is about one-half the size and weight of conventional engines, and has no parts which move back and forth. Instead, triangular rotors revolve around the crankshaft. A two-rotor Wankel is considered the equivalent of a six-cylinder convential motor.

Bourse report

LONDON -- Investment buying plus bear covering helps rally oversold equities; gilts gain slightly on technical factors. PARIS -- Most stocks well maintained in quiet trading. FRANKFURT -- Major banks firm,others mixed. MILAN -- Selectively higher with Fiat and Finsider leading slight gains. BRUSSELS -- Chemicals firm; internationals ease in quiet conditions. AMSTERDAM -- Shippings mainly higher; plantations and most local industrials declined, but stayed well off the bottom.

Common Market Reports

EUROMARKET NEWS

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U.S. prods Europeans on interest rate reductions

BASEL -- The United States reportedly has begun a careful effort to convince European central bankers that the world's interest rates must be lowered soon. The main item on this month's ultra-secret Central Bank governors' meeting appears to have been a timetable for concerted action. According to European bankers, the big impetus behind the U.S. drive comes from the conviction that current economic ills -- including a U.S. unemployment rate of 5-3/4% -- must be cured in time for the 1972 elections. At the same time, U.S. experts realize that international action is needed, if only to avoid heavy shifts of capital. If U.S. rates -- including the Eurodollar rate -- were to drop while European rates remained at high levels, the danger of a large movement out of dollars into Dmarks, guilders, or Swiss francs would become real. Europeans realize, however, that such shifts could add to their inflation problems, not to mention their problems of dollar holdings. West German authorities are believed to be ready to lower both their discount rate and the Lombard rate, but a recent wave of pay increases has made them prudent. They are now ready to proceed, but they want the U.S. to make the first move. Then any change they make can be attributed to international trends rather than to weakness in the face of inflation. The U.S. wants to be certain that the others will follow. Although Europeans are reluctant to believe that the main U.S. reason for pushing lower interest rates is anything but political, because of their own situations they are accepting an American argument that there is now a substantial amount of unused capacity in the U.S. economy, and that much of the disinflationary impact of policy formed over the last two years has yet to emerge. Most European experts now feel that when U.S. interest rates dip (a commercial bank prime rate cut from 7-1/2% to 7-1/4% has already occurred), European rates, except in Britain, will come down also.

Bundesbank drags feet on discount rate decrease

BONN -- Up until the moment of this month's regular meeting of the Bundesbank, many West German financial men felt that a change in West German credit policy was in the offing. Now they are not so sure. Fundamental to a change is the Bundesbank concurrence with a Government analysis of the state of the West German economy. Government experts feel that the economy is cooling. Reportedly, Bundesbank men are not so certain and final Bank views will not be known until the Bundesbank publishes its official monthly report sometime this week. If the Bank thinks that the economy has slowed, minimum reserve requirements will be lowered and the discount and Lombard rates cut, probably early next year.

Meanwhile, the cost of living in the Federal Republic rose again in October, bringing the total rise for the past 12 months to 4%. The cost-of-living index rose by 0.5% during the month. Taking the news in stride, Economics Minister Karl Schiller forecast an increase of not more than 3% in 1971. Recent Economics Ministry forecasts place industrial profits growth next year at 3% to 4%. They expanded by 7% this year. Wages are expected to go up by between 8-1/2% to 9-1/2% in 1971.

Another major UK strike

LONDON -- Some 114,000 coal miners have struck in the UK, forcing production stoppages at some 119 pits. Coalfields throughout southern Wales are closed, for the first time since 1926, and 21 out of 32 Scottish pits are idle. Scottish coal miners were not expected at first to join the walkout. They appeared ready to accept the National Coal Board's minimum wage offer of $43.20 a week and stay on the job. (The unions want $48 a week, plus other benefits.) According to Coal Board head Lord Robens, "militant communists" had torpedoed an agreement in Scotland at the 11th hour. Although a lack of coordination has been readily apparent between top union management and on-the-site labor organizers, Robens' charge seemed strong. Indeed,mining union leaders showed rare unity as they unanimously denied it. The strikes in Wales and Scotland are being termed as unofficial,mainly because top union management has not yet stopped bargaining on the National Coal Board pay package, and has urged strikers to return to work. However, the trend among disgruntled workers in Britain this year has been to ignore the views of union leaders. Thus, there is every chance for the walkout to drag on and on. . . and spread to as yet unaffected pits. The Coal Board in this case has another fear: Customers without coal this winter may convert to gas by the next.

Robert Carr, Secretary of Employment, stated that Britain currently is experiencing an even worse year for strikes than 1969, which in turn was the worst year since 1926, the year of the general strike. During the first nine months of 1970, Britain lost 7.5 million working days,an 82% increase over the same period in 1969. And there may be more walkouts before the end of the year. Automakers Ford and Vauxhall face requests for a $24-a-week pay raise, and Post Office employees appear determined to win a 17% increase. Also, labor support is growing for a one-day national strike on December 8 to protest Carr's proposed Industrial Relations Bill, which, if voted into law, would place employer-union relations within a legal framework.

Swiss economy still worrisome

BERNE -- According to Finance Minister Nello Celio, Switzerland's economy is likely to remain overheated for some time to come. Celio compares present ills to those experienced in Switzerland during the black year of 1960. Last month,the official cost-of-living index jumped by 0.5%. This brought the overall hike for the past 12 months to 4.9%, one of the highest rates of inflation in Switzerland since 1960. Celio told the Swiss National News Agency that current problems would be more difficult to correct than those in the past. One reason is that supply and demand differences can no longer be reconciled through production increases induced by importing foreign labor. The present mood in Switzerland is to strictly limit the number of foreign workers coming into the country. Celio thinks that the Government

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will ask for new economic powers next spring. Among the powers asked for will be one enabling Swiss leaders to increase certain taxes that curb the supply of money. Celio did not think a franc revaluation likely.

New UK offshore concessions to be offered soon

LONDON -- The British Government will ask for bids for new oil and gas offshore drilling concessions early in January, 1971. The sites to be offered reportedly include large blocks just off the coast of Cornwall, off the east coast of Scotland, and sections in the English Channel. British Petroleum recently announced a 4,700 barrel-a-day oil strike off Scotland; Amoco-Gas Council has claimed lesser finds in the same area. Six commercially viable gas fields have been discovered in British waters this year. Prospecting fever at sites off the UK coast is running high. A 10-company consortium, including almost all the major North Sea oil firms, has arranged a seismic survey, which will start at the Cornish coast and move eastward toward the coast of France. The Irish Sea, which many oil men think holds possibilities for good strikes, will remain -- at least temporarily -- out of bounds for private prospectors. Reason: A UK regulation stipulates that any exploration there by private consortiums must be done in conjunction with a nationalized British firm. Last year, private concerns shied away from the Irish Sea when they learned they would be expected to include either the Gas Council or the National Coal Board as a partner in any venture.

Eurobond volume declining

ZURICH -- The volume of new Eurobond issues coming to market appears to be slackening slightly. Now, most Continental traders see no problems in absorbing present volume in the two months ahead. This is a significant change of view since mid-September. Then, many Continental dealers were talking confidentially of limiting the number of new issues that would be permitted to come to market. The total value of this year's issues will probably reach $2.1 billion. According to spokesmen at White Weld and Co., the major market maker, issues during the first ten months of 1970 totalled $1.835 billion. This was well off the $2.125 billion pace of the same period in 1969.

