Common Market Reports

EUROMARKET NEWS

Issue No. 101 No. 150, December 22, 1970

Delay in EEC move toward monetary and economic union

BRUSSELS -- The first cautious step toward a fully integrated Common Market was to have been taken on January 1, 1971. On that date, EEC central bankers had hoped to begin to reduce the existing exchange rate margins between the six Common Market currencies against the dollar. The move would have signalled a host of other changes that were to lead to uniform tax rates, free capital movement, and coordinated credit, industrial, employment, and wage policies among the Six by the end of this decade. However, the first step will not be taken on January 1. Instead of moving easily toward unity,the Six appear to be heading for a time-consuming confrontation on sovereignty--specifically, the transfer of sovereignty away from national governments to Common Market institutions. The parties to the disagreement are the old ones. It is France against the five. It would be incorrect to make a direct comparison between the present struggle and the 1965 quarrel over "Supranationality," which led to a seven-month French boycott of the Community. However, the basic issues involved are the same.

France accepts the reasoning of its five partners that a transfer of powers is necessary, but it is not yet willing to sign any of its own powers away. Instead,it insists first on knowing to what kind of EEC institutions the powers will be transferred. West Germany, which will have to provide most of the funds necessary to make economic and monetary union work, refuses to take part in far-reaching monetary arrangements unless it can, through enlarged Community institutions, influence the economic policies of countries receiving this support. Other Franco-German disagreements became apparent at the last Council of Ministers meeting, involving EEC-wide foreign investment controls (France for, Germany against) and independent powers for Community central banks (Germany for, France against). The timing of entry into the first stage of an integrated Common Market is clearly up to the French. Because of domestic political pressures, they will not back down from their current position easily. It will probably be some time before the Six can patch up a compromise to settle this difference, and move closer to unity.

German bourses to stay down well into 1971

FRANKFURT -- After three years of almost unbroken upward movement, share prices on West German bourses slid in 1970. Currently, levels on bank and chemical stocks are off the pace set in 1969 by 30%. Stores are down by 13%. Some of the dip was caused by ripples from Wall Street. Two months ago, some leading West German banks, the country's leading stockbrokers, predicted that prices would bounce back early in 1971. This idea was reinforced by optimistic West German assessments of Wall Street for 1971. Now the banks have changed their opinion and are flashing warning signals. Present predictions call for the upturn to take place late next year. Some banks, however, think that there will be no upturn next year at all. The biggest reason for the shift in opinion appears to be a new investor awareness of a growing, and perhaps perpetuating, squeeze on West German companies' profits. Deutsche Bank managing director Franz Ulrich thinks many firms may soon cut dividends drastically. "Production cost increases have just been too big." One bank looking for an upturn late next year is Commerzbank. Experts there state that by next September West German firms will have shaken out their problems, and the bourse will come back confidently. Even if stocks are bad, next year should be strong for bonds. Yields are expected to peak well above the 6.5% average of the 1960's.

France argues for quick start for full UK budget payments

BRUSSELS -- Negotiations over Britain's entry into the Common Market are progressing much more quickly than most observers originally had thought possible. Recently, Britain told the Six that it would accept a parallel five-year transition period for both agriculture and industry, resolving a dangerous rift that appeared certain to block the progress of the negotiations. While it agreed to accept the Community's ideas on agricultural and industrial transition, Britain demanded an eight-year delay before it would be required to make full payments into the Common Market budget. At first the demand did not sit very well with the Six. Now, five of the six EEC foreign ministers see it as reasonable. The one who doesn't is Maurice Schumann, the representative of France. France wants the UK to adhere to a five-year period, and during that time to pay an amount equivalent to Britain's economic weight. This would mean 21.5%, according to Commission figures, of the budget proceeds in a ten-member Community, an outlay in 1973 of $860 million. Happily for the British, the French delegation appears only to be taking a bargaining stance. The precise British demands on the amount of budget payments have not yet been framed. France's tactic is to make them as high as possible. The matter has now been left by the foreign ministers to be handled by their nations' permanent representatives in Brussels. Their orders are to try to resolve the differences by the next negotiating session with the UK on February 2.

Heath stands firm, electrical workers finally end UK strike

LONDON -- The only Briton acting with characteristic British phlegm last week was Prime Minister Edward Heath. For seven days, UK electrical workers, seeking a 30% hike in wages, tested his resolve to fight UK inflation by curbing salary increases in nationalized industry, through a work to rule "strike." The slowdown was so effective that at almost any moment during the seven-day period, 25% of Britain was without electricity. However, Heath did not waver. He instructed the Electricity Council to hold fast to the offer of a wage increase of about 10%. Furious at the inconvenience caused by the brownouts, Britons turned on the strikers, in some instances refusing them service in gas stations, pubs, doctors' offices, etc. The union's chief negotiator, Frank Chappie, was given a police bodyguard. Finally the pressure of public opinion forced the strikers to cave in and to agree to accept a wage hike to be determined by a fact finding committee. The eventual increase--probably 10%--will still be inflationary. The real benefit for the British economy will be psychological. During the first nine months of 1970, Britain lost 7.5 million working days because of strikes and slowdowns. Unions are now on notice that the Heath Government is ready to fight what it considers unreasonable demands, even though the cost may be as high as last week's crippling power cuts. Union leaders can also be expected to take seriously the Government's Industrial

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Relations Reform Bill, now coming up for House of Commons debate. The bill is an attempt to give UK labor relations a legal basis,and would go a long way toward curbing the UK's disastrous wildcat strikes.

GTE, Thorn plan joint venture

LONDON --Two years ago the Sylvania subsidiary of the U.S.'s General Telephone and Electronics (GTE) sold its holding in the UK's Thorn Electrical Industries, signalling what appeared to be a loss of interest on the part of GTE in Thorn. Now, GTE has apparently decided that the old friendship can be turned into a workable cooperation venture. GTE and Thorn have signed an agreement calling for joint production of communications equipment in Britain--particularly telephones--which will eventually be sold on the Continent. Part of the agreement involves the setting up of a common subsidiary, Thorn-General Telephone Ltd. Capital in the subsidiary has been subscribed 75% by GTE and 25% by Thorn.

Rheem increases Belgian stake

BRUSSELS -- Rheem International, a subsidiary of the U.S.'s Rheem Manufacturing Co., plans to increase its 56% stake to full control of Belgium's sheet metal firm, Travail Mecanique de la Tôle. Banque Lambert, which represents Rheem, has requested a suspension in trading of TMT shares on the Brussels bourse as a prelude to the announcement of a public takeover bid. If the bid succeeds, Rheem will probably retain TMT's present board and maintain the firm's management structure. However, it will pump in big new investments in an effort to push expansion.

Hoechst moves into Austria

FRANKFURT -- Hoechst, one of West Germany's leading chemical concerns, has acquired a 26% stake in the $3 million capital of Stollack, Austria's biggest lacquer and varnish manufacturer. Rumors of a Hoechst bid for total takeover of Stollack had been rife on the Frankfurt bourse for some time. Experts point out that the two firms have maintained close technical links for the past two years, and maintain that Hoechst's minority acquisition now is intended to serve as a stepping stone toward total control later. Stollack exports nearly 60% of its output.

UK trade union merger

LONDON -- Two of Britain's biggest automobile and transport trade unions may merge. Recently, the National Union of Vehicle Builders (NUVB) asked its 83,000 members to accept a resolution that would lead to NUVB absorption by the much larger (1.5 million members) Transport and General Workers' Union (TGWU). If the recommendation is adopted, as appears likely, the NUVB's men would link with automotive workers in the TGWU to form a new organization within the TGWU. The TGWU would then become the largest, and probably most powerful, trade union within Britain's automotive industry.

Dow to up holding in its Spanish company

ZURICH -- Dow Chemical Europe has revealed that its holding company, Dow Chemical, will offer Spanish holders of Dow Unquinesa stock 302% of par in a bid to strengthen its stake in the Spanish firm. Reportedly, Dow Chemical is hoping to pick up an extra 25% of outstanding public shares. This would be added to its present 54% holding. The reason behind the move is a Dow Chemical desire to contribute more technical know-how to Dow Unquinesa.

New German fund under consideration

FRANKFURT -- Deutsche-Gesellschaft für Wertpapiersparen (DWS), managers of West Germany's successful unit trust Investa,hope to get the aid of Transatlantische Versicherung (TV), a Hamburg-based insurance concern,to set up a new West German fund. The fund reportedly would concentrate on international investments. TV's part in the effort would be marketing. Talks between the two firms are now going on. If they fail, spokesmen have indicated that DWS would attempt to attract another West German insurance fund for the project.

Concorde prospects to be known in February

LONDON -- The British and French supervisors of Concorde, the joint Anglo-French supersonic aircraft, will meet in February to review test progress reports and make the crucial decision of when to move into quantity production of the craft. By February, not only detailed information on Mach 2 speed trials, but also reports on "social acceptability" factors--sonic boom, noise levels, etc. --should be available. French officials have recently put on a very optimistic face over Concorde's future. The reason was a new detailed technical study on the craft, reportedly showing that many of the plane's defects, discovered in tests, have now been corrected. French officials had been worried by the U. S. Senate's refusal to grant funds necessary for construction of a U.S. supersonic transport. They felt that rather than gaining open access through default to the U.S. market for such craft, the market could be more effectively closed by environmentalists than by a successful U.S. supersonic jet.

Firestone sells Phoenix holding

FRANKFURT -- Although neither firm will admit it, sources on the Frankfurt bourse insist that Continental Gummiwerke,West Germany's leading tire manufacturer, will acquire Firestone Tire and Rubber Co.'s holding in Phoenix Gummiwerke, the Federal Republic's third largest tire maker. Firestone had definitely decided to give up its 25% capital participation in Phoenix. The first option to buy the Firestone stake will go to Firestone's two partners in the operation: Münchner Rückversicherungs Gesellschaft, and Moritz Schultze Erben. They are expected to pass it up. Continental Gummiwerke is thought to be actively seeking a Phoenix holding,mainly because of its expansion drive, a consequence of Dunlop and Pirelli's intention to merge. Firestone reportedly decided to pull out of Phoenix, because of new corporate policies calling for investments only in subsidiaries in which Firestone holds a majority interest. Firestone recently blocked a proposal by its partners to raise Phoenix's capital by some 20%. Continuing license agreements between Phoenix and Firestone are still under discussion.

Bourse report

LONDON -- Government success in power dispute spurs buyers' optimism, equities generally firm at high levels, gilts well maintained. PARIS -- Most stocks quietly hesitant. FRANKFURT -- Electricals and steels narrowly mixed,others follow irregular trend. MILAN -- Most sectors give ground. BRUSSELS -- Dull. AMSTERDAM -- Local industrials narrowly mixed, plantations mostly lower, shippings mixed.

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EUROMARKET NEWS

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EEC - UK negotiators stake out budget positions ...

BRUSSELS -- British negotiators have now gotten down to the touchy task of talking budget figures with their Common Market counterparts. In the most recent round of entry discussions, the UK told the Community that the British contribution to the EEC budget should be built up over a period of five years to 13 - 15% of the total budget. In addition, the UK asked that its contributions for the three years following vary no more than 1% above or below the amount accepted for the transitional five years. These ideas did not please the EEC. Instead of 15%, the Commission thought that Britain should start contributing 21.5% of the total budget the moment that it joins the Community. That would be a levy of $860 million in 1973, increasing possibly to $1 billion by 1978. The UK feels that anything close to $1 billion could put extreme pressure on its balance of payments and perhaps lead to another devaluation of the pound. Britain, in making its budget calculations, points to a comparison--made some time ago--by the Commission between the UK and West Germany. According to that comparison, the economic structure of the two countries was closely parallel. First in a note, and then in discussions, the British told the EEC that if the comparison were valid, then the UK's budget contribution should fall nearer to 15%. This would be more in line with Britain's economic weight in an enlarged EEC--currently estimated at 17% of GNP.

... but move more quickly on tariffs

BRUSSELS -- If the EEC and the British do not see eye to eye on UK contributions to the Common Market budget, they do appear to agree on the other three issues that most observers thought would stall the entry negotiations. Britain has proposed an "early and substantial" cut in mutual industrial tariffs immediately upon its entry into the Community. The lines of the UK proposal closely resemble those of a Commission proposition advanced only one month ago. The UK has told the Six that it is ready to make an initial 15% cut three months after entry. (UK entry is now forecast for January 1973.) This would be followed by a 25% reduction in January 1974. 1974 would also be the year when the UK would start to apply the EEC's external tariff, adopting as a levy 40% of the Common Market one. When the EEC and the UK begin applying a common external tariff, then internal and external tariff alignments would be made at the same pace (25% in January 1975, 15% early in 1976, and two equal 10% adjustments in 1977 and 1978). Britain has also clarified the steps that it will take to align its farm prices to those of the Six, making the adjustment in six stages starting in July, 1973, and ending in mid-1978. The UK plans to establish higher "threshold" farm import prices for third countries than for the Community, which would rise gradually to EEC levels. The Common

Market appears ready to let Britain make adjustments on capital movements, within a five-year period, at its own pace. This would avoid severe balance-of-payments strain just as Britain would be undergoing big cost hikes on food.

Italian finance decree passes

ROME -- Italy's Colombo coalition Government, hanging by a thread only two months ago, now looks much stronger. Senate confirmation of a Government-sponsored financial decree (meaning full Parliamentary approval) was almost as full a reward for the Government's patient lobbying efforts as Parliamentary ratification of Italy's proposed divorce law, and probably a lot more important for the short run economic term. The main purpose of the decree is to raise an extra 11.2 billion lire in revenue over the next 12 months for Italy's ailing economy. However, it also covers a number of other economic questions and is designed as a basis for reforms of Italy's health organizations. The decree was originally introduced on August 27, to be passed in 60 days as almost a vote of confidence in the new Government. In October, convinced that technicalities prevented passage within the stipulated time limit, the Government withdrew the bill, amended it, and resubmitted it for passage. There was considerable danger that in the heat of debate over divorce,and a threatened filibuster against the decree itself, the bill would not pass. It has. As a result, Italians will pay higher taxes and,thus higher prices, on gasoline and other consumer items, but Colombo will have more time to put his plans for Italy's economy to work.

EEC wages spiral upward ...