Leading West German brokers, meeting recently in Bonn, decided to place only $111 million worth of Dmark Eurobonds on the market in the next two months. This would be one-half the volume of the preceding two months. An 8-1/2% coupon on the Dmark issues, however, will be maintained. German brokers feel that year-end "window dressing" operations will keep demand high enough to maintain that rate.

Common Market staff strikes

BRUSSELS -- Six thousand members of the Common Market staff struck for one day in an effort to obtain a 10% pay hike and the right to a greater say in discussions that determine their wages and working conditions. The walkout did not involve employees of the Council of Ministers but did include almost all personnel assigned to the Commission. The strikers claimed that this year, wages in all six Community countries rose much faster than the cost-of-living increase normally granted Community employees every year. The Commission itself appeared sympathetic to the strikers' views. However, a final decision on the increase does not rest with the Commission but with the Council of Ministers. A group of experts appointed by the Council will attempt to resolve the dispute. The outcome, however, will likely be a cost-of-living award - estimated 3.5% this year - instead of an across-the-board 10% increase.

France finds inflation fight difficult

PARIS -- Inflation once again appears to be stalking the French economy. New price hikes have been announced for postal, national rail, and Paris public transport services. They will take effect in January.

France appeared to have inflation under control last August, a month during which prices rose by only 0.2%. By September, however, the pre-August norm of 0.4% monthly price jumps had returned. Finance Minister Valéry Giscard d'Estaing promised last January that prices would not rise by more than 4% in France during 1970. In the same month as his prediction, prices rose by an astonishing 0.8%. (This would have meant an annual increase of well over 4%.) By June, Finance Ministry experts decided that France would do well to contain prices at a 5% annual increase level. After their surprise in August, they could console themselves with the thought that the 5% target is likely to be met.

Babcock and Wilcox eyes Babcock and Wilcox

LONDON -- Confusing though it was, the only links between the U.S.'s Babcock and Wilcox Co. and Britain's Babcock and Wilcox Ltd. were a few technical agreements, and a name. That has changed. The U. S. firm has just paid $9.4 million for a 15% interest in the British concern. One British stockbroker reasoned that it was the name that proved attractive. Others are now worried that it may prove too attractive. British Babcock and Wilcox has major interests on the Continent: Babcock Fives and Babcock-Atlantique in France; and Deutsche Babcock and Wilcox in West Germany. It has long been protected from takeover by foreign shareholders by a corporate rule denying voting rights to foreign shareholders. The rule may be changed. Representatives of the U.S.'s Babcock and Wilcox have claimed that they seek no more than the 15% stake in the UK firm that they now have. However, should the U.S. company attempt a takeover, it reportedly can count on quickly picking up another 30% of the British firm's stock held since 1968 by the Astaire and Co. brokerage house.

More Japanese moves in France

BRUSSELS -- More and more Japanese firms are moving into Europe. Recently, Kanegafuchi Chemicals picked Belgium as the spot for a sales subsidiary and a big synthetic resins plant. Now, three other leading Japanese firms have announced European projects. Hattori plans to establish a sales operation in Amsterdam which will market its Japanese-made computers in the Common Market. Already, Hattori has blanketed most of the EFTA area through sales agreements with Swedish, Austrian, and Finnish concerns. Kao Soap has chosen Spain, and signed a joint venture agreement in which it will get a 45% stake in a new chemical products company, Sinor-Kao. The Spanish firm Sinorgan will have a 50% holding in the new concern; the other 5% will be divided between the U.S.'s Atlas Chemical Industries and Kao Atlas Ltd. Sinor-Kao hopes to get a 3,000-ton plant on stream in Spain by early 1971. Hasegawa Gear Works, one of Japan's largest producers of gears for industrial machinery, will join the U.S.'s USM Inc. (formerly United Shoe Machinery) to form two subsidiaries. One, at Frankfurt (Harmonic Drive System GmbH), will market in Europe products manufactured at the second (Harmonic Drive System Inc.), to be established in Japan.

Rolls-Royce gets $144 million; reshuffles board

LONDON -- A $144 million financial operation has been organized by the UK Government and London bankers in an effort to rescue Rolls-Royce from difficulties experienced as a result of huge development cost overruns on the RB-211 engine. Costs of developing the RB-211 were originally estimated at $156 million. They have shot up to $314 million. Rolls-Royce has released a financial statement detailing a net company loss of some $7.4 million for the first 24 weeks of 1970. The loss, plus stipulations placed by the Government and bankers on their loans, sent Rolls-Royce stock plummeting. London banks are thought to have put up about $43.2 million of the total loan package and apparently have agreed to roll back some $24 million in Rolls-Royce debts that were due to mature next year. They have warned that shareholders can expect only nominal dividends for some years to come. Rolls-Royce also plans a management shakeup to help meet the crisis. Lord Cole, a retired Unilever chairman, will take over chairmanship of the company. A four-man executive committee,headed by accountant Ian Morrow,will jointly make top management decisions.

Poclain sets up in Belgium

PARIS -- Poclain, France's leading manufacturer of hydraulic shovels, and a new important force on the U.S.'s steamshovel market, has set up a large Belgian subsidiary. The firms had provided almost all the registered capital--$1 million worth--for a new concern, Société Mécanique de Tournai, which will produce construction and agricultural machinery. A token share in the new Belgian enterprise is owned by Poclain's Belgian sales subsidiary, whose task until now has been to market and sell Poclain's Belgian imports.

Caledonian - BUA unite; BOAC, BEA merger rumored

LONDON -- The long-rumored and then long-discussed merger between Britain's privately-owned Caledonian Airways and British United Airways has finally taken place. Until recently, the two have mainly run charter and tourist flights and transported cargo. However, they have gained regular African and South American routes. The new group has a staff of 4,400 and 30 aircraft. The company hopes to fly some 2.7 million regular passengers in its first year of combined operations. Rumors now have shifted to a possible merger between the UK's two state-controlled companies,BOAC (British Overseas Airways Corporation) and BEA (British European Airways). Some experts insist that the British Government will soon issue a white paper outlining plans for such a merger.

Bourse report

LONDON -- Equities steady after last week's losses, but leaders remain trendless. Gilts firm. PARIS -- Most stocks climb in fairly active trading. FRANKFURT -- Small losses predominate as hopes for a quick change in discount rate fade. MILAN -- Late-week drop due to profit taking. BRUSSELS -- Mixed in very quiet trading. AMSTERDAM -- Shippings mixed, plantations well maintained. Local industrials slip slightly in generally quiet trading.

Common Market Reports

EUROMARKET NEWS

Issue No. 97 No. 148, November 24, 1970

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West Germany cuts interest rates

FRANKFURT -- West Germany has bowed to prevailing international trends and announced cuts in its discount and Lombard rates. The discount rate in the Federal Republic will drop from 7% to 6.5%;the Lombard rate (for loans against collateral) will drop a full point, from 9% to 8%. The Bundesbank decision is not the clean bill of health for the economy that most German businessmen have been expecting. Rather, the cut of only 1/2% reflects continuing Bank concern and is a concession to similar cuts made recently in the United States. The West German dilemma resembles the French one of last August. Bundesbank officials hope to stem flows of foreign capital into the Federal Republic without giving an unwelcome shot-in-the-arm to domestic lending. However, as in France's case, the 1/2% cut is probably too small to stop inflows. Foreign exchange markets reported a heavy movement of funds--some $300 million worth--into the Federal Republic one-half hour after the rate announcement,and most bankers believe that West German firms will continue to rely heavily on foreign sources for borrowings. West German officials appear to be buying time, as France did, to ready the economy for another one-half point cut. This could come early in 1971. The Bundesbank also removed a supplementary minimum reserve rate on banks' domestic obligations, but overall minimum reserve requirements were boosted by 15%. Restrictions on foreign deposits, however, remain unchanged.

In Amsterdam, reports persisted that the Dutch discount rate would follow the West German cuts. The Dutch rate is comparatively low (6%), but trade ties with West Germany are strong. Italy's rate may also be lowered. Most money market experts felt that the West German move would prove a marginal benefit to sterling. However, on the news of the cuts, the spot rate for the pound slipped three points, to $2.3907.

Commission opinion on transitional period for UK

BRUSSELS -- The EEC Commission is readying its position on the thorniest problem yet to appear in the negotiations for Britain's entry into the Common Market: The length of the transitional period. Chief UK negotiator Geoffrey Rippon has asked for two entry timetables: One of three years for industry, and another of six years for agriculture. France's Foreign Minister Maurice Schumann has led the fight to force Britain to accept a parallel transitional period, in which the date for full EEC entry for both industry and agriculture would be the same. Rippon repeatedly has stated that the UK position is flexible; Schumann has adamantly affirmed that France's position is not. It appears that Schumann has swung enough support behind his view to make it stick. The Commission will soon send the

Council of Ministers a proposal for a parallel transitional period of five years. This is enough of a time span, in the Commission's view, to ease the shock of steep food price rises, stiffer industrial competition, and contributions to the EEC farm support fund. The five-year transitional period would also apply to the other candidates for Community entry -- Ireland, Norway, and Denmark.

OECD urges high unemployment to curb inflation

PARIS -- Economic experts of the OECD (Organization for Economic Cooperation and Development) quietly exited from a two-day conference to tell the world's major trading nations that higher levels of unemployment must be accepted as a tool to halt world inflation. Never has a prescription from the prestigious OECD been more likely to fall on deaf ears. World inflation, now spiralling upward at an annual 5.5% rate,is admitted to be a major economic problem by all of the OECD's 22 member countries. However, at the moment, unemployment is what worries major European countries as well as the United States the most. European economic planners are taking their cue from the U.S. Not many of them think that President Richard Nixon will adopt the OECD's remedy after an analysis of the recent mid-term election returns. The usually hyper-inflation conscious West Germans will take no chances and let their almost full employment rate slip. Labor union leaders in France have grumbled throughout the autumn about high unemployment figures, and a boost would prove a political risk. Britain's jobless rate is also currently unacceptable to UK labor leaders. Even the OECD does not appear to have taken its prescription as the last word. Instead, observers feel that OECD was taking one last fling at a traditional approach to inflation before suggesting a new international and multi-policy one. The OECD may soon seek to convince its members that concerted reductions in such areas as farm price supports and coordinated anti-monopoly and anti-competition policies are more reasonable inflation stoppers.

UK banks' cartel system to go

LONDON -- Prime Minister Edward Heath does not appear to be interested at all in the formal incomes policies which seemed to tempt his predecessor. The keynote of his quiet way of establishing a new basis for the UK economy smacks of laissez faire. British clearing banks, say reports, may be the first to feel the effects. The Government is especially anxious to avoid the use of credit ceilings. These are viewed as an arbitrary intrusion into a free market. However, if credit growth is to be controlled, then the price of bank credit should be freed in such a way as to allow demand to line up with supply. An initiative is under way which may lead to the dissolution of the clearing banks' cartel system, a method of setting maximum deposit and minimum lending rates. The effect of such a change is hard to forecast. However, current deposit rates stand at 5%, which is 2% below the official discount rate, and this would rise if the cartel were ended. In addition, more and more bank customers probably would shift funds from current accounts to interest-earning deposits.

Some Government officials are said to be arguing that the present system favors fundamentally weak companies, who command top credit preference because of long-established bank ties. A change would open the door to newer, more vigorous firms with sounder long-term profit prospects. The Government's final argument,however, is likely to be that if credit shortages

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are to drive corporations bankrupt, it is better to allow the corporations themselves, rather than the banks, to decide just who does go into receivership.

Italy's stockbrokers stop work in one-week protest

ROME -- Italian stockbrokers have walked out in a one-week work-stopping protest,called to focus public attention on the plight of Italy's bourses. Volume at all Italian stock exchanges is low -- the current Il Sole-24 Ore index is 22.4% off this year's high,and brokers maintain that their profit outlook is very bleak. The issue at stake,however,is not only falling prices and profits, but also reform of bourse structure. Archaic regulations and practices, the brokers say,fail to ensure an adquate vehicle for risk capital, and are at the heart of the present problems. Private investors stay well clear of equity share purchases since the purchaser's name must be registered with Italian tax authorities. In addition, fixed-interest bonds are issued on a bearer basis,foreign shares are not listed,and Italian firms are permitted to keep balance sheet information highly secret. Legislation to permit Italian-based unit trusts was submitted to Parliament nearly a year ago, but so far no action has been taken. Italian stock markets were propped up early this year by buying from foreign unit trusts and mutual funds. Lately, public confidence in the market has been badly shaken by the resignation of the chairman and other executives of Montedison, Italy's largest chemical group. 300,000 of the firm's small shareholders have watched the value of their stock slide by almost 25%.

Leasco drops Pergamon bid

LONDON -- Because of "major uncertainties" still surrounding many of the operations of Pergamon Press, Leasco Data Processing, the U. S. computer leasing company, has decided to drop its bid for the British publishing house. Leasco originally bid for Pergamon in June, 1969, but withdrew two months later, following publication of Pergamon's profit figures. After initiation of an investigation into the affairs of both firms,first by the City Panel on Takeovers and Mergers and then the Board of Trade,shareholders elected to oust Pergamon chairman Robert Maxwell and admit two Leasco representatives to the company board. In turn, Leasco agreed to renew its bid, or drop its board representation,60 days after publication of a Price Waterhouse report on Pergamon. Despite the Price Waterhouse view that Pergamon lost at least $4.8 million more in 1969 than it reported, Leasco spokesmen insist that the final decision to withdraw was taken because of two factors which continue to cloud Pergamon's future: Pergamon Press, Inc., although a 70% controlled U. S. subsidiary of UK-Pergamon, remains and is likely to remain under the management control of Maxwell;and a sale of back issues of Pergamon scientific journals to MSI,Inc., a Maxwell controlled firm, which would add some $3.6 million to Pergamon's coffers, has yet to be concluded.

Agreement on French steel project financing

PARIS -- The French Government and Société Lorraine de Laminage Continu (Sollac) have agreed on financing terms for a giant new steel complex to be built at Fos,a port town near Marseille and site of an industrial development project. The Government will provide some $366 million in the form of a 20-year loan to Solmer, a Sollac subsidiary newly created to own and direct the Fos works. The rest of the estimated $1.21 billion needed will come from bond and stock issues, long-term loans, and bank loans. Wendell-Sidelor, Sollac's parent firm and France's largest steel producer, will go public itself to aid in the capital-raising effort. Solmer hopes to begin construction immediately. Target year for production startup is 1973. Initial output will be 3 million tons per year.