BRUSSELS -- Wages in the countries of the Common Market are now rising at the fastest clip since 1958, the year when the Treaty of Rome took effect. In the Community this year, the average wage increase per employed person will probably hit 14%. According to the latest report of the EEC Commission, the hike will be particularly sharp in Italy, 18%, and West Germany, 15%. In the other Common Market countries,the increase will average about 11.5%. As in Germany, strong pressures are pushing wages up in the Netherlands. In both countries new wage settlements combined with contracting productivity are forcing an increase in the unit cost of labor. As a result,wholesale prices on finished manufactured goods are trending upwards. This problem is the most grave in Italy, but is also readily noticeable in Germany and the Netherlands.

... and the same trend for UK cost of living

LONDON -- The cost of living in Britain has shot up again, this time by 7-1/2% in the space of one year. The UK's Department of Employment says that Britain's price index rose by one full point between the months of October and November (up from 143, to 144 on a January-1962 base of 100). This means that between November 1969, and November 1970, the index jumped a full 10-1/2--for all purposes, 7-1/2%. The price hikes appear to have been broad-based. Britons are finding that they now pay much more for consumer goods (especially eggs and cigarettes) and services than a year ago. Experts also feel that it is difficult to be optimistic over what is yet to come. The full effect of summer and autumn wage increases has not

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yet filtered through to retail prices. The UK's daily business newspaper, the Financial Times, predicts in its Business Opinion column a median rise in companies' costsof 10% in the twelve months following November 1970.

West German steelmakers eye price increases

FRANKFURT -- West Germany's northern steel sales syndicate, a group that produces about one-fifth of West Germany's steel,has asked the Common Market Commission for permission to raise present rolled steel product prices by an average of 5%. A price list submitted to the Commission asks for increases of $5 to $7 per ton. This is well below what industry observers expected. Costs for West German steel producers were thought to have increased this year by $13 to $15 per ton. Anticipation of coming price hikes probably played a large part in the almost record high orders - 1.92 million tons - that the group received for rolled steel products in November. The northern producers, which include Kloeckner-Werke and the newly-formed combine, Stahlwerke Peine-Salzgitter, do not believe that orders will continue at the November pace. They say that a lion's share of the November orders came from the auto industry. Such orders come in gluts, and are repeated only every few months.

EEC revamps research programs

BRUSSELS -- The Common Market has decided to make an important new effort to streamline Community research programs. Inter-governmental wrangling over nuclear research led to disruption of programs planned under Euratom. Now it appears that joint research efforts will be directed increasingly to non-nuclear and industrial projects. The EEC's Common Research Center (CRC) will get increased funds, more freedom to plan research, and a Commission and Council guarantee of no interference in day-to-day management. Two new committees, one composed of Community scientific experts,the other of representatives of the six member governments, will act as liaison between the CRC and the Community. One big aim of the reform is to allow freer rein to CRC experts to determine just what sort of research the CRC can undertake.

Lamborghini looking for buyer

MODENA -- Lamborghini,and Italian firm that makes "chic" cars for the very few, and, more modestly, tractors for the many, is courting two large auto firms, hoping for a takeover bid. One of the companies is the U.S.'s Ford, the other is Italy's Fiat. Both appear interested, but on their own terms. At the time of the Turin auto show, word drifted out of Modena that Ford was preparing an offer of cooperation with Lamborghini, resembling an existing agreement between Ford and de Tomasso. Also, this was,reportedly, what Ferrucio Lamborghini, Lamborghini's owner, wanted. Since then, Lamborghini has been hit by a spate of financial troubles, and tractors, not automobiles, are at the root of the problems. In the wake of Italian farmer migration to cities, plus increased competition for the remaining market, Lamborghini's tractors have gone wanting, and currently over 3,000 of them stand in a warehouse, with little prospect of being sold. This month, 300 tractor workers were laid off. According to sources in Modena, Signor Lamborghini now wants to sell out completely. However, negotiations with Ford have been proceeding at a most leisurely pace. Enter Fiat;Lamborghini hopes to drive the best possible bargain.

Continental Oil plans investment in Spain

MADRID -- In cooperation with two Spanish firms,the U.S.'s Continental Oil will build and operate a $6 million electrode calcined petroleum coke plant at La Coruna. When complete, the unit will have a capacity of 100,000 metric tons per year. Continental will have a 70% stake in a new company, Carbonoil Iberica, which will oversee the project. Its two partners, Compañia Ibérica Refinadora de Petróleos and Banco Industrial Fierro, will each have 15%.

Deutsche Bank not looking for "merger"

FRANKFURT -- West Germany's largest bank, Deutsche Bank,has denied reports that it is seeking a broad-based cooperative agreement with a French bank, similar to the one that the Commerzbank signed recently withFrance's Crèdit Lyonnais. Rumors to that effect popped up when Deutsche Bank opened a new Paris-based French office. Franz Ulrich, who often acts as spokesman for Deutsche Bank's directors, flatly stated that such an arrangement was not in the offing, implying that "merger agreements" with French banks are too difficult, and often complicated by the fact that French banks are, at least in part, Government-controlled. On the other hand,Ulrich lauded the creation of joint subsidiaries as a means of expanding cooperation among Common Market banks. He added that Deutsche Bank currently does not have any intention of setting up a French subsidiary, but would nevertheless like to have one.

Schlitz finds quitting in Belgium tough

BRUSSELS -- Brasseries de Ghlin, a Belgian beer maker controlled by the Joseph Schlitz Brewing Co., one of the famous Milwaukee brewers, has been declared bankrupt. Only last month, Schlitz announced that it was interested in selling its Ghlin interests. No buyer has yet been found, but Ghlin will be permitted to continue operations until one is. Schlitz hopes to sell the firm to one of the British brewers who are interested in setting up or expanding production in the Common Market. So far this year, losses at Ghlin total $1.5 million.

AluSuisse - Phelps Dodge shake up common U.S. holdings

ZURICH -- Switzerland's giant Aluminium Suisse and the U.S.'s Phelps Dodge are currently studying methods of realigning their American aluminum interests. The plan which appears most likely to be adopted calls for merger of Aluminium Suisse's two U.S. subsidiaries--Gulf Coast Aluminum Corporation and Consolidated Aluminum Corporation--and Phelps Dodge Aluminum Products Corporation, a Phelps Dodge holding. If the plan does go through, Aluminium Suisse would get a 60% stake in the company formed as a result of the merger.

Bourse report

LONDON -- Equities firm, gilts fall in moderate trading. PARIS -- Generally firm,mostly on expectation of new Government measures to attract more money to the Bourse. FRANKFURT -- Narrowly irregular. MILAN -- Most sectors gain on "cheap" buying. BRUSSELS -- Trending higher in modest trading. AMSTERDAM -- Local industrials mixed,plantations firm at high levels, shippings tumble.

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Third-quarter GNP lifts some of British businessmen's gloom

LONDON -- Economic analysts in the UK think that 1970, a disappointing year overall for British business, may have finally ended on a note that suggests a change for the better in 1971. Official figures show a growth in third-quarter GNP of 3% to 3.5% over the third quarter in 1969. This is in sharp contrast to the first two quarters of the year, when there was almost no change in GNP in comparison with the first two quarters of 1969. Britain's usually delicate balance-of-payments problems appear to be solved, although the pound is considered by many money men as overvalued. Almost $2.2 billion of foreign exchange rolled into the UK during the first nine months of 1970. This figure is more impressive after a $485 million third-quarter outflow is taken into account. The third-quarter balance-of-payments was in surplus by $91 million.

Still, many problems remain. The Government regards inflation as its chief worry for 1971. Wages soared in 1970, moving up by 14%. During the same period, prices rose by only 7.9%. This suggests that a lot of catching up between prices and wages remains. For this reason, the Government has been slow to stimulate the UK economy. This policy could force Britain to fight the same type of battles in the early 70's as it fought in the early 60's, namely, embarking on an austerity program in order to prevent devaluation of the pound. The OECD thinks that the UK should use a wage and price freeze, plus a tax and credit squeeze, as the main tools in its fight against inflation. In a new report, the OECD said that Britain currently faced the most acute inflation problems of any major Western country. The report was hotly contested by the UK Government. Businessmen in Britain are beginning to act on the hunch that the OECD advice to the UK to continue to accept little or no production growth will not be adopted. They are looking for continued GNP expansion.

Italian trade gap hopes soured by November figures

ROME -- The high hopes for equilibrium in Italy's 1970 balance-of-trade deficit have faded. One month ago, when Bank of Italy officials reported provisional October trade figures, they could point to a $193 million surplus and contend that Italy was on its way to a spectacular reversal of last year's $1.39 billion deficit. Indeed, for the first ten months of 1970, the Italian deficit stood at only $111 million. Furthermore, the trend since August was toward a balance-of-trade surplus. However, November's provisional figures are in, and Bank officials are looking grim. Reason: in November, Italy ran a $250 million trade deficit. Imports, especially steel and automobiles, were the problem, climbing by 19% over November of last year. The cause of the import surge could be laid to strikes, which paralyzed Italian production during early autumn.

France wants ESRO to revamp

PARIS -- In an attempt to force a revision of current European satellite programs, France has informed its ESRO (European Space Research Organization) partners that it plans to withdraw from the organization's convention. France has hoped for some time to convince ESRO to concentrate on satellite operations that have applied uses. Of ESRO's ten member countries, West Germany and Belgium share this view. However, Britian opposes it. The UK wants the emphasis to be placed on scientific satellites. None of the ESRO countries can individually finance both. At a recent meeting of the organization,France proposed that ESRO revise its convention in order to allow members to take part in programs of their own choosing and not, as has been their obligation, to take part in each experiment. Failing that, the French threatened to pull out. The British thought that the threat gave France an unfair bargaining advantage and countered with their own threat--to pull out if the French proposal was adopted. The meeting ended with a compromise solution: All ESRO members will be given until June to pull out of the organization's convention. The compromise allows time for discussion and may prevent ESRO's total dissolution.

Italian strikes: This time, it's Pirelli

MILAN -- Hardly a week goes by without some trouble in Italy's auto industry. The latest producer to be hit was Alfa Romeo, at whose plant a strike literally exploded. Workers paraded through factories forcing non-strikers to halt production and join them. Managers then walked out and threatened to stay out unless the Alfa board took steps to prevent such occurrences in the future. The incident took place last November, and since then a Government mediator persuaded all concerned to return to their jobs. However, other Italian producers remained edgy, knowing all to well that in Milan or nearby Turin, where most Italian automobile manufacturing operations are centered, such strikes spread easily. They were right . . . and . . . they were wrong. The strike did spread, but the next hit was not an auto producer but a component supplier. This week's variation on a theme is a slowdown staged by workers at Pirelli, Italy's biggest tire manufacturer. Production at one Pirelli plant is down by an estimated 66% and by 45% at another. Pirelli management had told workers that after December 28 their pay would be calculated on the basis of output. The workers' reply was the slowdown. They may soon start a series of strikes. Auto producers were just as severely hit as if the strike had been at one of their facilities. For the moment, Fiat, Italy's largest auto maker, thinks that it has enough tires to ensure that there will be no layoffs at least for the week following December 28.

Just how much strikes have cost Italian car makers is partially reflected in production statistics for the first seven months of 1970. During that time, Italian firms produced 36,000 fewer cars than during the same period a year before. However, the figures barely reflected the bad strike month of September, and did not show the effects of the disastrous months of October and November. Also, industry experts point out that new car sales in Italy have risen by11,000 in the first seven months of 1970 over the first seven months of 1969. This means that foreign producers are steadily strengthening their position in the Italian market.

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More French price hikes

PARIS -- France's state-run railway, the SNCF, raised its passenger fares by 5.2% on January 4, and its freight transport rates by 5% on January 1. The French post office plans a 25% hike in foreign mail charges, plus increased fees for postal orders and telegrams early in January. The raises are part of a Government-initiated plan under which federally-run services are expected to make a big effort to cover their own operating expenses. The Government will also try to cut an operating deficit in France's social security system by requiring employers and employees to up their contributions to the system by 10%. The move should provide $270 million in added revenues.

Another EMU Eurobond flotation

LUXEMBOURG -- Eurofima, a financing agency owned by several European railroads,has placed the second Eurobond loan denominated in European Monetary Units (EMU's). One month ago, the European Coal and Steel Community floated the first. The unique advantage offered by such flotations is convertibility. An investor can purchase the bonds in any of the six Common Market currencies,then take interest and redemptions in the strongest currency on the payment dates. The lender thus can profit from revaluation of any EEC currency during the life of the loan, and also hedge against devaluation of the currency originally used to subscribe. The Eurofima flotation is for 10 million EMU's (one EMU is equal to one U.S. dollar at the current rate) for ten years. It carries a 7.75% coupon, the lowest offered on any long-term Eurobond issue since mid-1969, and is priced at 99.5. It was placed by a small group of banks, including Kredietbank Luxembourgeoise.

Dutch take airbus stake

THE HAGUE -- The Netherlands plans to take a 6.6% stake in the European A-300B airbus project. The Dutch will contribute some $27.6 million toward financing costs,and a Dutch firm,Fokker,will produce the aircraft's flaps. The first A-300B is expected to begin flight tests next September. A major sales battle is already being waged between the European consortium and the U.S.'s Lockheed--which produces the L-1011 TriStar--for British European Airways' (BEA) airbus order. The UK recently dropped plans to build its own craft. BEA will probably need 40 to 50 airbuses.

Pollution condition satisfied, Ardal gets permission to expand

OSLO -- Norway's giant aluminum producer, Ardal og Sunndal Verk, owned jointly by the Government and the U.S.'s Alcan Aluminum, will be permitted to increase output at its main plant on condition that it take corresponding measures to reduce pollution. Ardal contends that pollution can be reduced more easily with high rather than low output. Norway's Smoke Control Council has approved Ardal's plans to lower discharges of fluorine fumes, tars,and dust through use of new purifying equipment. Ardal is aiming for a production increase to 195,000 tons a year, up from a current 117,000 tons per year.

BFI breaks into U.S. market

LONDON -- The British Film Institute (BFI) has concluded an agreement with the U.S.'s Films, Inc., which will give it a badly needed position in the American market. Films, Inc., has agreed to buy BFI's total stock--about 80 films--for showing on TV, in movie houses, and on university campuses. Once distribution costs are met, the profits will go to BFI. BFI has been the starting ground for many presently well-established directors, including Tony Richardson, Karel Reisz, Peter Watkins, and Ken Russell.