Control Data, ICL, CII link technical and marketing efforts

PARIS -- The U.S.'s Control Data Corp., the UK's International Computers Ltd. (ICL),and France's Compagnie Internationale pour l'Informatique (CII) plan to turn their loose ties of the past few years into a cooperative effort involving computer products and services. First step is the creation of an independent Belgian-registered corporation, International Data,which will study large coordinated ventures for the three firms. Next will come compatible hardware and software products designed by the three firms. Control Data, ICL, and CII representatives have insisted that no merger is planned. Rather, they hope to avoid the entanglements of a merger--among other problems, CII is a semi-state concern--but garner individually the benefits of a larger financial,technical,and marketing base. Control Data is a noted manufacturer of large computer systems. ICL spent much time developing a large computer, but dropped plans to bring it to market when the U. S.'s IBM introduced its Series/370.

UK bankers eye Soviet projects

LONDON -- Speculative interest on just who will build the USSR's projected $2 billion truck plant has now shifted to the British. Representatives of several UK investment banks will travel to Moscow soon. J. B. Scott, the delegation leader and chairman of the USSR section at the London Chamber of Commerce, confided that he would not bother taking the trip if he accepted the common view that West Germany's Mercedes-Benz already had the deal locked up. British Leyland is the UK auto firm that is interested in the project. British banks would like to have a piece of the contract financing even if the planning and design were handled by Continental firms. Other possible UK deals to be discussed on the Moscow trip include development contracts for Rio Tinto-Zinc, British Steel, Guest Keen and Nettlefolds, and a number of container concerns. If all goes well,the involvement of UK firms in the Soviet projects may require financing on a scale, as one Lazard's man stated,"bigger than UK investment banks have known for 25 years." Financial organization could prove so large an undertaking that a consortium of UK investment houses may team up to arrange financing with a syndicate of UK clearing banks.

Bourse report

LONDON -- Equities stage rally on news of favorable October trade figures; gilts actively sought on rumors of discount rate changes on the Continent. PARIS -- Most issues firm, erasing early week losses. FRANKFURT -- Mixed in very cautious trading as investors awaited discount rate decision. MILAN -- Moderate buying in anticipation of stockbrokers' strike brought widespread though small gains. BRUSSELS -- Local leaders firm, internationals mixed. AMSTERDAM -- Shippings and major banks narrowly mixed. Plantations and local industries unable to maintain early week gains.

EUROMARKET NEWS

COMMERCE, CLEARING, HOUSE, INC.

Common Market Reports

EUROMARKET NEWS

Issue No. 98 December 1, 1970

Rush into D-marks continues

LONDON -- Dealers on major foreign exchange markets continue to report a strong and steady flow of funds into West German D-marks. The wave of buying started last week, sparked by a Bundesbank decision to cut the discount rate in the Federal Republic by only 1/2%. Within hours of the announcement of the reduction, $300 million had found its way to Frankfurt. In the two days following the cut, the Bundesbank reportedly took in $600 million, some of which was bought above the official dollar-D-mark ceiling. At the moment, market confidence in the dollar remains shaky in Europe. All Common Market currencies, with the exception of the lira, are trading at their dollar ceilings. In France, money market rates are pushing hard against the discount rate, placing the French once again in the uncomfortable position of being forced to consider a discount rate change. West Germany's total reserves now stand at almost $12 billion--a level close to the one that 13 months ago prompted a D-mark parity adjustment.

Rough going ahead for EEC monetary and economic union plans

BRUSSELS -- For most Common Market observers, the EEC's inauspicious start toward a compromise on the grandest design yet--complete economic and monetary union by 1980--had a familiar ring. The deep rifts among the Six over the implications of the Werner Report appeared to forecast another spectacle of stopped clocks in Brussels while ministers hammered out a 13th hour solution. The West Germans, Dutch, and Italians made it clear that they did not intend to take even the first step toward monetary union--due for 1971--without agreement on new powers to be given to the EEC's federal institutions, including the European Parliament. This position is in open conflict with French views on supranational Community powers. West Germany and the Netherlands have urged effective economic coordination as a prelude to tighter EEC monetary cooperation. The French are urging just the opposite approach. Current timetables call for the Six to work out the first stage of plans for economic and monetary union by the middle of next month.

Europeans awake to possible Mills Bill passage

BRUSSELS -- Europeans are awakening to the possibility that the Mills Bill --the U.S.'s most restrictive piece of trade legislation since the Smoot-Hawley Tariff Act of 1930--could become U.S. law. When the bill was in preparation, EEC officials preferred to tread lightly, not wanting to unduly arouse U.S. legislators, and not daring to believe that the bill stood a chance of passage. Recently, the bill, which is opposed by the Nixon Administration, cleared the House of Representatives, and Europeans began using tough language to condemn it.

The UK's leading spokesman on international trade, Peter Tenant, director of the British National Export Council, has labeled the bill "crazy," and has condemned Europeans for remaining "too damn polite [about the bill] for too damn long." Tenant's feelings are echoed by EEC Commission spokesmen. They point out that the Common Market is annoyed over U.S. assurances that the restrictions are not particularly aimed at Europeans. In Tenant's words, "world trade is indivisible, and whoever the bill may be designed not to hit, there is no doubt that it will hit us all."

If the Common Market was reluctant to attack the bill early and in force, it has not proved slow to ready counter measures should the bill become law. An immediate target is the $550 million worth of soybeans that U.S. farmers sell annually in Europe. Restrictions on soybeans could decrease Common Market surplus butter stocks. Next in line are industrial products, including computers, aircraft, and chemicals. Retaliation could stretch as far as curbs on U. S. investments in the Community.

Loan denominated in European Monetary Units to be floated

PARIS--In a unique move, the European Coal and Steel Community (ECSC) will raise $30 million through a new loan, denominated in European Monetary Units, the first such issue of its kind. Details of the issue remain to be ironed out, but underwriting sources expect that the loan will have a duration of 15 years and carry an 8% coupon. (European Monetary Units are a Common Market denomination, and are equal to the dollar at current market rates.) An investor may purchase the loan in any of the six Common Market currencies and take interest and redemption in the strongest currency on the payment date. Thus, the lender could profit from the revaluation of any EEC currency during the 15-year life of the loan, and also hedge against devaluation of the currency which he originally used to subscribe. Market sources suggest that the ECSC has not yet decided whether to pass the exchange rate risk on to final borrowers or to accept it itself by pooling all of its currency assets.

Alfa Romeo workers, then management, strike

MILAN -- Italy's auto producers, continually harassed by labor problems, are bracing themselves for more trouble. A strike has literally exploded at the Milan plant of Alfa Romeo, Italy's second largest auto manufacturer. Workers have marched through the plant, forcing all non-striking employees to leave their jobs also. The incident is connected with a long-simmering dispute over renewal of collective employment contracts. In the wake of the workers' action, 100 senior Alfa Romeo officials have struck, and issued an ultimatum to the firm's board of directors calling for protection against worker intimidation. They have promised to continue their protest indefinitely. Labor union officials sensibly decided to limit their walkouts to three hours a day. However, the management strike will mean a complete shutdown. An Italian Parliamentary deputy has asked for a Government investigation into the whole affair to ascertain to what degree the strike will jeopardize production. The Government has a vested interest through large investments in Alfa Romeo, in connection with construction of a plant in southern Italy. Other Italian auto manufacturers are now edgy because of the all too ready possibility of management strikes hitting them.