Champagne and cognac mix

PARIS -- Moët et Chandon,France's largest champagne maker, will merge with Hennessey, France's second-largest cognac producer. To effect the move, Moët plans to absorb Hennessey into its holding company, which will be called Moët-Hennessey. Earlier last year, Moët acquired the prestigious champagne firm,Mercier. It also has a 50% stake in Parfums Christian Dior. The Moët group's current turnover is about $50 million. Hennessey's 1969 turnover was almost $34 million.

Barclays expands

LONDON -- Britain's Barclays Bank plans a major expansion drive. The UK bank will soon set up a New York subsidiary and a Chicago representational office. It already has one U.S. subsidiary, Barclays Bank of California. In West Germany, Barclays will convert its Frankfurt representational office to a full service branch. Recently, Barclays opened a Milan office and bought a stake in Switzerland's Société Bancaire de Génève--now called Société Bancaire Barclays. Barclays is also looking at South America. It hopes to open offices in Buenos Aires and São Paolo.

Poulain gets Grey-Poupon and Parizot

PARIS-- Chocolaterie Française Poulain is the company that is finally taking over the interests of Grey-Poupon and Maille and Parizot, two French condiment manufacturers. Recently, French authorities turned down a bid for the two concerns from the U. S.'s H. J. Heinz Co. Grey-Poupon, a private company,is considered a solid company with annual sales of about $5.1 million. However, it has long lacked funds for expansion. Poulain's turnover is nearly $30 million per year.

Philips buys out West German electrical firm

AMSTERDAM -- The Dutch electrical giant Philips now controls all of the capital of Duellman, a West German electrical firm. Through its West German subsidiary,Philips had owned 49% of the German concern's stock. Duellman's capital is currently about $2.5 million. Almost at the same time as the Philips takeover, Duellman underwent a designation change. Instead of being a limited partnership (KG), it is now a limited liability company (GmbH).

I.T.E. Imperial moves into Italy

MILAN -- Through its Dutch subsidiary, the U.S.'s I.T.E. Imperial Corporation has bought a majority share in Società Italiana Elettronica, an Italian electrical company. Recently, I.T.E. Imperial increased the capital of the Dutch subsidiary to $3 million and gave it a new name--Imperial Trans Europe, N.V.

AEG, Zanussi form new company

FRANKFURT -- AEG - Telefunken, West Germany's second largest electrical firm, plans to expand its domestic appliance interests, largely by expanding a long-standing cooperation with Italy's Zanussi,one of the EEC's most successful appliance makers. AEG and Zanussi will combine to form a new company, Zanussi Elettrodomestici,capitalized at some $65 million. Zanussi will assign its domestic appliance assets to the new firm. AEG will get a 25.01% holding. Spokesmen for AEG think that the new concern should have a $200-$300 million turnover by 1972.

Burnmeister and Wain in liquidity trouble

COPENHAGEN -- Burnmeister and Wain (B and W), one of the world's foremost designers and producers of marine diesel engines, has received a badly needed state-guaranteed $7 million loan to help it solve a liquidity crisis. The crisis, however, may be anything but temporary. B and W has continued to rack up huge losses in its shipbuilding division. In 1967, political pressure forced the firm to keep its yards open and at previous employment levels. Now the chronic shipbuilding losses are showing signs of spreading to the marine engine department. To add to B and W's troubles, the Finance Committee of the Danish Folketing, which guaranteed the $7 million loan, warns that B and W cannot count on another such loan for three months. B and W employs nearly 5,000 workers.

Plessey moves into Italy

MILAN -- Britain's Plessey Company has paid $4.8 million for 100% control of Arco Società per l'Industria Elettronica, an Italian maker of electronic subsystems, including color TV components. Observers expect Plessey to turn one of its three Arco plants immediately toward production of computer memories. This was the reported reason for the acquisition. Although Arco is thought to be a strong company and to have modest expansion prospects, Plessey is sorely in need of added capacity for production of its fast-reacting ferrite core memories, a product that has proved to be a very hot seller. World and Common Market demand is also growing for Plessey's range of plated wire memories. Plessey has three other European plants that turn out memories.

Bourse report

LONDON -- Prices edged generally higher in short holiday week. PARIS -- Quiet but generally well maintained. FRANKFURT -- Narrowly irregular under very quiet conditions. MILAN -- Small late-week buying pared slight early-week losses. BRUSSELS -- Most leader stocks ease. AMSTERDAM -- Local industrials narrowly mixed. Shippings and plantations mostly higher.

EUROMARKET NEWS

COMMERCE, CLEARING HOUSE, INC.

Common Market Reports
EUROMARKET NEWS

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January 12, 1971

Crucial stage for UK - EEC entry talks

BRUSSELS-- The pattern of the negotiations for British entry into the Common Market could shift significantly during the next six months. Most observers -- in Brussels as well as in London -- think that by June, plans for British membership in the Community will be finalized ... or, barring that, Britain will not become an EEC partner. Positions in the negotiations have been staked out, and even some crucial differences resolved. Bargaining will soon begin on what has turned out to be the touchiest problem of the whole entry question: The amount that Britain should contribute to the Community budget. Recently, the UK told the EEC that it thought that its contribution should be built up over a period of five years to no more than 15% of the total Common Market budget. Community representatives believe that this contribution is too small--the Commission says it should be at least 20% -- and the pace too slow. France is one of the EEC members that think the UK should start important payments the moment that it joins the Community.

One new development, however, could affect and significantly alter the course of the talks. On January 1, France took over the Presidency of the Council and will hold it for the next six months. This means that French Foreign Minister Maurice Schumann, who thus far has adamantly resisted almost every compromise with the UK, will direct the meetings of the Six and Britain's negotiating team. The official word in Paris -- reiterated by President Georges Pompidou in a New Year's address -- is that France wants the UK in the EEC. However, this does not mean that France wants Britain as a Common Market partner on just any terms. Schumann, even though his new EEC job is to promote compromises among the Six, is not expected to soften France's position. Also, the French may not want to finalize a UK-EEC agreement while a Frenchman holds the Presidency. Most Brussels observers are looking for one of two developments under Schumann's guidance of the entry talks: Either just enough progress on major points to avoid a deadlock in the negotiations and to allow agreement after Schumann steps down, or a crisis, to serve as pretext for a summit meeting of the heads of the Community's Governments, who would then determine an arrangement.

Belgium shifts to value-added tax

BRUSSELS -- Most small businesses in Belgium -- and some large ones -- closed between Christmas and New Year's to take inventories, their final preparation in anticipation of Belgium's one-year delayed conversion to the Common Market's value-added tax system ("TVA"). On January 1, the tax came into effect. It is expected to push retail prices up by over 6%, and the cost-of-living index by at least 2%, during the course of 1971. This inflationary effect was precisely the reason why Belgium, which originally had scheduled the move for January, 1970, delayed the action for one year.

At the beginning of 1970, Belgium's economy was considered as dangerously overheated. Many of the anticipated price increases will be caused by the simple fact that the new tax will be levied at a higher rate than the taxes which it replaces. However, administrative costs will probably force prices still higher, and many firms will probably use the tax as an excuse to slip in price increases. Belgium's Government does have the power to crack down on runaway price hikes (it could declare a general price freeze) but it is unlikely to step in too firmly.

Italy is now the only EEC country that does not have a TVA. The Italians have already obtained Community permission to delay conversion to the system beyond the Common Market's 1972 deadline.

Pressure for changes in Norwegian power plans

OSLO -- Pressure from conservationists may force Norway's Government to scrap plans for construction of a 500 mw nuclear power station -- Norway's first -- and build a giant 1,200 mw plant instead. Currently, more than half of Norwegian power requirements are met by hydro-electric power, and Hydro-Electricity Board estimates state that enough unharnessed water remains to provide sufficient power at competitive prices for the next ten years. Indeed, the Board claims that priority should be given to hydro-electric projects, and insists that nuclear power will not be needed in Norway until 1982. However, conservationists, which are very strongly organized in Norway, may force the Government to shift quickly to nuclear plans. The conservationists' contention is that hydro-electric stations "scar" nature, and they have prodded the Government to consider enlarging the scope of current nuclear plant planning. Their immediate target is the proposed nuclear unit. Originally, the Government had hoped to have the smaller 500 mw station in operation by 1978. Now, it may have to revise the project's timetable. A 1,200 mw station would attract worldwide bidding competition.

French new car prices to rise

PARIS -- As early as last October, experts were confident that 1970 would prove to be the best year ever for French auto exports. The experts also reasoned that 1969's franc devaluation would pay off handsomely for France's auto industry simply because profits on foreign sales would increase once they were repatriated. Thus, last October it appeared a bit odd that French auto makers should suddenly start pressuring the Government for permission to increase domestic new car prices. Government economists thought that any reading of the industry's profit picture should harden Government determination to hold new car prices down, as a bulwark in France's inflation-prone economy. However, the auto makers won out. They are being allowed to raise new car prices by 4%. In defense of the increase, auto producers claim that industry profit margins have shrunk to the bone, largely because raw materials and labor costs have risen by 12% since August 1969, the month of the 11.1% franc devaluation. Some industry observers, however, think that because of sagging domestic auto sales, French auto makers have decided that now is the moment for new car price increases. In the spring, when domestic sales are expected to pick up, the hikes will be largely unnoticeable.

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Swiss banks begin IOS probes

BASEL-- In what was termed "a precautionary move in case of legal action," the Swiss Bankers Association has begun to survey its member banks to determine the extent of losses suffered in Switzerland through trading in Investors Overseas Services (IOS)stock. Through a three-page questionnaire -- considered unique in Swiss banking history -- the association has asked its members to tally and report holdings in IOS companies and mutual funds. The chief aim of the questionnaire is to assess the value of transfers of assets from the Fund of Funds, once IOS's glamor fund, to the National Resources Corporation. Such transfers reduced the value of Fund of Funds shares. Swiss officials are beginning to give the Geneva-based mutual fund company some very rough treatment. Not long ago, they banned sales of the Fund of Funds in Switzerland. They also have been slow in granting the new IOS president and chief executive officer a work permit. Combined assets of the five largest open-end IOS mutual funds declined 49% in 1970.

British inflation creates problems for exports

LONDON-- Prices are rising so fast in Britain that the buying power of the pound may be cut by one-third in the next five years. A new booklet, "Inflation for Ever?", prepared by the UK's Institute of Directors,states that Britain is in serious danger of a flight from money unless current inflation -- believed to be booming away at an annual 6% clip -- is brought quickly under control. In the booklet, the Institute chides the Government for having created an "inflation psychology" by converting mild inflation into "fierce" inflation, and urges new fiscal,monetary, and possibly wage-control policies to change the situation. Indeed, inflation continues to dominate the UK industrial outlook. A Financial Times prediction is that unit costs will rise by 10.2% in the next 12 months. Inflation's pace may hit British industry the hardest where it had hoped to do best: Exports. Overall, UK firms view export prospects as the worst since the pound was last devalued in 1967. They say that it is becoming extremely difficult to make sales at prices affording an acceptable level of profit. Although reserves in the UK now stand at a three-year high -- the official tally is $2.827 billion, as of December 31 -- some UK financial experts fear that inflation is pushing Britain rapidly toward a new devaluation. They say that news of a bad (for Britain) compromise with the Common Market on payments to the Community budget could spark off the pressures that would drag the pound down once more.

Pirelli slowdown may result in Fiat layoffs

MILAN -- A slowdown at Pirelli,Italy's largest tire manufacturer,may force Fiat, Italy's number one car producer, to lay off workers. Recently, union leaders told Pirelli's management that they planned to systematically stall production in order to force an acceptance of a new national labor contract favorable to labor. Since then, workers at Pirelli have stopped production for two hours each shift. The loss in output does not appear to have had much effect on Pirelli's management,but it is reportedly having disastrous consequences at Fiat. Fiat spokesmen say that some of its workers may be forced off jobs if the quantities of tires and rubber parts necessary to ensure regular production do not arrive shortly. So far,Alfa Romeo,Italy's second-largest car maker, has not been affected by the strike. Just how badly strikes have hurt Italy was indicated by Giuseppe Glisenti,the Italian Government's top labor negotiator, in an interview with Il Mondo, an

Italian weekly news magazine. Glisenti said that state-controlled companies lost an average 93 hours per employee during the last three months of 1970. This is not as high as the dramatic 115 hours per employee that state firms lost in the same period of 1969; but, unlike 1969, in 1970 no major labor contracts were up for renewal. Glisenti thought that unions were beginning to lose control over their extremist "fringe" elements. Labor costs in Italian state-controlled industries, which include steel, petroleum, textiles, and chemicals, rose by 25% in 1970. Official forecasts are for another 25% rise in 1971. In another Il Mondo interview, Guido Carli, Governor of the Bank of Italy, stated that changes now under way in Italian labor-management relations threaten to create an economy -- at least for the short term -- in which increased investment fails to proportionally increase output.

UN group sees drop in European labor reserves

PARIS-- An analysis of Europe's labor pool made by the United Nations Economic Commission for Europe concludes that severe worker shortages could develop in Europe by 1980. Moreover, the UN group sees little hope for augmenting labor reserves through transfer of workers from agricultural to industrial sectors. Also, the number of young people who will enter the labor pool will drop, simply because of declining birthrates. In West Germany, Common Market agricultural plans will probably halve the agricultural population -- 5.6% compared with 10.7% now -- but agricultural workers probably will be absorbed by services. The movement will be similar in France, Italy,and,to a smaller extent, The Netherlands. The big squeeze will come in Britain. There, on current indices, the level of employment in manufacturing will rest at 35.1% of the population. One remedy that the UN group suggests to European industrialists is improvement in productivity; another is increased employment of women.

Royal Dutch may have struck oil off Spain

MADRID -- Although rumors continue to grow that Royal Dutch Shell, operator for an international oil consortium, has struck a major oil field off the east coast of Spain, company spokesmen refuse to confirm any finds, stating that they are awaiting further testing reports. Recently, Royal Dutch hit a 2,400 barrel-a-day high-quality well 13 miles off shore in the Ebro River delta. The firm has made it no secret that what it is looking for is a 300,000 barrel-a-day field, comparable in size to Phillips' Ekofisk discovery off the coast of Norway. The Phillips' field was discovered originally on test reports of oil that flowed at the rate of 2,000 barrels a day. If the find does prove commercial, it could cap a three-year European search for indigenous crude oil supplies.

Bourse report

LONDON -- Most shares suffer big losses in New Year selling fervor. PARIS -- Well maintained in fairly active trading. FRANKFURT -- Irregular in generally quiet trading. MILAN -- Most issues decline; steady selling, but virtually no buying. BRUSSELS -- Dull. AMSTERDAM -- Local industrials mixed; shippings and plantations mainly steady.