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Small shareholder tries to undo Suez-SIM merger

PARIS -- Daniel Granade, a Lyons businessman and holder of 78 Société d'Investissements Mobiliers (SIM) shares, is seeking to annul a 1968 SIM takeover by France's giant investment group, Compagnie Financière de Suez. Granade insists that a 1945 French law stipulates that an investment trust (SIM) cannot be merged with another type of company. He also maintains that the takeover actually hurt SIM shareholders. The Paris Court of Appeals has upheld his contention. The next step depends on whether the Paris Supreme Court of Appeals upholds the lower court's ruling. Incredulous Suez officials are wondering how a merger completed so long ago can be effectively undone now. Legal observers are starting to bet that a way will have to be found.

Suez recently announced that the U.S.'s INA Corporation, a Philadelphia-based holding company, had acquired a 10% interest in its basic capital. The move was effected through purchase of Suez shares from Cie Saint-Gobain-Pont-à-Mousson.

Italian shipping combine plans shakeup

ROME-- Italy's largest shipping combine plans to scrap six ships and build 21 new cargo vessels in an all-out effort to revamp its services. The combine is made up of four lines: Italia, Lloyd Triestino, Adriatica, and Tirrenia. It is managed by Finmare in conjunction with Italy's industrial reorganization corporation, the IRI. Because of government subsidies to each line, Finmare has been obliged to keep them all in operation. Together the companies offer more space on North Atlantic routes than ten years ago, despite an international decrease in ship passenger travel. Most of the vessels travel at least half empty on all runs. Passengers who are aboard cost the government an estimated $240 a head in subsidies. Finmare anticipates little trouble in convincing Italy's National Economic Planning Board that its future lies in cargo transport. Italy's balance of payments, which suffers because of ship transfer costs, also stands to benefit. Of the 21 vessels that Finmare plans to build, there will be six barge ships, three container ships, four ocean-going dry cargo vessels, and eight smaller dry cargo ships.

Wave of West German auto price increases expected

FRANKFURT-- Auto industry experts are predicting that all West German auto producers will follow Opel and Porsche, and announce price hikes soon. Opel recently increased new car prices by up to 7.7%; Porsche raised its prices by 3%. Officials at Ford are completing market studies, but are expected to raise prices any day. Audi-NSU will move at about the same time. BMW will not raise its prices until 1971, but then it will be on the order of 6% to 7%. West Germany's largest manufacturer, Volkswagen, said that it is contemplating increases but will probably wait until early in 1971 to make a firm decision.

Fiat wants no part of Soviet truck plant consortium

ROME -- Sources at Fiat flatly state that Italy's number one auto producer has lost so much money on the development of an automobile plant at Togliattigrad, in the Soviet Union, that it would not join a consortium to build a truck factory in the USSR. Several European truck makers are interested in the plant--West Germany's Mercedes Benz, France's Renault, and British Leyland--but most appear ready to spread the risk as much as possible.

British Leyland, for one, reportedly told Russian officials that it would not join in a consortium unless Fiat were included. The Russians themselves, after the U.S.'s Ford bowed out of the project, appear to have settled upon a consortium as the best means of constructing and operating the plant. If Fiat maintains its resistance, however, almost any such plan is in jeopardy.

3M expands in Belgium

BRUSSELS -- The Minnesota Mining and Manufacturing Company has subscribed $20,000 to the share capital of Trième SA, a Belgian firm which will distribute 3M products. Trième plans to build a chemical plant near Antwerp in early 1971. The unit will manufacture base products for 3M's European subsidiaries and affiliates.

Bolsa-Mellon arrangements

LONDON -- New proposals aimed, as one spokesman put it, at "tidying up" the new relationship between the UK's Bank of London and South America (BOLSA) and the U.S.'s Mellon Bank International will give Mellon a 12.6% stake in a merged BOLSA-Lloyds Bank Europe operation. Mellon will get no further major fixed subscription or conversion rights. In place of its right to subscribe for shares in order to keep a prospective 25% holding in BOLSA, Mellon will have the right to maintain at least 10% of the combined voting power of all classes of capital to the end of 1983. This right will be transferred to the new BOLSA-Lloyds company after the merger.

Burroughs gets $100 million Eurodollar credit facility

LONDON -- The UK's leading investment bank, Hambros, has arranged a $100 million standby credit for the U.S.'s Burroughs International. The facility is the largest ordered by an American firm on the Eurodollar market in the last six months. Burroughs, which received $75 million in a multi-currency facility last July, decided to borrow the money as insurance against a similar amount outstanding in commercial paper in the United States. Hambros arranged the credit in cooperation with 19 other banks.

Market experts have observed a strong upswing in Eurodollar borrowings by Italian firms and organizations. The trend, however, especially in medium-term borrowings, may have peaked. Since the beginning of this year, total Italian credits amount to nearly $1.5 billion. Future moves on the part of Italians are more likely to be in the long-term public bond sector.

Bourse report

LONDON -- Leading equities drift in quiet trading; long-term gilts turn soft. PARIS -- Firm, in quiet dealings. FRANKFURT -- Professional caution keeps trending down, after discount rate changes. BRUSSELS -- Dull market. AMSTERDAM -- Local industrials mixed; shippings and plantations firm.

EUROMARKET NEWS

Common Market Reports
EUROMARKET NEWS

Issue No. 99 No. 149, December 8, 1970

Another discount rate cut coming in Germany

FRANKFURT -- Most financial experts feel that the Bundesbank will cut the West German discount rate once again soon, possibly at the central bank's next meeting. Late in November, a cut of 1/2% in the rate was announced. Bundesbank directors had hoped that the resulting rate of 6-1/2% would stem -- at least temporarily -- the flood of foreign funds that recently had flowed into the Federal Republic. If anything, the 6-1/2% rate has had the opposite effect. The inflows have increased. The latest statistics show that West Germany's total reserves stood at almost $12 billion, a level very close to the one that prompted a D-mark revaluation 13 months ago. Most foreign exchange dealers think that the Bundesbank will have to make a new discount rate cut of at least 1% to discourage the inflows. However, a cut of that size appears to be definitely out of the question. Most Bundesbank officials are worried about giving too great a stimulus to domestic lending, thus adding to current inflation problems. A recent cut in the U.S. bank rate to 5-1/2% will probably prompt the Bundesbank to make a cut now rather than wait until the end of the year. But the cut will likely be only 1/2%. West Germany's October balance-of-payments figures, just released, showed a surplus of about $442 million. The September surplus was only about $94.5 million.

Italy gets divorce . . . and maybe new finance decree

ROME -- The Center-Left coalition of Emilio Colombo appears much stronger now. Not only has the young government succeeded in giving Italy a divorce law, but it has also almost succeeded in passing a finance decree -- all-important for Italian economic recovery. Divorce is the emotional issue that has destroyed many past Italian governments, but the financial measures, which have won approval of the Chamber of Deputies, are of equal importance. The finance decree has reached a deadline. It was the first act of the Colombo Government when it took office in August and was originally scheduled to be passed in 60 days. The bill is designed to restrain consumption and encourage investment, but it also contains a number of unpopular measures, including an increase in the tax on gasoline. The first 60 days expired, the bill was withdrawn, and a similar one, which included some Senate-approved amendments, replaced it. The decree must now have Senate approval before Christmas.