EUROMARKET NEWS

Common Market Reports

EURO MARKET NEWS

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France cuts discount rate; Germans watching

PARIS -- Most French industrialists and bankers reacted favorably to the Banque de France's latest move, a cut in France's discount rate from 7% to 6-1/2%. Actually, the move took few by surprise. The United States tried last November at one of the ultrasecret monthly meetings of world central bank governors in Basel to convince Europeans to follow an American lead in lowering discount and other official credit rates. When American banks lowered their prime rates and the Federal Reserve Bank its discount rate, French businessmen felt sure that the Banque de France would follow. French rates for advances against securities were also reduced, from 8-1/2% to 8%. However, the cost of commercial credit will be maintained at present levels, at least for the moment. A Ministry of Finance spokesman told Euromarket News that the Government planned to lower French commercial credit rates soon.

Italians lower lombard rate

ROME -- Italy's Central Bank has corrected earlier reports and announced that only the Italian lombard rate (for loans against securities) has been reduced, and not the official discount rate. The Government press agency had first reported a cut in Italy's discount rate. This remains unchanged at 5.5%. The lombard rate now stands at 5%, a reduction of one-half point.

Curbs on foreign borrowings by UK firms

LONDON -- The pound rose to just above its $2.40 parity on January 12, one day after the Treasury announced intentions to take stern steps to keep foreign short-term funds out of Britain. Money market experts said that if funds continue to roll into the UK--especially in the wake of world discount rate reductions--the rate would probably be allowed to move toward its upper limit of $2.42. The Treasury has added curbs on short-term foreign borrowing to existing exchange controls. The regulations make it all but impossible for UK-based companies to borrow funds on the Eurodollar market for periods of less than five years, and sterling from sources outside the sterling area. Last year, British-based firms borrowed nearly $480 million on foreign capital markets for use as financing in the UK, considerably hampering official control of the domestic money supply. The Treasury is only seeking to stop this inflow. It will make no move to halt funds attracted by leads and lags in commercial payments or interest differentials. Foreign currency borrowing by British firms for overseas investment or export credit will not be affected. The Treasury's move probably marks a significant shift in UK policy. Henceforth, the UK will no doubt put emphasis on a domestic monetary squeeze, rather than attempt to pay off foreign debt and build up official reserves.

France and Germany reach compromise on EEC powers

BRUSSELS -- West Germany and France have reportedly reached an informal compromise in their dispute over federal authority in the Common Market. So far, France has balked when asked by the Six to stipulate what national powers it would be willing to transfer to Community institutions. However, until the French do, West Germany has refused to take part in far-reaching EEC monetary agreements. The two countries have now agreed informally to commit themselves to a transfer of some national prerogatives to Common Market institutions. The definition of the powers and the date of the transfer will be agreed upon later. Much more debate will be required before a formal agreement is reached; but the compromise could help the Six avoid much time-consuming maneuvering.

Another North Sea oil strike ...

LONDON -- A Shell-Esso drilling team appears to have struck a major well off the coast of Scotland in the North Sea. The find is near Phillips' big Ekofisk discovery, but in British waters. It is exactly adjacent (block 13/16) to a site where British Petroleum found a huge quantity of oil. So close, in fact, that once rumors of the discovery began to leak out of Shell headquarters, UK oilmen immediately asked why drilling had not started there much earlier. With even the worst of luck, the big field which BP had discovered could have been supposed to extend into the Shell-Esso concession. Altogether, the Shell-Esso combine has invested about $31 million in its North Sea exploration efforts.

...and high hopes for rich finds off Spain

MADRID--Shell España hopes to sink a third test well off the eastern coast of Spain soon. Spokesmen refuse to report on rumors of a "major" strike in Spanish waters until "all test results are in"...meaning the third well. Minister of Industry José Maria López de Letona told the Spanish cabinet recently that Shell had found oil 13.2 miles off the mouth of the Ebro River. There, extensive crude reserves are believed to lie just below a narrow gas pocket. After López de Letona's report, the Government issued a statement, pointing out that if present flows at well heads proved to be permanent, production would amount to about 300,000 tons a year. Shell has made no secret of its hopes to find substantially more, possibly a strike that would rival Phillips' Ekofisk find.

French-Algerian oil conflict is anything but settled

PARIS -- "Oil is only the immediate problem; much more lies beyond." That was President Georges Pompidou's view of French-Algerian relations only one month ago. At that time, the two countries appeared to have resolved some major difficulties and to be well on the way to signing an agreement on oil and natural gas. Then...France and Algeria would proceed to discussions on other pressing economic problems. Now, the two countries appear to be back at the starting point. Algeria, which supplies at least one-third of France's oil, has announced that no oil will be loaded onto tankers belonging to Elf-Erap, a French state-owned oil firm with heavy investment interests in Algeria. The reason cited for the blockade stems from provisions in a complicated accord under which Elf had previously split production and profits from two Algerian fields with Royal Dutch-Shell. Last summer, the Algerian Government nationalized Royal Dutch's interests.

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Sonatrach,Algeria's national oil company, is now demanding what it calls its rightful cut of supplies and profits. The real reason for the move may be that Algeria is attempting to pressure France to sign the overall oil agreement that it wants--one that would ensure enough revenue to finance ambitious Algerian industrial development projects, but leave almost no profits for French oil companies. On January 7, just one day after the French Government had announced that the two countries would meet on January 18 to resolve final difficulties before signing an accord on oil, Algeria announced suspension of most of the preferential tariffs which it grants to French imports.

Italy to get bigger say in Montedison affairs

MILAN -- The leading members of the syndicate that has controlled Montecatini-Edison since 1968 have decided to resign, paving the way--in the opinion of most of the firm's executives--toward a greater state voice, through ENI, Italy's national petroleum agency, in Montedison affairs. Three months ago, ENI and IRI, the Italian industrial development organization, held 49% of Montedison voting rights. Another 49% was held by private shareholders, and a crucial 2% by Mediobanca. Since then, ENI and IRI may have picked up an additional 6%, sold off by shareholders disillusioned with Montedison's performance on the Milan Bourse--Montedison shares have tumbled to an all-time low of 20% below their approximate $1.50 par value.

British Rail prepares corporate plan

LONDON -- British Rail, the UK's state-controlled railway, is expected to publish its first corporate plan--outlining targets and strategies for all aspects of its operations up to 1975--sometime this week. Although hotels, shipping, engineering and property ventures will be discussed, economists are anxiously awaiting details on rail freight plans. Unlike the U. S. railroads, this is where British Rail runs up its biggest deficit. The losses are usually offset by profits from passenger traffic. Reportedly, British Rail hopes to gain Government support for a higher ceiling on investment--especially capital borrowing--as a way of financing new expansion.

Gold lost some glitter in 1970

LONDON -- The price of gold barely budged from its official peg of $35 an ounce in 1970. In fact, trading in gold has been listless ever since the division of the market into two tiers in early 1968. According to bullion brokers Mocatto and Goldsmid, gold's inability to react to monetary crises in 1969 has reduced its attraction as a currency hedge to such a point that the free market has become more and more isolated from international monetary affairs. Currently, most free market demand comes from the Middle and Far East and is "routed" through Dubai and Singapore. Last year, some 8 million ounces were imported into Dubai. About half of this supply came from London. In its report on gold markets in 1970, Mocatto and Goldsmid says that gold has proved to be an effective hedge against currencies only in underdeveloped countries. In developed countries, investors have found that it is a hedge against nothing--particularly not inflation. For 1971, Mocatto and Goldsmid sees gold prices fluctuating by several dollars. This will hardly be enough to put pressure on the international monetary system, but could afford "excellent opportunities" for traders.

Banco di Roma joins international banking combine

PARIS -- Italy's third largest bank, Banco di Roma, has decided to join the consortium formed by France's Crédit Lyonnais and West Germany's Commerzbank. The group now controls nearly 3,000 branches in Europe. Last October, Crédit Lyonnais and Commerzbank announced plans to coordinate their administration and management, provide finance to each other's customers, and cooperate in international ventures. (Recently, the two banks agreed to float a $25 million loan denominated in D-Marks, for the Spanish autoroute firm Europistas.) The linkup stopped short of merger, mainly because of Crédit Lyonnais' semi-nationalized status. Banco di Roma is also primarily a state-owned operation--92% of outstanding capital is currently controlled by Italy's IRI, an official development agency. Spokesmen for Crédit Lyonnais indicated that the exact share that Banco di Roma would have in Crédit Lyonnais-Commerzbank ventures already under way--including a New York branch office--has not yet been decided. The same spokesmen said that the consortium was still hoping to have a British member, preferably an investment bank.

International finance unit formed

ZURICH -- The Unionbank of Switzerland will be the majority shareholder in a new international finance company, Noreco Finanz, to be formed in Zurich. Noreco plans to specialize in financing international trading transactions, including discounting on claims that are not honored. The capital of the firm will be $5 million. Minority participants in the venture include Italy's Banca Nazionale del Lavoro, France's Société Générale, Switzerland's Dow Banking Corporation, and West Germany's Bayerische Vereinsbank, and Berliner Bank.

Belgian takeover of U.S. tool firm

BRUSSELS -- Diamant Boart, a large Belgian manufacturer of diamond-tipped tools, has acquired all of the capital of the U.S.'s Wheel Trueing Tool Co. Wheel Trueing has plants in Detroit, Cincinnati, and Los Angeles, and specializes in producing diamond cutting tools for glass makers. Diamant Boart recently bought up the boring equipment manufacturing operations of Belgium's Foraky.

New London bank

LONDON -- Three of Scandinavia's leading banks, Sweden's Svenska Handelsbanken, Norway's Den Norske Creditbank, and Finland's Kansallis-Osake-Pankki, plan to set up a bank in London. Called Nordic Bank, it will provide a range of finance and services, but concentrate on Eurodollar services. Nordic's share capital will amount to about $7.2 million, and will be subscribed in equal amounts by the three partners. It will open sometime next spring. The same combine involved in Nordic has already set up banks in Paris--Banque Nordique de Commerce--and in Zurich--Nordfinanz-Bank. Denmark's Handelsbank, which participated marginally in the Paris and Zurich ventures, may also come in on the London operation.

Labor shortage forces Swiss firm to expand in Austria

ZURICH -- Wild Kaernten, a subsidiary of Wild Heerbrugg, a Swiss precision optical instruments concern, has been set up in Voelkermarkt, Austria. The firm is expected to start production in early autumn with a work force of 350 and eventually build up a staff of 1,000. Wild Heerbrugg decided to move into Austria because of labor shortages near its works in Switzerland.

Norwegian firm plans Eurobond issue

OSLO -- Borregaard, one of Norway's leading industrial firms, plans to float a $15 million, 15-year bond offering on the international capital market. The issue is expected to carry a coupon of 8-3/4% and an issue price under par. Proceeds of the loan will be used to finance projects outside Norway,mainly in Austria and Brazil. The issue will be underwritten by a syndicate headed by White,Weld and Christiana Bank og Kreditkasse.

Nestlé and Ursina to merge

ZURICH -- Nestlé Alimentana and Ursina-Franck, two Swiss-based food products companies with large international operations, plan to merge. Such a move, if approved by stockholders, would result in a combine that could challenge the U. S.'s Kraft-National Dairy Products as the world's leading dairy products producer. Nestlé is Switzerland's biggest firm and has extensive holdings in almost every Western country. Ursina-Franck, which was formed last year through the merger of Ursina and Interfranck Holding, has large facilities in each of the Common Market countries as well as several South American ones. Although the boards of both companies have described the move as a merger, Nestlé would probably in fact take over Ursina-Franck. Ursina reportedly will have the right to appoint three men to the Nestlé board and will have a 9.9% stake in the combined operation.

Bourse report

LONDON -- Treasury announcement of short-term foreign borrowings curbs interest in equities; but gilts end uncertain early-week climb at well-maintained high levels. PARIS -- Quietly mixed. FRANKFURT -- Coals and steels perk up in generally lackluster overall conditions. MILAN -- Most sectors lose ground. BRUSSELS -- Quietly firm. AMSTERDAM -- Local industrials mixed; shippings and plantations well maintained.

EUROMARKET NEWS

Common Market Reports

EUROMARKET NEWS

This issue of Common Market Reports is in two parts. This is Part I.

Issue No. 106 January 26, 1971

EEC questions role of pound sterling

BRUSSELS -- The Common Market has asked Britain, in a secret nine-point questionnaire, to define sterling's future role as an international currency. The Community is especially interested in knowing how the UK plans to reconcile its current obligations as the center of the sterling area, with possible future EEC responsibilities. Some Common Market countries--led by France--think that the pound's reserve status frees Britain from normal balance-of-payments obligations; others worry that the pound's international role could prove an added burden to the Six's economies. Britain has previously argued that sterling balances and debts should not be covered in the entry negotiations. However, the Common Market has made it no secret that the future status of the pound could be the most crucial element of the entire negotiations. In the questionnaire, the Six ask the UK for its views not only on the Basel credit arrangements of 1968, when sterling received a dollar guarantee, but also on provisions the UK has made for possible mass conversions from sterling into other currencies when the agreement runs out (September, 1971) and basic information on repayment of the UK's medium- and long-term debts.

French hike public spending, cut TVA on food

PARIS -- In an effort to stimulate France's sagging domestic economy, the Government has adopted two mildly reflationary measures. First, it has decided to release almost $60 million previously locked up in a countercyclical fund for public spending on housing, education, and the environment. Next, it will reduce France's current 17.6% TVA (value-added tax) on many food products to 7.5%. Both moves were suggested long ago--the first by construction industry representatives last September just after an alarming number of France's smaller construction companies, and some large ones, were found to be facing bankruptcy; the second,by the Finance Ministry as the most logical way to protect France's poorest from rises in the cost of living. The TVA cut, however, will mean a revenue loss of nearly $52 million each year. The Finance Ministry hopes to make this up by closing some of the most flagrant loopholes in France's tax system. The Government has also issued a warning on price inflation. Most officials now believe that prices this year will rise more than the 3% predicted by the Finance Ministry (France's budget was based on this figure). The OECD thinks that French prices will increase by 4.2% in 1971.

GNP rise in West Germany

FRANKFURT -- West German GNP rose by 12.4%--to $185.25 billion--last year, but, according to the Federal Statistics Office, more than half that gain was due to rising prices. In fact, if last year's West German GNP gain were measured in terms of 1962 prices, it adds up to an advance of only 4.7%. (This is more in line with average rises of the last five years.) The 1969 GNP rose by 12% at market prices, and 8% after allowances were made for inflation. The Statistics Office says that the 1970 price index--its best means for measuring the rate of West German inflation--rose 7.5%. In 1969, it was up by only 3.5%. The 1970 increase was the biggest since the 10% rise recorded in 1951. The Statistics Office reported that West German productivity rose by 3.3% last year; salaries went up by 17%.

Spanish auto industry gears for exports, maybe mergers

MADRID -- Spain's auto makers will meet soon with top-ranking Government officials to discuss their productivity and sales problems. At the moment, Spanish auto dealers have almost 100,000 unsold cars in stock. Output in the industry increased by 22% last year--to 453,000 units--but a domestic boom in sales in January 1970 (21% more cars were sold that month than in the same month of 1969) cooled off rapidly. In fact, car sales were down to 1969 levels by midsummer, and by year-end had dropped by 14% in comparison to 1969. Auto makers say that consumers' difficulties in finding credit were the basis for their problems. But now they fear that rising steel and gasoline prices will make their marketing tasks even more difficult. Some experts have pointed out that Spain may not be able to absorb more than 350,000 new cars a year; anything in excess must be exported. To solve their problems, some Spanish auto makers could be forced to merge. Chrysler España, apparently anticipating a shake-up,has dismissed surplus personnel and cut back production. Seat-Fiat has reduced output by 40%. Both have announced plans for new investment aimed at creating new capacity for production of export models.

Dutch minimum wage raised

THE HAGUE -- Dutch workers have won Government approval for a $2.85 hike in the minimum wage. The increase, to about $45 a week,will become effective in April. Some part of it, however, may yet be made retroactive to January 1. There is also a chance that a further $2 a week may be added to the minimum wage in July. Observers feel that the direct effects of the increases on the economy will not be large--only 30,000 Dutch workers earn the minimum wage--but the indirect effects could be considerable. The minimum wage is used as a basis for social security and other national assistance payments.

French railway workers win salary increases

PARIS -- The CGT,France's largest labor union,has succeeded in forcing the SNCF, France's state-run railway, to not only grant railway workers a 6% boost in wages this year, but also omit a preamble which the CGT found offensive,from the new contract. The preamble, made reference to "total wages." This is a sum fixed in advance in contracts and carries the implication that future negotiations must be limited to distribution of the money to workers and that the sum itself may not be changed. This year, such a phrase was unacceptable to the CGT,which is trying to set contract precedents, because it limited their field of action. The CGT also won a railway guarantee to keep workers' wages pegged to rises in prices. The Government was happy with the outcome. It views some concessions as necessary to the establishment of more amicable ties between public industry and labor.

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The Government appears ready to approve union demands for escalator clauses (regular wage hikes linked to monthly cost-of-living increases) in other sectors. This probably reflects the Government desire to create a stable labor atmosphere in France, but, as some observers point out, it could be the easiest way to buy industrial peace at a moment of particularly high unemployment.

U.S. to ask EMA to return contribution

PARIS --The U.S. has asked for the return of its $270 million contribution (only $150 million was actually paid) to the European Monetary Agreement (EMA). The move, which was taken to help protect the U.S. balance of payments, could force the EMA to close shop. The U.S. contribution makes up the lion's share of the EMA's $600 million capital (provided by 18 nations), which is used to aid smaller European countries. Most of the $150 million which the U.S. has paid has already been lent to Turkey.

Sterling well over parity

LONDON -- A continued steady rise in sterling sent the pound to $2.41 on January 15, the highest level against the dollar in three years. This is only one cent below the dollar ceiling. Dealers thought that the heavy demand of recent weeks was mainly prompted by an unchanged British discount rate--it stands at 7%--but good trade figures appeared to be responsible for the large amounts of buying orders left uncovered in the forward market. Dealers also said that the Bank of England appeared to be sticking firmly to its announced policy of letting the rate take all of the impact of demand, and allowing few funds to penetrate the domestic market.

EEC may change coal and steel pricing regulations

BRUSSELS--The European Communities Commission may allow EEC coal and steel firms to charge different prices to different industries. At present, coal and steel groups are required to sell at the same price to all customers in a specific industry. In a proposal sent to the Council of Ministers, the Commission says that the old price regulations have become impossible for producers to follow, and recommends changes. One Commission idea is that coal and steel producers should not be required to publish the prices that they charge. Another is special rates that would be given to certain industries. However, EEC coal and steel producers would still be forced to offer the same price to every company within a specific industry. At the moment, a wide range of "fidelity discounts" are used for large customers in an effort to get around the regulations.

BASF cancels U.S. project

FRANKFURT--West German chemical giant Badische Anilin und Soda Fabrik (BASF) has canceled plans for a chemical plant at Port Victoria, North Carolina. Over a year ago, BASF drafted plans for a $100 million facility and bought a 1,729-acre site. Soon after, the project ran into U.S. Department of the Interior opposition because of air and water pollution problems. Since then, the U.S. market for most ethylene-based plastics has dropped.

Rothschild may enter retail banking

PARIS -- Baron Edmond de Rothschild may discreetly allow his banks to accept deposits from the public soon. At the end of December, the Compagnie

Financière, which groups Baron Rothschild's wide-ranging property, tourist, retail and financing interests, applied for a change in status from an investment agency to a retail bank.

Europe faces oil shortages

THE HAGUE-- Esso Nederland director J. A. Baart thinks that Europe may be in for prolonged shortages of oil products. In an article published by Essobron, the firm's house organ, Baart says that demand for oil products in Western Europe is rising fast. Low prices, stimulated by competition, and increasing costs have put a brake on investment, curbing growth in tanker tonnage,storage and refining capacity. Thus many oil firms lack the plant facilities necessary to meet demand. Also,the interruption of transport not only through the Suez Canal but also through the Tapline between Saudi Arabia and Syria, plus a drop in supplies from Libya, have created disparities between supplies and demand in the latter part of 1970.

Swissair to open restaurants

ZURICH -- Swissair plans to enter the chain restaurant business. Xavier Bregenzer, head of the airline's hotel operations,said that Swissair plans to open restaurants soon in Austria, West Germany, and The Netherlands. If these prove to be a success,Swissair may also open restaurants in America. Unlike its hotel operations, which are viewed as a passenger service, the airline hopes to make restaurant operations completely separate from air services. This could be one means of providing added revenue at a time when most airlines are gearing themselves for drops in passenger profits. Recently, Swissair opened merger discussions with Austrian Airlines.

IDI takes stake in paint firm

PARIS--The IDI, France's official industrial development organization,will acquire a 10% stake in the capital of Ripolin-Georget-Freitag, France's largest paint firm. Ripolin's $40 million per year turnover is almost twice that of its nearest domestic competitor,Astral. The IDI participation will enable it to take over two smaller concerns, Vernis Soudes, and Peinture Villemer, which specialize in car paints and varnishes. The French Government sponsored the creation of the IDI nearly a year ago to promote mergers of small firms into larger, more competitive companies.

Cornfeld sells IOS holdings

GENEVA--Bernard Cornfeld,founder and one-time president of Investors Overseas Services (IOS),has sold all of his preferred IOS shares,thus severing his links with the troubled mutual funds firm. According to an IOS release, the shares were sold to a purchaser "affiliated with a major financial institution." The deal put an end to the long negotiations between Cornfeld and Robert Vesco, head of International Controls Corporation, a concern which loaned IOS $5 million in September, 1970. The money was used to cover operating expenses.

Bourse report

LONDON -- Equities mainly firm;gilts well maintained. PARIS -- Quiet,most issues narrowly irregular. FRANKFURT -- Firmer on speculation of discount rate cuts. MILAN -- Most sectors ease on profit taking, after steady early week rise. BRUSSELS -- Quiet. AMSTERDAM -- Local industrials mixed, shippings and plantations narrowly mixed.

EUROMARKET NEWS

Common Market Reports
EUROMARKET NEWS

Issue No. 107 No. 153, February 2, 1971

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West Germans adopt French view on EEC institutions

PARIS -- West German Chancellor Willy Brandt seems to have made a significant concession on Common Market economic and monetary union in order to win France's support for his Ostpolitik. Previously, although France had accepted the West German view that a transfer of national powers to supranational Community institutions was necessary, it refused to specify what national powers should be turned over and when. West Germany had wanted powerful EEC institutions to exist--or at least be planned--before taking part in far-reaching Community monetary arrangements. The disagreement threatened to slow down all moves toward complete EEC union. An informal solution to the problem was hammered out by French, Dutch, and West German representatives in early January. This was adopted by Brandt and French President Georges Pompidou at their meeting. Italian President Emilio Colombo will arrive in Paris soon, and the French hope to convert him to their view. If they succeed,the Community will probably proceed with plans for economic and monetary union, forming the necessary institutions along the way. The French will be required only to commit themselves to the eventual formation of such institutions.

Spain to push economic expansion

MADRID -- The Spanish Government has announced a modest discount rate decrease--from 6-1/2 to 6-1/4%-- as a first step in an ambitious plan to revive Spain's sluggish economy. The overall Government goal is to raise per capita income in Spain from a current $818 a year to $1,000 a year by 1972. This would call for an economic expansion rate of at least 10% a year for the next two years. The present rate is 6%. Last year, adopting OECD suggestions, Spain tightened credit and allowed unemployment to rise in an effort to combat inflation. Since then, reserves have more than doubled--they now stand at $1.8 billion. However, business sagged. Spain's auto industry, especially, is in trouble. Most observers feel that the Government will continue to ease credit and to lower restrictions on time payments for consumer goods, using the strong foreign reserves to soften any inflation that could be created.

Denmark lowers discount rate . . .

COPENHAGEN -- Denmark has taken the cue from other Western countries and lowered its discount rate, formerly the highest in Western Europe, by one full point--from 9% to 8%. The action was taken despite Government determination to keep credit in Denmark tight and to use fiscal and monetary policies plus unemployment as the chief tools for battling inflation and curing balance-of-payments deficits. Denmark boosted its rate to 9% in May, 1969, following a run on the Kronor. There was another run on the currency last summer. A large deficit in the current account has been the country's main economic problem. It hit $400 million in 1969 and, although officials say that it has improved, the deficit may have been above $400 million in 1970. Official economists insist that the decision to cut Denmark's discount rate was taken to ease the growth of short-term indebtedness, and that it does not reflect any official desire to ease internal credit restrictions.

. . . and Sweden may follow

STOCKHOLM -- Speculation is growing here that Sweden may decide to follow Denmark and cut the official discount rate, but only by one-half point. The Swedish rate now stands at 7%. It was raised to its current level in June, 1969, largely to offset the adverse money flows that could have resulted from a Danish discount rate hike the month before. A new Swedish budget calls for increased investment in industry, and some internal credit restrictions have already been eased. Sweden rarely makes discount cuts or increases of more than one-half point.

Discount rate pressures build in West Germany and Britain

BONN -- Pressure is building both in West Germany and in Great Britain for a reduction in the official discount rate. A decision by the Bundesbank at its regular January meeting to hold the West German rate to 6% appears to protect the UK--at least for another month--from the need to drop its rate. However, many European bankers are beginning to notice signs that the two countries may not be able to hold out much longer. West Germany and Great Britain are hoping to keep their credit rates high in order to combat inflation. But unwanted streams of foreign capital seeking the high rates are beginning to pour into both countries. As long as the West German rate stays at its present level, the flows probably will remain divided, but if the Bundesbunk decides on a cut, the UK could be forced to follow.

Shell orders construction halt at UK plant site

LONDON -- Work at the Carrington site of Shell Chemical's projected $440 million petrochemical complex has come to a halt, and will not start up again until Shell's plans for the unit are completely reevaluated. The complex was to have been the most important part of a Shell effort to double its current UK chemical output by 1975. However, construction and equipment costs have risen by 10% to 25% above original estimates. Shell spokesmen say that the project will not be cancelled. Most likely, the "on stream" timetable for various units in the complex will be revised.

Burnmeister and Wain protects diesel motor interests

COPENHAGEN -- Danish shipbuilder Burnmeister and Wain (B and W) plans to spin off its diesel motor workshops into a separate company, a step that could save the operation from liquidation should the B and W shipyards fail. B and W is in the midst of a severe liquidity crisis, brought on by heavy shipbuilding losses. In 1967, the firm drew up plans to close its yards, but was forced by the Government to keep them open and at full employment. Since then, the shipbuilding losses have become chronic and have shown signs of spreading to the diesel motor division. Last December, B and W received a badly needed state-guaranteed three-month $7 million loan to

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tide it over. However, the guarantors warned that B and W could not expect the same help again in three months' time. The diesel motor workshops have long been a profit-making operation.

Chrysler to stay in Spain

MADRID -- A high-ranking executive of Chrysler-Barreiros, the Spanish subsidiary of Chrysler Corporation, has stated that the firm will not be sold. His statement was meant to counter rumors that have crept out of a recent top-level conference between representatives of Spain's major auto makers and Government officials on auto industry sales problems. Currently, car manufacturers in Spain are overproducing. Some 100,000 unsold units remain in dealers' stocks, and an official credit squeeze plus rising steel and gasoline prices threaten to push the figure even higher. The Government reportedly told the producers that they should either cut production, increase exports, or merge in order to survive the present sales crisis. Following the conference, merger speculation centered on Chrysler-Barreiros. The firm recently sold its bus manufacturing operations to Belgium's Van Hool, and cut staff and production at auto assembly lines. Most industry observers thought Italy's Fiat the most likely buyer if Barreiros decided to sell out. However, Fiat also has problems in Spain. Production at Seat-Fiat, Fiat's Spanish subsidiary, was recently cut by 40%. Barreiros' likely course is to remain in business, but cut staff and reorganize production, gearing it toward exports.

Weston forms Italian firm

MILAN -- Roy F. Weston, Inc., a Philadelphia-based concern that specializes in the design and marketing of air and water purifying equipment, has formed an Italian subsidiary. The new firm will be called Weston Europe S.p.a., located in Milan, and have an initial capital of about $300,000.

American Express buys data service interest

LONDON -- American Express Co., Inc., has acquired an 11.3% stake in Hoskyns Group, a UK data-processing services firm. Hoskyns' major shareholder is the London Banking house of J. Henry Schroder Wagg. American Express recently opened rapid computer-controlled hotel reservation services in most major European cities.