More North Sea oil

OSLO--Oil experts are predicting that the Norwegian North Sea could prove oil-rich, following new disclosures of another major find by Phillips Petroleum. Phillips' most recent strike is not far from its previous Ekofisk discovery. The big oil company is now confident that its North Sea production potential will reach 400,000 barrels a day. The new well will yield some 10,000 barrels of oil per day. Significantly, Phillips officials talk of the new strike -- called West Ekofisk -- as an entirely new field. The Phillips consortium is thought to have finalized plans for initial offshore tanker loadings from some wells. These will be put to the test early next year. A key decision on a route for a proposed pipeline to bring the oil ashore has yet to be taken.

Hike in Danish unemployment coming; devaluation ruled out

COPENHAGEN -- Danish officials have ruled out a currency devalution as a cure for Denmark's balance-of-payments problems. Instead, they appear to have adopted wider unemployment as the solution to the difficulties. Denmark achieved full employment in the 60's, the first time in this century. Now, officials speak publicly of a possible rise in the jobless rate to 3.5%. Privately, most key policy-makers are conceding that unemployment could well rise to 6% or 8% before the balance-of-payments difficulties are solved. Danish exports have been rising by 12% to 14% a year, one of the highest expansion rates in the Western world. Thus, the competitiveness of Danish products cannot be counted a problem. However, the balance-of-payments deficit on current account has persistently stuck at nearly $400 million a year, both in 1969 and probably again in 1970.

France - Algeria near accord on natural gas

PARIS -- France and Algeria appear to have resolved some major disagreements and are ready to sign a major long-term natural gas contract. Under the terms of a 15-year accord drawn up in 1967, Algeria agreed to supply France with 3.5 billion cubic meters of natural gas per year; however, the arrangement was never signed, due primarily to eleventh-hour pricing disagreements. Negotiations since have not exactly been conducted in a cordial atmosphere. At one point, they were broken off because of an alleged Algerian kidnapping of a French official. Early this summer, an oil dispute, involving unilateral Algerian increases in the prices of its domestic crude, plus the threatened nationalization of French interests, clouded hopes of a settlement on natural gas. The gas contract -- reportedly calling for the quantities agreed to in 1967 -- will now be signed before the year is out. The oil dispute should be settled soon afterward.

Italy moves toward trade balance

ROME -- Bank of Italy officials are confident that once Italy's 1970 balance-of-trade figures are all in, a striking improvement over 1969's $1.39 million deficit will be revealed. In fact, Italy may end 1970 in balance-of-trade equilibrium. Officials point to October results as prima facie evidence of their contention. Provisional figures show a $193 million surplus during the month. This was the third month in succession that Italy ran a surplus. Official net reserves rose by $364 million to reach a total $4.7 billion. According to the same provisional calculations, Italy's deficit for the first ten months of this year stands at $111 million. It was $1.2 billion for the first ten months of 1969. If the trend of the last three months continues into November (Bank of Italy officials contend that it will) the $111 million deficit will be wiped out, and Italy will move into surplus. Italian economic experts attribute the turn-around to a new official policy of encouraging Italian firms to raise loans abroad.

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So far this year, such loans are estimated to total at least $1.5 billion--a sum far in excess of Italy's 1969 deficit. Another encouraging point is that since August's devaluation rumors, Italy's total economic outlook has taken a more optimistic turn. Last September, officials were predicting that 1970's balance-of-trade deficit would reach only $700 million.

UK discount houses broaden activities

LONDON -- The UK discount house of Allen, Harvey and Ross has received Bank of England permission to join with Lehman Commercial Paper, a subsidiary of Lehman Brothers, one of New York's five top investment banks, in an effort to assist multi-national companies to borrow money by issuing promissory notes. The notes will then be traded in a secondary market. Last July, observers noted a reluctance on the part of the Bank of England to grant permission to discount houses to trade in unsecured markets. But the UK's J. Henry Schroder Wagg jumped in to form a partnership with the U.S.'s White, Weld, to trade in just such a market -- dollar-denominated I.O.U.'s. The Allen, Harvey move, plus that of Schroder Wagg, is expected to lead to a major increase in the scope of London's Euro-commercial paper market. Other British discount houses are expected to pick up the lead soon. The I.O.U. market is expected to supplement Allen, Harvey's other money bill activities. The difference between the two operations is that bills are issued with the backing of two names; I.O.U.'s have only one. The I.O.U.'s thus command a lesser interest rate, and should settle down at a rate of 1/4% more than the current Eurodollar deposit rate.

Airbus battle almost over

LONDON -- Britain's battle of the airbus is almost over. After long deliberation, the UK Government has effectively killed British Aircraft Corporation's Three-Eleven project by deciding to deny the company $240 million in needed development subsidies. Instead, Britain will look for its airbuses abroad. Just where, will be decided shortly. However, two deals must first be cleared in order to provide maximum financial benefit for Rolls Royce, the UK's ailing aerospace firm. The Government can order UK airlines to buy Lockheed TriStars outright. Rolls Royce is developing the TriStar's engine, and thus has a direct interest in the number of planes sold. Problem: Rolls Royce has already drastically overrun development cost estimates; there is no end in sight to the problems encountered; and it is the Government that will be forced to fund further cash. Sensing UK concern over Rolls Royce, a French-German-Dutch consortium has offered to use Rolls Royce as engine builder for at least later models of its A300B airbus (present builder is the U.S.'s General Electric). The Germans have even agreed to pay the lion's share of engine development costs. The Europeans also have the leverage of Britain's Common Market bid, arguing that now is the time for Britian to join in Continental projects in earnest. However, the Rolls Royce-Lockheed link has already been carefully defined, and the TriStar appears to be the plane that will hit production lines the fastest.

Baxter Labs moves into Switzerland

ZURICH -- Baxter Laboratories, a noted U. S. pharmaceutical firm, has set up a new Swiss subsidiary, Travenol Laboratories AG, in Zug. Travenol AG will have an initial capital of about $16,000. Its main job will be to market products manufactured by Travenol Laboratories, Inc., one of Baxter's specialized subsidiaries, which manufactures artificial organs and electronic medical equipment. However, Travenol AG will also handle financial arrangements involved in the sale of Baxter licenses. Baxter already has subsidiaries in France, Belgium, Italy, and the UK.

Schlitz to call it quits in Belgium

BRUSSELS-- Joseph Schlitz Brewing Co.,one of the famous Milwaukee brewers, intends to close its Belgian facility. Schlitz anticipates 1970 losses at Brasserie de Ghlin,its Belgian subsidiary,to total upward of $1.5 million. Schlitz hopes to sell the operation to one of the growing number of British brewers who are interested in setting up or expanding production in the Common Market. Schlitz's Spanish production will remain unaffected by the decision.

United Artists trims European operation

PARIS-- As part of "streamlining operations," United Artists announced the dismissal of 38 members of its European headquarters staff, including some very high executives. Other sackings are expected to follow soon. The firm's European sales director disclosed that "streamlining" would be necessary in the light of a $9-million operating loss that the company sustained during the first nine months of this year. Recently, United Artists cited rising costs as the basis for its problems.