NAPCO in Austria

VIENNA -- The NAPCO chemical division of the U.S.'s Diamond Shamrock Corporation has set up a subsidiary in Austria. The firm will market textiles, paper, leather, and pharmaceuticals produced by NAPCO's other European subsidiaries.

Pipeline company plans bond issue

AMSTERDAM -- The Rotterdam-Antwerp Pipeline Co. will issue $13.5 million 7-3/4% 8-year bonds in order to finance the Dutch part of the 65-mile crude oil pipeline from Europoort to the BP-Petrofina and Esso refineries near Antwerp. The line will be opened in August and have an initial capacity of 24 million tons a year. Total cost of the project is about $24 million. Market experts expect the issue to be a success.

International factoring company created

LONDON -- Credit Factoring International, Ltd., the most important link in what Credit Factoring Ltd. (the parent company) officials boast as the "first centralized international factoring organization," has been formed in the UK. Early in January, Credit Factoring offices were set up in Paris and in Brussels. Soon to follow will be branches in New York, Zurich, Frankfurt, and Dublin. All accounts will be funneled to Credit Factoring International's computer center at Feltham, Middlesex. Credit Factoring Ltd. is a member of Britain's National Westminster Bank group.

Foreign cars hold 14% of British market

LONDON -- Foreign imports accounted for 14% of all cars sold last year in Britain,an important jump over the 10% share of the UK market that foreign makes held in 1969. According to figures recently published by the Society of Motor Manufacturers and Traders, West Germany's Volkswagen sold more cars (37,370) in Britain than any other foreign producer. France's Renault was second (31,159) and Italy's Fiat third, with 23,476. The top domestic seller was British Leyland, whose products held 38% of the overall market. In second place among the domestic producers was Ford, which sold 26% of all cars bought in Britain.

French bank consortium offers help to Portugal

PARIS -- A group of French banks will help Portugal finance purchases of French capital goods. Crédit Commercial de France, Banque Nationale de Paris, and Banque de Suez et l'Union des Mines have agreed to provide $27 million in loans to Société Financière Portugaise,a state-run bank and development agency, for periods of three to ten years. The French banks were reluctant to disclose further terms. The Portuguese purchases are expected to be telecommunications equipment,chemical and electrometallurgical products, and railroad and textile equipment.

Siemens reorganizes in Austria, plans increased UK effort

FRANKFURT -- Siemens, West Germany's leading electrical firm, plans an extensive reorganization of its Austrian interests. Siemens will regroup seven of its Austrian companies into one large concern. Activities of the seven range from semiconductors to electronic cables to measuring instruments. One problem, however, is the stake that Austrian firms hold in the seven companies--an average of 30% in each. Siemens probably will eventually give its Austrian partners a 40% holding in the new company, which could turn out to be Siemens' largest abroad.

Siemens also plans a more aggressive approach to its UK markets. It has just bought out its former British representative, Cole Electronics, and has formed a special department for the sale and distribution in the UK of its West German-made products. Officials at Siemens do not rule out the eventual creation of UK production units.

Bourse report

LONDON -- Equities firm; gilts ease on profit taking. PARIS -- Seasonally quiet, but banks, electricals and oils well maintained. FRANKFURT -- Narrowly irregular in very quiet trading conditions. MILAN-- Small late-week buying narrowly pares early-week losses. BRUSSELS -- Most leader stocks ease in very quiet market. AMSTERDAM-- Local industrials mixed; shippings mainly higher; plantations mainly lower.

Common Market Reports
EUROMARKET NEWS

Issue No. 108 February 9, 1971

EEC MINISTERS SAY BRITISH BUDGET FIGURES ARE UNREALISTIC

BRUSSELS – Common Market Ministers agree that Britain will not be able to begin membership in the EEC with a contribution to the Community budget of only 3 %. In previous negotiating sessions, the UK has told the Six that it would like to make a budget contribution of 3 % during its first year in the Community and work up to a maximum of 16 %. The Commission has proposed adoption of one of two arrangements: The first stipulates that the UK should start by paying 21.5 % of the budget and then work up slowly to a higher contribution; The second asks an initial contribution of between 5 % and 10 % which would rise quickly after the first year to one of between 20 % and 25 %. On the eve of the first meeting between representatives of the Six and Britain in 1971, the Council of Ministers could not agree over which of the Commission's proposals to adopt, however, the Ministers treated the British proposal as unrealistic. The Six may decide to grant Britain a "corrective" period of three years in addition to a transition period of five years to adapt to a Common Market role.

STERLING HITS NEW HIGH

LONDON – Sterling closed on February 1 a mere 0.16 cents under its official $2.4200 ceiling. The pound remained well above parity throughout January but the February 1 closing was the highest since devaluation in 1967. Much of sterling's strength can be attributed to Britain's high discount rate and to speculators who are buying pounds on the hunch that the rate will soon come down. Overnight sterling borrowers – most hold long-term investment positions on UK money markets – are currently willing to pay up to 15 % for use of the currency.

GLUT OF NEW EUROBOND ISSUES

LONDON – The Republic of Ireland and GUS International NV. will each float a $25 million Eurobond issue, bringing the total of new offerings in 1971 to $200 million, a sum that the market may find difficult absorbing. The spate of new issues has depressed Eurobond interest rates and increased fears of a collapse in the secondary market. The declining rates, however, have convinced more and more firms to seek cash through Eurobonds, making it improbable that the number of firms presently coming to the market will decline.

WEST GERMANY REPORTS HEFTY BALANCE OF PAYMENTS SURPLUS IN 1970

FRANKFURT – The West German balance of payments in 1970 shifted dramatically into surplus after a $2.8 billion deficit in 1969, prompting speculation that the D-mark may again have to be revalued. Most experts thought that the 1969 deficit was a deliberate move on the part of the West German Government – which encouraged low-interest foreign borrowings on West German capital markets as a way of reducing reserves – to prevent a parity change. The 1970 surplus of $5.98 probably reflects more accurately the strength of the West German economy. Short-term capital flows were in surplus by almost $3.8 billion. Funds began flowing into the Federal Republic last September, attracted by high interest rates which the Government is using as one means of fighting inflation.

ITALIAN DEBT EQUAL TO ONE–HALF OF INCOME

ROME – Italy's public debt – including federal, state, and local obligations – now totals $52.8 billion, roughly equal to one-half of the country's expected net income for 1971. Following publication of the figure, Italian Treasury Minister Ferrari Agradi urged the Government to reduce its borrowings – and adopt a debt ceiling of $4.2 billion for this year. Agradi insisted that continued heavy Government borrowing on Italy's capital markets could provoke a shortage of funds for industrial investment.

FRENCH AUTOMAKERS RACKED UP BIG GAINS IN 1970.....

PARIS – The French automobile manufacturers association has reported that French automakers produced a record 2.75 million units in 1970, including 2.46 million private cars. Exports at 1.53 million units also topped previous years. Imports of cars into France declined in 1970 to 310,200 – from 361,756 in 1969 – a significant boost for France's balance of payments.

.....INCREASED SALES IN WEST GERMANY TOO

FRANKFURT – West German automakers produced 3.5 million cars last year, a boost of 6 % over 1969. New car registrations in the Federal Republic topped the 2 million mark – a precedent. Volkswagen maintained its position as not only the biggest West German auto exporter but also the most successful seller to the domestic market. The big surprise in the figures released by the Federation of West German Automobile Manufacturers was the increased share of the domestic market that went to French car makers. France's Renault increased its West German sales by 31.3 % to become the leading car importer in the Federal Republic. Simca's sales rose by 37.4 % to gain third place. Peugeot sold 39.7 % more and Citroen 24 % more cars in Germany in 1970 than in 1969.

BEA STRIKE OVER.....

LONDON – British European Airways (BEA) reported that 90 % of its flights have resumed normal schedules, following the return to work (after a four-day walkout) of some 25,000 maintenance men. To coax the strikers back to work, BEA promised to rehire 25 men – fired for observing a union-ordered work slowdown – and reopen wage discussions. The maintenance men are seeking a 12 % pay hike; so far BEA has only agreed to one of 4 1/2 %.

.....POSTAL WORKERS' WALKOUT CONTINUES

LONDON – London businessman John Bull has announced the formation of a private postal service which will incorporate some 15 other private postal firms – formed to handle mail deliveries during the current British postal workers strike. Bull's service promises delivery of letters within a 24-hour period for a charge of six cents. The latest effort to end the 21-day-old British postal strike failed, following the refusal of postal workers to accept less than a 15 % pay hike and the Post Office to offer more than an 8 % rise. Government mediators had called both sides to a meeting in the hopes of resolving the dispute. However, the discussion lasted barely an hour before breaking up. The postal workers union has promised to continue the strike for at least another week and to try to extend it to ship-to-shore radio operators.

FRENCH POSTMEN STRIKE TOO

PARIS – French postal workers began a four-day walkout on February 3 to protest Government inspired Post Office reforms. The unions fear that the Government plans to turn many postal services – especially telecom-

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munications services – over to private groups. The normal union strike tactic is to call out only a small percentage of France's postal workers – usually workers in some specific branch. The action slows mail deliveries but does not halt them completely. The walkout which began on February 3, however, was of all of France's postal workers; a move which will not only shut down completely all mail deliveries in France for four days but also could disturb distribution for weeks.

EUROPEAN NUCLEAR CONSORTIUM

FRANKFURT – West Germany's Kraftwerk Union and Britain's The Nuclear Power Group have submitted joint bids for three separate power projects in Brazil. The action may indicate that the two firms are nearing an agreement on formation of a European combine big enough to match the nuclear skills for the US's two giants, General Electric and Westinghouse Electric. Cooperation talks between the two firms began late last year. Kraftwerk Union is owned by Siemens and AEG.

MORGAN AFFILIATES SELL ITALIAN HOLDING

ROME – Morgan Guaranty International Finance Corp, Morgan Stanley and Co., and Morgan Grenfell and Co. have sold their interests – thought to total 32 % – in Euramerica, an Italian investment bank, to Finnat, another Italian investment bank. No details of the transaction have been released.

ACEC AND PHILIPS EXCHANGE HOLDINGS

BRUSSELS – ACEC (Ateliers de Constructions Electriques de Charleroi), a Belgian subsidiary of the US's Westinghouse Electric Corp., and Philips, the Netherland's biggest electrical firm, plan to exchange some of their Belgian holdings. Although complete details of the transaction remain sketchy, Belgian observers said that Philips will get the ACEC stake in Compagnie Belge de Radio et de Television and Les Compagnies Belges Reunis d'Eclairage – enough for complete control of both concerns – in return for Philips' 40 % interest in La Societe Elphiac. It is thought that Westinghouse wants control of Elphiac, which makes electro-thermal devices and has subsidiaries in West Germany and the UK, in order to strengthen its position on Europe's nuclear reactor markets.

NEW HOTEL FOR PARIS

PARIS – The five airlines and the five European banks which own the European Hotel Corporation (EHC) have asked Britain's Grand Metropolitan Hotels to help in formation of European Hotel Corporation France SA, a firm which will finance and build a 490-room hotel in the Paris suburb of Courbevoie. Paris lacks not only top-class tourist accomodations but also sites for new hotel construction. All new hotels must be built on the outskirts. Grand Metropolitan has been asked to stake 24.5 % of the new firm's $2 million initial capital and to operate the hotel once completed. EHC will provide 51 % of the needed funds and EHC's five airline owners – Swissair, BEA, BOAC, Lufthansa, and Alitalia – the last 24.5 %.

DASSAULT PLANS TO PRODUCE SHORT DISTANCE FALCON

PARIS – Avions Marcel Dassault is reportedly well advanced in its planning to produce a short distance version of the Falcon 20, a 14 passenger medium-range executive jet. Dassault hopes to sell the new craft – which would have a range of less than 900 miles – to feeder-airlines. The Falcon 20 – marketed by Pan Am in North America – has proved a great success. Dassault is best known for its Mirage fighter planes which were used by Israel during the Six Day Mid-East War.

SFE TO ADD ANOTHER PARTNER

BRUSSELS – The Banque de Bruxelles is expected to become the seventh partner in Societe Financiere Europeene (SFE), a multinational bank formed in 1967 to provide medium- and long-term finance to multinational companies. SFE will publish a balance sheet shortly showing a 1970 profit which amounts to 13 % of paid up capital. The six current members of the consortium are Dresdner Bank, Banque Nationale de Paris, Algemene Bank Nederland, Banca Nazionale del Lavoro, Barclays Bank and Bank of America.

PHILIPS TO RECEIVE BOOST FROM CABINET REQUEST

THE HAGUE – The Dutch cabinet has asked Government agencies in The Netherlands to order computers from domestic producers when possible. The request could prove to be a windfall for Philips, the giant Dutch electrical concern which recently started manufacturing computers. Before the cabinet's action, Philips had managed to convince only one official agency – the Post Office – to buy its machines.

ARBED EXPANDS

LUXEMBURG – Luxemburg's principal steel firm, ARBED, expects to spend some $500 million this year on plant and equipment. Most of the money has already been earmarked for expansion and improvement of existing facilities at Burbach in the Saar. ARBED's management recently warned stockholders that production costs could rise steeply in 1971, due to wage increases which have not been matched by productivity gains. Prices for the raw materials used by steel firms in the EEC are also rising.

NUCLEAR DATA BUYS DANISH INTEREST

COPENHAGEN – The US's Nuclear Data has announced plans to exchange some of its own shares for full control of Denmark's Selektrinic-Kolange, a medical equipment manufacturer. Nuclear Data produces electronic equipment – including computers – for medical research and presently has one subsidiary in Europe, Nuclear Data GmbH of Frankfurt.

SOCIETE GENERAL DE BELGIQUE TO INCREASE CAPITAL

BRUSSELS – Shareholders of Belgium's Societe Generale de Belgique will be called to an extraordinary general meeting soon to approve plans, calling for the creation of 186,000 new company shares plus an increase in the firm's capital to $100 million. Societe Generale holds interests in most of Belgium's largest companies.

ANDRE NOW CONTROLS MOST FRENCH SKI BOOT PRODUCTION

PARIS – Les Chaussures Andre, A French shoemaker, will gain control of 80 % of French ski boot production through acquisition of Heschung et Cie, France's second largest manufacturer of ski boots. Andre already controls the largest manufacturer – Trappeur.

BOURSE REPORT

LONDON – Equities firm despite low trading volume caused by postal strike; gilts irregular. **PARIS** – Most stocks rally after early week falls largely on Wall St. influences. **FRANKFURT** – Very irregular. **MILAN** – maintained in fairly active trading. **BRUSSELS** – Firm. **AMSTERDAM** – Local industries mainly irregular; plantations well maintained; shippings firm.