Renault now picked as leader at Kama River

FRANKFURT--Amid growing speculation on just what part it will finally play in the Soviet Union's $2 billion Kama River truck project, West Germany's Daimler-Benz sent a number of its higher executives off to Moscow for a new round of talks. Conspicuously absent from the group was company chairman, Joachim Zahn. He had told West Germany's leading business daily, Handelsblatt, just before the mission left, that Daimler now expects to receive only technical licensing and know-how contracts, and will do no construction work at the projected plant. Also, "in no respect will Daimler be involved in delivery of materials." In fact, Daimler was not the only firm that appeared undecided on what it wanted to do at Kama River. Word trickled out of Turin recently -- only to be denied, and then confirmed -- that Fiat was not interested in construction aspects of the venture,either. The only party sitting pat on earlier statements was France's Renault. Like Daimler and Fiat,Renault entered a bid for the project soon after the Soviets' prime candidate for the job, the U.S.'s Ford, dropped its tender. Right after the Franco-Soviet trade talks in September, Renault officials said that Renault would either win the entire project,or lead a consortium to build and manage it. The West German and British press had misgivings, but Renault never wavered from that stance.

Bourse report

LONDON -- Trading quiet, but across-the-board buying interest increased. Early-week slides turn into late-week gains. PARIS -- Banks particularly strong in well-maintained market. FRANKFURT -- Firm,in trading enlivened by discount rate rumors. MILAN -- Widespread gains following news of partial acceptance of finance decree. BRUSSELS -- Most fronts narrowly irregular. AMSTERDAM -- Local industrials firm; plantations mixed; shippings well maintained.

Common Market Reports

EUROMARKET NEWS

Issue No. 100 December 15, 1970

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Britain agrees to five-year transition

BRUSSELS-- Negotiations on Britain's entry into the Common Market are progressing much more quickly than observers had originally thought possible. The UK's chief negotiator, Geoffrey Rippon, has now told the EEC that Britain will accept a five-year transitional period for both industry and agriculture. Up until now, the UK has been reluctant to accept a parallel adjustment, insisting that it needed at least six years for agriculture and three years for industry. None of the other three applicants for entry had demanded this. The compromise, according to Rippon, shows British good will. However, the UK is still hoping that the Community will notice that the one year shaved off its original transitional period proposal for agriculture will put pressure on British consumers, forcing them to pay higher food prices earlier.

Even as this transitional period problem was being solved, another appeared to be opening. Britain agreed to adapt within the same five-year period to Community rules on tax harmonization and capital movements, but also insisted on an eight-year wait before making full contributions to the EEC budget. This demand did not sit well with the Six. Rippon did not disclose how much the UK would be willing to pay, but a working paper prepared by the Commission figures that Britain's contribution to the budget should amount to 21%. That would mean some $860 million in 1973, jumping to nearly $1 billion by 1978. Britain does not contest the principle of automatic payments to the Community budget; however, it does not think that it should be forced to adapt any faster than the Six to the financial regulations. In addition, the UK would like some sort of guarantee that in case its payments are excessive--after the transition is over--some adjustments will be made.

Now, it's D-marks to dollars

FRANKFURT -- "Hectic" is the current word for foreign exchange dealings in West Germany. When the Bundesbank lopped another one-half point off the discount rate, bringing it down to 6%, dealers found themselves caught with short positions against the dollar and holding expensive D-marks. This was in stark contrast to the situation of little more than two weeks before--the time of the last West German discount rate cut--when official support had to be mustered to keep the dollar from breaking through its D-mark ceiling. At one point, the dollar bounced energetically up to D-mark 3.6450. The D-mark's weakened foreign exchange position was good news to those West German officials who had for the past week been fighting off revaluation. Just how close the Federal Republic had come to another change in parity could be surmised from November reserve figures. The Bundesbank revealed that as of the week ended November 30, official gold and convertible foreign currency holdings had reached $11.68 billion, clearly in excess of the $10.5 billion level which had prompted a revaluation 13 months before.

Foreign exchange controls relaxed for French firms

PARIS -- As of January 1, some French foreign exchange restrictions will be eased in an effort to allow French firms to strengthen their positions abroad. French concerns will be able to transfer up to $1 million--almost double the amount currently permitted--to invest in industrial plant or sales organizations outside the country. They will also be authorized to repatriate slightly more than $1 million in profits. In practice, the move should go a long way toward easing the present problems French firms face in raising capital needed for their foreign operations. One dark note for France's Finance Ministry: a recent IFOP (Institut Français de l' Opinion Publique) poll notes that French firms, wary of past controls on exchange, lean heavily to the notion that profits gained outside of France should be kept outside of France.

Britain rejoins atom project

LONDON -- Britain has decided to ante up $6 million and rejoin the European CERN (European Center for Nuclear Research) atom-smasher project. Cost originally was the basis for a UK decision to withdraw from the project in 1968. Briefly, the 12-nation CERN council plans an atom smasher that will accelerate protons from hydrogen atoms to high speeds, enabling scientists to observe sub-atomic actions as a result of high-energy particle collisions. The cost of the operation has now been estimated at $240 million. Because of its expertise in nuclear technology, Britain had to be included if any program was to be a success. The UK jumped back into the project after ascertaining that projected costs had been trimmed, mainly through agreement to build the accelerator on an existing CERN site near Geneva on the Franco-Swiss border. A final green light is expected to be given to the project at the December 21 meeting of the European Organization for Nuclear Research.

New trend for West German loans?

FRANKFURT -- The state-controlled Kreditanstalt für Wiederaufbau has set what looks like a new capital market trend for West German domestic loans. The Kreditanstalt decided to tack an 8% coupon on its latest $50 million, D-mark denominated, issue. West German financial experts are certain that the move will become customary, and spread to foreign D-mark loans. The Kreditanstalt should have no difficulty in placing the loan, especially following the cut in West Germany's discount rate; however, most bankers in the Federal Republic professed to be astonished at the low issue price chosen. At 98%, the loan offers a yield of 8.46%.

Inflation to be topic at upcoming EEC meeting

BRUSSELS -- Common Market ministers are scheduled to meet in Brussels to discuss current EEC inflation. Reportedly basic to the agenda is a "confidential" Commission paper, which outlines some inflation-curbing moves that the Commission hopes member EEC countries will make. The Commission would like to see tighter public spending and credit policies adopted, plus no more slashes in interest rates. Also proposed are joint actions by management and labor to solve unemployment through the creation of new jobs and the retraining of workers. On public spending and credit, the Commission viewpoint notwithstanding, EEC countries appear to be headed toward looser, not tighter, control. France, Germany, and Italy plan budget in-

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creases next year of between 9% and 12%. Community-wide, interest rates are coming down. The current mood in the EEC states is to repress the temptation to tackle unemployment problems through a systematic boost in global demand. However, when interest rates come down, it is hard to dampen demand.

French unions now ready for action

PARIS -- French labor unions are tightening the ranks in preparation for talks with nationalized industry over wages for 1971. A CGT (Confédération Générale du Travail) threat to go it alone has prompted its weaker rival, the CFDT (Confédération Démocratique du Travail) to agree to join in an all-out effort to force an across-the-board hike in wages, plus an increase in the minimum wage. At one time, the CFDT contended that a general wage rise would be inflationary, and the two unions should concentrate their efforts on improving just the minimum wage. Wage costs in France in 1970 so far have risen by 10%, the sharpest hike since 1962. Workers in the nationalized industries are guaranteed an increase in purchasing power of at least 2% each year. In October, a 1.5% increase was granted in order to keep workers' salaries in pace with inflation. Prices will have risen in France by an estimated 5-1/2% by the end of this year. Although the CGT and the CFDT say that all they are demanding is a hike in purchasing power, industrial leaders point out that in current bargaining terms, this means a simple increase in wages.

Franco-American fuel cell effort

PARIS--France's Alsthom and Jersey Enterprises, a subsidiary of the U.S.'s Standard Oil of New Jersey, plan to join forces in a research and development effort aimed at producing an industrial energy cell that would operate on cheap fuel (such as menthenol). Curiously, although two-thirds of the $10 million cost of the operation will be shouldered by Jersey Standard, Alsthom will retain a 50-50 say in exploitation of any know-how gained through the project. Alsthom will be aided by Peugeot, the French automobile producer, in financing the remaining one-third of the cost. If a commercially exploitable fuel cell comes out of the effort, a joint subsidiary, financed 50% by Jersey and 50% by the Alsthom-Peugeot group, will arrange licensing or marketing. The arrangement covers a minimum period of five years. Jersey Standard has one other cooperative venture under way in Europe. In 1965, the firm signed an agreement with Switzerland's Nestlé Alimentana. This called for research into adaptations of high-quality proteins for food products.

Stronghold sought by National Fire and Winterthur

ZURICH -- The U.S.'s National Fire Insurance Co. and Winterthur, a Swiss insurance firm, will put up $3.4 million to acquire a majority stake in Stronghold Insurance Ltd., a leading London-based British insurance group. The sum is enough to buy out Samuel Montagu and Co.'s 84% holding in Stronghold's capital.

Burlington plans German moves

FRANKFURT -- Burlington Industries, Inc., America's largest textile producer, plans a reorganization of its West German interests. Burlington will first purchase the 20% of Gladbacher Wollindustrie which it did not buy one year ago. Once the firm is a wholly-owned Burlington company, Burlington will divide it, and assign its production facilities to two other companies: Gladwolle Gladbacher Wollindustrie, a concern that Burlington recently created, which will now specialize in producing curtains; and Glawo Teppicheboden, which will concentrate on textiles for furniture and carpeting.

Volkswagen attempts to spike Audi sale rumors

WOLFSBURG -- In an effort to kill rumors, Volkswagen, West Germany's leading auto manufacturer, has stated that it will hold on firmly to every share of its 75% holding in Audi-NSU, another German auto firm. A recent purchase by General Motors of non-exclusive rights to the Wankel engine (60% of the rights to the motor are owned by Audi) has provided welcome grist for speculators over a possible GM takeover bid. Recently, interest in Audi's future heightened when it was reported that the British Israel Bank, which now holds 5% to 10% of Audi's $40 million capital, was seeking to increase its stake.

AKZO board ok's U.S. affiliate's expansion

AMSTERDAM -- The board of directors of AKZO, the giant Dutch chemical and fibers firm, has approved the takeover by its 57%-owned U.S. affiliate, AKZONA, of three Armour and Company concerns. AKZONA is interested in Armour Industrial Chemical, Armour Industrial Products, and Armour Leather Corporation. Together, the companies generate a turnover of some $90 million.

Dunlop-Pirelli merger terms set

LONDON -- "More like Shell than Unilever," were the words chosen by Dunlop chairman Sir Reay Geddes to describe the shape of a new tire company to be formed through the merger of Britain's Dunlop and Italy's Pirelli. Plans for effecting the merger have been laid before stockholders. The combine on paper has the potential to challenge Firestone for second place, behind Goodyear, among the world's leading tire producers. Dunlop and Pirelli will swap 49% of the stock in their respective companies in their home countries and in the EEC. Each will take a 40% interest in the other's operations elsewhere, excluding certain residual interests. This arrangement is designed to leave the identity, shareholdings, and domicile of the parent firms unchanged. Dunlop will become a holding company, and thus "more like Shell," for investments within the combine, including the establishment of mutual holdings in joint operating subsidiaries. In working out the deal, the two firms were forced to create joint accounting procedures. The merger will probably cost both firms about $3.6 million, mainly because of the fact that current European tax laws do not encourage this form of union. Once formed, the group should have sales of about $2 billion a year.

BASF reorganizes U.S. interests

FRANKFURT -- West Germany's chemical giant, BASF, has announced a partial reorganization of its U.S. interests. Effective December 31, 1970, Wyandotte Chemical in Michigan and BASF Corporation in New Jersey, both BASF subsidiaries, will be merged into a single company. For the moment, the German group's other holding, BASF Systems, and its 50% stake in Dow Badische Company will remain unaffected.

Chrysler-France cuts staff

PARIS -- Chrysler-France, a subsidiary of the U.S.'s Chrysler Corporation, plans to lay off nearly 260 workers in an attempt to cut administrative expenses. The cut, which represents almost 1% of the firm's total work force, will hit mostly white collar staff in marketing and study divisions. The move follows closely an announcement of a 90% decline in profit figures for the first half of 1970, in comparison with the first half of 1969. Company spokesmen attributed the layoff to a rise of almost 15% in unit labor costs and 14% in raw materials costs during the first six months of 1970. Sales prices advanced only 6% for Chrysler-France during the same period. The firm produced 269,959 automobiles during the first nine months of this year, up from 255,101 during the first nine months of 1969.

Neckermann eyes U.S. travel market

FRANKFURT -- Neckermann, West Germany's leading department store chain, plans to expand to the United States. Neckermann und Reisen, a subsidiary of Neckermann's mail order house firm, will combine with the UK's Clarkson to set up a joint U.S. subsidiary. This firm, called Travel, Inc., will specialize in organizing air charter groups. Travel, Inc., will operate in close cooperation with the U.S.'s big department store and mail order house chain, Montgomery Ward.

One-day UK strike against labor bill

LONDON -- In spite of official labor union opposition, a 24-hour strike on December 8, called to protest the British Government's proposed Industrial Relations Bill, was supported by an estimated 350,000 people, making it the largest such demonstration in the UK since 1930. The strike was directed by so-called "left-wing political elements." However, several UK trade unions appear to have ignored the Trades Union Congress (TUC) ban, and joined in. The most important such case was in the power industries. Nominally, workers there were to have staged modest work-to-rule and overtime bans. However, caught up in the zeal of the large demonstrations, they cut 20% to 30% of Britain's power, blacking out most of the country at one time or another. Electrical workers are seeking a 25% to 30% wage hike. The Electricity Council and the power plant workers have agreed to submit these demands to a public court of inquiry. It remained for the Government to decide whether to adopt this plan. On January 12, the TUC will call its demonstration to protest the Industrial Relations Bill.

Bourse report

LONDON -- Steady early-week rise broken by communications difficulties during strike. Equities and gilts recede. PARIS -- Generally weaker in very quiet trading. FRANKFURT -- Narrowly mixed. MILAN -- Most sectors lose ground. BRUSSELS -- Slightly lower in very quiet trading conditions. AMSTERDAM -- Local industrials mostly lower; shippings and plantations narrowly mixed.