Common Market Reports

EUROMARKET NEWS

Issue No. 109 No. 154, February 16, 1971

Rolls-Royce's collapse could force others into bankruptcy

LONDON-- The Rolls-Royce bankruptcy means a potential loss to shareholders of nearly $600 million, and could force the collapse of several big Rolls subcontractors. Some prominent UK insurance groups that hold large amounts of Rolls' common stock could be in trouble. Prudential Assurance Co., London, owns $6.8 million at par value; Britannic Assurance, $1.9 million at par value. Much depends on what the British Government (which has acquired Rolls' essential assets) pays for the company's aircraft engine business, and whether the work on the RB-211 motor is continued. The RB-211 was responsible for Rolls' collapse. Costs for developing the engine were originally estimated at $156 million, but shot up to $314 million, forcing the company to report a net loss of $7.4 million for the first 24 weeks of 1970, and prompting a $144 million financial rescue operation last November. Government agencies provided most of the money then, but London banks also participated. It is believed that Rolls owes the bulk of its outstanding $89 million in bank loans to the Midland Bank and to Lloyds Bank. Rolls owes $149 million to some 100-odd UK companies.

"Hot Line" for EEC central bankers

BASEL -- Common Market central bankers plan to set up a "hot line" to ensure quick and accurate communications among all EEC central banks. The line will link foreign exchange trading desks and governors' offices, and five-way conversations will be possible. It is understood that the line will be used chiefly to coordinate foreign-exchange operations and to assure that the narrower margins of currency fluctuations among EEC currencies--once they come into effect--will be maintained.

Lorraine coal miners strike

PARIS -- Efforts on the part of management to restrict a strike by French coal miners to the Lorraine region have met with mixed success. Some stoppages have been reported in the Nord-Pas de Calais region, but in central France most men have stayed on their jobs. The immediate cause of the strike in Lorraine is the projected shutdown by the Government of the Faulquemont Pit by the end of 1973. The move is being made as part of an official effort to scale down French coal production to about 25 million tons by 1975. The CGT--France's largest and best-organized labor union, representing about 58% of Lorraine's coal miners--has called for walkouts by all of France's miners, in an effort to force the Government to change its overall coal production plans. CGT recently won a 6% wage boost for France's railway workers and is engaged in a show of force with the Government over pay raises in other nationalized industries. France's coal miners are presently undecided over whether to follow the CGT's strike call.

However, if they do, the CGT could well gain the power it needs to force changes not only in Government plans for the coal industry but in other nationalized industries as well.

Danes plan price controls

COPENHAGEN -- The Danish Government plans new price regulations when the current price freeze expires on March 1. Businesses in Denmark will be forbidden to pass on wage increases, but manufacturers may be permitted to pass on raw materials costs in the form of higher prices. The Government is examining proposals for a higher capital gains tax and limitations on dividend payments.

Boussac sells Dior holding to pay cotton debts

PARIS -- Marcel Boussac has sold 20% of his 50% holding in Parfums Dior to Moët et Chandon in order to earn $6.3 million to save his crumbling cotton empire. Boussac has been under increasing pressure from creditors to make good on the debts of his cotton companies, most of which have lost their traditional markets to more modern competitors. Late last year, Boussac ordered two of his firms--Geliot and Plainfaing--closed, and on February 2 asked the IDI (France's industrial development agency) to assist him in a vast reorganization of his complex. Boussac also commissioned Jacques Brunet, a former director of the Banque de France, to make a study of the group's problems. However, Boussac has refused to give Brunet access to many of the group's financial records and,on two occasions, to the group's plans. Because of Boussac's seignorial position and personality (he has been the sole shareholder in his cotton companies for nearly 50 years), facts on the firms are scarce. It is believed that the combine's 1969 turnover was $50 million, and that this fell by 10% in 1970. The firms' current debts could total $30 million. Moët et Chandon now holds a majority stake in Parfums Dior.

Swedish shipyard in financial trouble

STOCKHOLM -- Talks over liquidity trouble at Sweden's Gotaverken shipyard, between the yard's directors and representatives of Sweden's Ministry of Industry, will resume this week. Difficulties at the yard are a result of the large number of orders which were accepted in 1968 at a very low price, but which have turned out to be a big loss because of inflation. The Finance Ministry has told the yard it should force customers to pay 15% over the original price quoted. The Ministry is considering a request for some $50 million to enable the yard to not only meet short-term obligations but also pay for expansion projects.

Rubber plant for France

PARIS -- SOCABU (Société du Caoutchouc Butyl), a joint subsidiary of Esso Chemical Co. and Compagnie Française de Raffinage, has decided to proceed with plans to construct its second ethylene-propylene rubber plant in France. The unit envisioned will be located at Nôtre Dame de Gravenchon (near Le Havre) and will come on stream in early 1973 with an initial capacity of 30,000 tons per year. Production will be marketed by SOCABU's two parent companies.

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New Eurobond issue in works

BRUSSELS -- The Mortgage Bank of Finland is in the process of arranging a $15 million, 15-year Eurobond loan which will carry an 8.5% coupon, and be guaranteed by the Finnish Government.

Greyhound sells European transport interest

AMSTERDAM -- Greyhound Corporation has sold its Vavo-Greyhound subsidiary, formed after acquisition of the Vavo company in 1964, to the Dutch firm of T. Van Maanen, giving up European transport activities to concentrate on restaurant and tourist information services. Greyhound had bought Vavo in the hope of setting up an EEC-wide transport service, but the firm never owned more than one fleet of 25 buses. Currently, transport generates only 2% of Greyhound's European turnover annually.

Chromalloy in Italian move

MILAN -- Chromalloy Corporation,whose activities range from electronics to transport to heating, paid $2.5 million to acquire Venanzetti Vibrazioni, an Italian firm that makes metals handling equipment. Reportedly, Chromalloy intends to revamp Venanzetti into a holding company and use it to purchase other European interests. Chromalloy recently joined Belgium's Union Minière to form Cardionics S A, a Belgian concern which specializes in analyzing electrocardiograms by computer.

French computer firm expands

PARIS -- France's Promodata, which specializes in the sale and lease of secondhand computers, will extend its network of foreign subsidiaries to Switzerland, where it will open Promodata AG in Zurich, with a starting capital of about $25,000. Promodata owns similar operations in Britain and West Germany. The firm is controlled by Loca-France, Europe's leading computer leasing firm.

Saudi Arabia places $8 million telephone order

STOCKHOLM -- Swedish communications equipment specialist E.M. Ericsson has agreed to sell $8 million worth of telephone equipment to Saudi Arabia,and to help install a new telephone network there. Reportedly, Ericsson will set up 24,000 new lines, a project which the firm hopes to complete in twenty months' time.

Beer counciling company formed

BRUSSELS -- Heineken International and Belgium's Interbra are to join forces on a 50-50 basis to form a new company that will provide a range of management and technical services to brewers and food distributors. The company, International Beverage Corporation, will have an initial capital of $800,000. Interbra, which is controlled by Compagnie Lambert pour l'Industrie et Finance, exports Belgian-made beer and soft drinks to Africa.

Spanish chemical firms to merge

MADRID -- Negotiations are in progress for a takeover by Union Explosivos Rio Tinto--Spain's largest chemical and mining company--of two Spanish chemical concerns, Abonos Sevilla and Explosivos Andaluces, and a Spanish potash mining firm, Potasas Victoria.

General Foods plans big expansion in France

PARIS-- General Foods France has chosen Rheims as the site for a $9.3 million confectionery plant, which will have a capacity of 27,000 tons per year by 1981. At least 5% of the necessary finance will be supplied by the French Government. The plant will double General Foods' present manufacturing capacity in France. The firm is France's leading confectioner and holds 14% of the current market.

AKZO expands in West Germany

AMSTERDAM -- The Netherlands' giant AKZO chemical group has acquired a large holding in Thieman GmbH,a West German manufacturer of pharmaceutical products. AKZO recently signed an agreement with West Germany's most prestigious maker of auto equipment, Robert Bosch, that calls for a pooling of the firm's know-how on the protection and treatment of surfaces. A joint subsidiary, Resicoat GmbH, will manufacture and market any products that result from the cooperation.

Olympia helps set up Yugoslav firm; will get production

FRANKFURT -- West Germany's Olympia Werk will give Yugoslavia's Unis (a state-controlled metallurgical group) the know-how and $3.8 million in finance for construction of a typewriter factory near Zagreb. Production at the plant will begin in 1972, and most of the output will go to Olympia.

Unilever acquires Inbouw

AMSTERDAM--Unilever NV has acquired all of the capital of The Netherlands' Inbouw, a firm that produces machines for cleaning factory floors. Inbouw was a direct competitor of Viruly NV, a Unilever subsidiary.

IBP seeks French markets

PARIS -- Through its French subsidiary, Italy's IBP (Industrie Buitoni Perugina) has acquired Corbez Lecointe, a French manufacturer of ready-cooked meat dishes. Corbez Lecointe has an annual turnover of $3 million, and IBP hopes to use the firm as a base for expansion in France's prepared meals market, currently dominated by Lesieur-Cotelle and Gervais-Danone.

Bourse report

LONDON -- Market extremely nervous awaiting Rolls-Royce developments. Equities fall on heavy selling; gilts up to 1/4 lower. PARIS -- Narrowly mixed. FRANKFURT -- Firm, in quiet trading. MILAN -- Mixed, with volume greatly reduced by stockbrokers' strike. BRUSSELS -- Generally higher; golds and coppers very firm. AMSTERDAM -- Most shippings and plantations lower; industrials trending higher.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.

Common Market Reports
EUROMARKET NEWS

Issue No. 110 February 23, 1971

RB-211 future still in doubt

LONDON -- Lockheed chairman Daniel Haughton is holding discussions on a possible new contract for the supply of Rolls-Royce RB-211 engines for the TriStar airbus. When Rolls-Royce declared bankruptcy,the continued development of the engine--and also the future of the TriStar--was thrown into doubt. The UK Government has kept work on the RB-211 going by agreeing to indemnify the Rolls receiver, Rupert Nicholson, for his costs until March 5. Nicholson has appealed to unsecured creditors to keep supplies of goods and services flowing. But some subcontractors and suppliers are worried that the receiver may pay only for goods received during the Government-guaranteed period and not for equipment received before Rolls declared bankruptcy, and are slowing their supplies to the company.

Lockheed financial and technical experts have been busy in the UK digging out facts to serve as the basis for a possible bid to save the engine project. U.S. Civil Aeronautics Board chairman Secor Brown has also made a visit. Although Lockheed has not committed itself to any revision of the RB-211 contract, British officials appear to believe that the U.S. aerospace firm soon will. Before making any contract suggestions, however, Lockheed technicians must ascertain whether the engine can meet performance specifications. So far,the RB-211 has demonstrated the required 40,000-lb. thrust only when operating at excessive temperatures. Rolls' technical director,Stanley Hooker,thinks that by changing the geometry of the RB-211's turbine blades, this thrust can be obtained at normal flight temperatures, but results of the change may not be available for weeks. Lockheed may have no choice but to depend on the RB-211. However,to continue to do so, it must accept a high degree of technical as well as financial risk.

The UK Ministry of Aviation is expected to announce the formation of a new company, probably to be called Rolls-Royce (1971), with a new board of directors, after which talks with the receiver over Government acquisition of some Rolls assets will begin. Because of the importance of the RB-211 project to Rolls' overall situation,the discussions will proceed no faster than talks on the future of the RB-211. Rolls-Royce stockholders have formed an informal committee to protect their interests. They have been told that work in progress at Rolls exceeded the value of claims on November 4, 1970. It is thought that unsecured creditors are owed some $192 million.

French mum on Rolls-SNECMA merger

PARIS -- French defense officials and managers at SNECMA have refused all comment in the wake of a suggestion by UK Air Minister Frederick Corfield that Rolls-Royce merge its aircraft engine division with SNECMA, France's largest aircraft engine producer. Corfield had appeared to imply that discussions on such a move had already taken place. SNECMA currently is cooperating with Britain's Olympus on development of an engine for the Concorde, the Anglo-French supersonic airliner.

Germans weigh Rolls' crash consequences

BONN -- Government officials are reviewing West German aerospace programs in the light of the Rolls-Royce crash. Only two projects seem seriously affected. Vereinigte Flugtechnische Werke has contracted for Rolls' M 45-H engine for use on its VFW 614 medium-range passenger jet, and delivery of two test models was expected this month. M 45-H development costs have risen to $75 million from $50 million;however,the Government has indicated that it will pay at least part of the difference. Company officials remain optimistic that development work on the engine will continue and that it will finally be produced in quantity. Rolls-Royce is developing--in cooperation with West Germany's Motoreunion and Italy's Fiat--an engine for the MRCA fighter plane, which from 1975 on will form the backbone of the West German air force. If this project is threatened, the West German Government will probably offer financial assistance to keep it going.

Rise in European oil prices expected

LONDON -- European oil prices are expected to rise as a result of a revenue agreement reached between major oil firms and the six Persian Gulf states of the OPEC (Organization of Petroleum Exporting Countries), which calls for an increase in the price of crude by 33 cents, to $2.15 per barrel. Oil firms have not yet decided whether to pass on the cost to consumers through a hike in the price of all refined oil products or through an increase in the price of selected products. There are dangers in both solutions. An across-the-board rise risks giving a serious boost to European inflation, but a hike in only the price of gasoline could set off a price war, since firms that rely on Nigerian rather than Persian Gulf supplies could offer lower prices. Many European governments are under pressure from industry to lower taxes on oil products whose prices are raised. In all, the new prices for Gulf crude will mean an increase of $233 million in UK and $263 million in West German outlays for oil in 1971. The effect on France's balance of payments cannot yet be calculated.

France relies heavily on Libya and Algeria for its oil supplies, and no agreement has yet been reached between oil firms and Mediterranean producers. The companies have all but agreed to pay a higher price for Mediterranean crude than for Gulf crude because of transport cost differences. France must conclude an arrangement with Algeria unilaterally. So far, talks have not gone well between the two, and the French are considering the possibility of buying all of their oil from the Gulf states.

Spanish GNP to grow

MADRID -- Minister of Development Laureano Lopez Rodo told Spaniards via national television that Spain's GNP would grow by 7% in 1971, and that private business investment would increase rapidly in the wake of a Government decision to relax credit restrictions. Lopez Rodo's view was almost the same as that of the OECD, which recently published an analysis of

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Spain's economy as well as predictions for growth. The two outlooks differed over the role of public spending. Lopez Rodo said that the Government would expand its investment considerably;the OECD has stated that all Government expenditure should be held in check.

Sweden ups spending on environment

STOCKHOLM -- Sweden is to increase spending for environmental protection by 16% this year, to $70 million, and most of the new funds are to go for municipal water treatment projects. The Swedish Government aims to provide all townships and 50% of the urban areas with satisfactory waste water treatment facilities by 1975. The Government will also partially subsidize efforts by the Swedish pulp and paper industry to adjust plant and equipment to conform to recent pollution control legislation.

Italian auto firms lay off workers

TURIN -- Due to a shortage of plastic parts, Italian auto makers Fiat and Lancia, and body manufacturer Pininfarina, last week laid off some 45,000 workers for three days. The shortages are caused by strikes in Italy's plastics industries. Without the parts,autos cannot leave assembly areas, and production has ground to a halt for lack of storage space. The three major Italian labor unions have called for a general strike to protest the auto makers' action.

West German wages, production up; Bundesbank to hold discount rate

BONN -- Wages in West Germany, which rose by 14% in December, will keep on growing--possibly by 12% or 13% during the first quarter of 1971--according to the Bundesbank. In its February report, the Bundesbank warned that a slack in industrial investment could develop if the trend continues. No such slack has yet been apparent. New orders in industry have risen during each of the past three months, reflecting increased domestic demand. More and more West German buyers of capital goods, however, are turning to imports, because of rises in West German prices (up by an average 3.8% in January 1971, over January 1970). The Bundesbank says that it plans to keep credit tight until the rate of wage and production increase slows.

The Bank meets soon to consider current credit policy in the light of U.S. prime rate changes. The West German discount rate was last cut to 6% in November. Interest rates on West German capital markets fell about 1% in December, to 7.7%. Officials fear new inflows of foreign capital but are hoping to wait one more month before announcing another discount rate cut --probably 1/2%.

Pound at ceiling, but present discount rate to remain

LONDON -- Despite heavy buying by the Bank of England, sterling continued to press up against its $2.42 ceiling, in response to very strong short-term demand coming from speculators who are betting that the British discount rate will be lowered soon. Forward sterling rates have increased sharply, too, with the three-month rate rising on February 16 to 4.3% per annum. The Bank of England, however,will probably take no action to lower the UK discount rate unless the West German Bundesbank decides to lower the West German discount rate. Prime rate decreases in the U.S. and Canada, however, are making both countries' rates look more and more out of line.

Dutch workers to get salary rise

THE HAGUE -- The Dutch Employers Confederation plans to advise its members to grant workers a wage increase of 4% by the middle of this year. The increase would give workers a real increase of 2% in their current take-home pay, but remain within restraint policies urged by the Government.

January surplus for French balance of payments

PARIS -- French trade was $5.3 million in surplus in January, with exports growing by 12% and imports by 4% over January of last year. The results were the first issued following a Finance Ministry decision to end distinctions between trade inside and outside the franc zone, and to make calculations on an f.o.b. basis only.

General Foods in Swedish move

STOCKHOLM -- The Swedish subsidiary of the U.S.'s General Foods Corporation is to buy all of the shares of Engwall and Co., Sweden's largest coffee firm. The purchase will give General Foods control of two Engwall subsidiaries, Gavaliarosteriet and Kockens, which produce consumer food products. Engwall, which markets coffee under the brand name of Gavalia, holds about 30% of the Swedish coffee market; General Foods controls about 10%. Engwall has an issued share capital of nearly $1 million, and reported total sales of $51 million in 1970. General Foods will pay about $11 million for the purchase.

Banque de France attempts to halt heavy CIC share purchases

PARIS -- Compagnie Financière de Suez and Compagnie Financière de Paris et des Pays-Bas (Paribas) have reportedly agreed under Banque de France pressure not to buy any blocks of shares of Crédit Industriel et Commercial (CIC) which have built up in the past three years. Suez and Paribas have waged a long fight for control of CIC, and in the course of open market operations are believed to have bought respectively a 40% and 30% stake in the firm. Recently, heavy buying of CIC shares pushed the Bourse quote from $55 to $70 per share.

Salamander to close two West German plants

FRANKFURT -- West Germany's Salamander Company, Europe's largest shoemaker, has ordered two of its West German plants closed in a reorganization effort aimed at decentralizing production and moving it abroad. Currently, Salamander operates 52 plants in West Germany, but only 3 in France and one in Italy. Most of the 400 workers affected will be transferred to other plants in West Germany.

Bourse report

LONDON -- Trending upward, despite continued Post Office strike. Rolls-Royce gains, largely on American buying. PARIS -- Some profit-taking. Market uncertain ahead of French-Algerian oil negotiations. FRANKFURT -- Very firm in active trading. Leading electricals up by nearly $3; retailers gain $2. AMSTERDAM -- All sectors higher in active end-account trading. BRUSSELS -- Firm. AMSTERDAM -- Plantations and shippings narrowly mixed. Local industrials fall back on profit-taking after early-week rise.

Common Market Reports

EUROMARKET NEWS

Issue No. 111 No. 155, March 3, 1971

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Britain gives go-ahead for discussions on capital movements

BRUSSELS -- At their latest meeting on EEC entry, negotiators for Britain told negotiators for the Six that the UK is ready to start talks on the freeing of capital movements between the UK and the Community. Britain's position had been that such discussions could start only when the UK was a full Community member. The British are ready to liberalize capital flows by stages, but they do not want a detailed timetable with specific dates set for moves. The UK thinks that it can make the necessary changes by the end of the five-year transitional period.

The Six have confirmed an understanding reached earlier with the UK that the British contribution to the European Investment Bank (EIB) should be $300 million, the same amount that France and West Germany pay. Further negotiations will be needed, however, over the mode of British payments to the EIB. The Community has suggested a cash payment of one-fifth of the sum within the UK's first two months of Common Market membership. The Six have also made detailed tariff quota proposals, which fall far short of what Britain had asked, on phosphorus, plywood, lead, and zinc.

Government hopes to curb powers of Germany's 3 biggest banks

FRANKFURT -- The West German Government is studying legislation in an effort to increase the authority of the country's Monopolies Commission and decrease the power of West Germany's three biggest banks. Under present law, banks may combine the operations of a commercial bank, an investment bank, and a stock brokerage. The setup has permitted West Germany's three biggest banks -- Deutsche Bank, Dresdner Bank, and Commerzbank -- to acquire important prerogatives in stock markets, and immense powers over West German businesses. It is thought that the three banks control the stock of over half of West Germany's fifty largest industrial corporations. The Government would like to foster more competition among credit organizations and open up stock market dealings. The banks are so deeply entrenched, however, that reform is expected to be difficult.

Lockheed and UK Government to resume RB-211 talks

LONDON -- Further talks between the UK Government and Lockheed Aircraft Corporation over a possible new contract for the supply of Rolls-Royce RB-211 engines for the TriStar airbus are expected this month. Rolls-Royce declared bankruptcy early in February, throwing continued development of the engine, and also the future of the TriStar, into considerable doubt. The British Government has been empowered by Parliament to take over the essential assets of Rolls, and is expected to announce its plans for nationalization of the firm soon. Lockheed chairman Daniel Haughton and British Government officials have met to try to find a way to continue production of the engine, but under contract terms more favorable to Rolls-

Royce. It appears that not enough financial and technical facts were available to allow the two parties to come to a decision. Time (in this case) may be on Lockheed's side. Government officials are beginning to suspect that Rolls-Royce was at fault in its original low bid, and are now worried over the possible effect that discontinuation of the project would have on Britain's air industry. Britain's Department of Employment has reported that 12,000 employees at 25 factories which supply components to Rolls are presently working half-shifts. At least 5,000 employees at the same plants have been laid off. If the RB-211 were to be discontinued, the shock waves from such a move could also easily affect the Concorde, the Anglo-French supersonic aircraft project.

Trade Indemnity, Britain's leading credit insurance group, will be one of those hardest hit by the Rolls collapse. The continuing UK postal strike has made the task of tallying Trade Indemnity's exact liabilities difficult, but the firm has already informed its largest customers that its losses will be substantial. Meanwhile, Trade Indemnity shares dropped to a two-year low.

Heavy rush of dollars into West Germany

FRANKFURT -- The Bundesbank bought an estimated $500 million on Frankfurt money markets in the week of February 16 - 22, in an effort to keep the dollar off its D-mark floor. The Bank's heaviest intervention came on February 22, when it bought some $250 - $350 million. Dealers attribute the large dollar influx to U.S. - West German interest rate differentials and poor German domestic liquidity.

Sterling continues to press strongly against its dollar ceiling, although at least some of the speculative pressures which the pound faced last week seem to have abated. The Italian lira has shown the firmest tone of any European currency.

Price of gold to rise

LONDON -- In a recently published report, Samuel Montagu and Co., one of the five firms that operate the London gold market, states that U.S. payments deficits plus accumulation of dollars by central banks will place a very serious strain on the world's monetary system this year. Montagu predicts that the free-market gold price could rise to $40 during 1971.

More labor troubles for Italy

ROME --Labor leaders in Italy appear to be maneuvering their unions toward strikes on the scale of those of autumn, 1969. They plan to use the government's ill-understood plans for fiscal reform as an issue for big walkouts in the spring. The unions are currently testing their power over Italian industry. At the moment, Italy's plastics industry has virtually stopped production because of walkouts. Italian auto makers Fiat and Lancia -- constantly hit by small labor disputes -- laid off some 41,000 workers for three days recently, because of strikes at components suppliers. Fiat and Lancia have agreed to pay the locked-out men 66% of their normal salaries for the time that they were off work, but union leaders have decided to strike the auto makers' plants unless they pay 100%. Out of 400,000 Italian textile workers, 93,000 are currently engaged in slowing down production to protest the recent layoff of 4,000 of their co-workers.

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Unemployment worries France, Italy, UK

PARIS -- Current unemployment trends are worrying officials in several European countries. Last December, the French Government promised labor leaders that more jobs would be created and unemployment cut early in 1971. The numbers of French jobless rose by 4.4% in January, however. French officials are determined to move quickly to make sure that last year's 41% rise in unemployment is not repeated again this year. January was the month, nevertheless, when French economists thought that the number of jobless would begin to be cut. Italy's Department of Labor has detected an alarming rate of increase of unemployment among Italy's young. In a report to the EEC Commission, the agency states that at least 10% of Italians aged 14 to 29 years are currently out of work, and that the rate continues to rise despite an overall fall in the number of employable young persons. The agency's figures are based only on persons who have registered with the Government as actively seeking jobs. West Germany's problem, on the other hand, is one of a shrinking labor market. West German firms are actively recruiting workers in Britain in order to fill their needs. Unemployment in Britain is probably far more serious a problem than even in France and Italy. The number of jobless rose by 31,000 in the UK since the beginning of January, and at the moment, a record 721,000 in the UK are out of work. The British Government has announced special measures in an effort to bring down unemployment in some of the worst-hit sections of the country.

Commission urges Common Market in pharmaceuticals

BRUSSELS -- The EEC Commission plans to attempt once more to convince the Six to establish a true Common Market in pharmaceutical products. In September, 1969, the Commission warned Member States to end restrictions on each other's pharmaceuticals under pain of prosecution in Community courts. Controls have continued, however, and France appears to enforce the strictest restrictions. Despite the fact that West Germany is the world's biggest exporter of pharmaceuticals, few West German medicines are found on French markets. The Commission will reveal new measures designed to open up the Six's pharmaceuticals markets soon.

French airlines halt service

PARIS -- France's three major airlines, Air France, Air Inter, and Union des Transports Aériens, have locked out their flight crews and suspended all flights in an effort to force pilots, navigators, and flight engineers to forego claims for more pay and changed working conditions. The action follows a three-day walkout by the flight crews. The flight crews have asked that existing differentials between their pay levels and those of ground staff be maintained. The claim, if allowed, could force the airlines' costs up by 20% this year.

Ford cancels UK plant plans; cites labor problems

LONDON --British Ford says that it has advised its U.S. parent firm not to build a $72-million auto engine plant in the UK because of Britain's present labor problems. Spokesmen at the company insist that the project was slated for Britain. UK labor leaders, however, thought that the decision was announced in order to frighten unions into reducing their wage demands, and ending a strike at the company. Some 48,000 workers have been on strike for the past three weeks at UK Ford, and the firm has lost production of an estimated 49,000 vehicles. The engine project is now likely to be located in West Germany.

Richier license for Ford?

PARIS -- Richier, France's largest producer of construction equipment, and the U.S.'s Ford Motor Company are discussing license arrangements under which Ford would be permitted to manufacture and distribute some Richier products. Richier earned 38% of its estimated $170 million turnover last year through exports,mostly tower and mobile cranes. The firm has 10 plants in France, and has license arrangements with 10 groups abroad, including West Germany's Demag, Britain's Holman, and Italy's Loro and Parisini.

Two big West German banks to cooperate

FRANKFURT -- Two of West Germany's top ten banks, Dresdner Bank and Bayerische Hypotheken- und-Wechsel Bank, reportedly have signed a wide-ranging cooperation agreement. Dresdner's business volume totals some $5.5 billion; Bayernhypo's, nearly $4.5 billion. Dresdner has extensive international links, while Bayernhypo has remained largely a German -- even Bavarian -- bank.

Beecham expands in U.S.

LONDON --The UK's Beecham is to spend $68.4 million in a major move to expand its U.S. interests. Nearly $53 million of the outlay will be used to acquire control of S.E. Massengill, a Tennessee-based pharmaceutical company, which will be integrated into Beecham, Inc., a 90% - owned U.S. subsidiary of the UK firm. The rest of the money will be used to bid for the remaining 10% of Beecham, Inc., stock. Through the acquisition, UK Beecham hopes to gain a much stronger base for its U.S. operations. The UK's Midland Bank is to provide the necessary finance on a short-term basis. Beecham's may raise the long-term capital required within the U.S.

Babcock Fives plans new nuclear boiler plant

PARIS -- France's Babcock Fives plans to build a $24 million plant near Saint-Nazaire for producing nuclear reaction chambers. The firm reportedly is hoping to convince other firms, both French and foreign,to make up a consortium to help operate the plant,although Babcock will retain control. One possible candidate for the consortium is France's Creusot-Loire.

Bourse report

LONDON -- Trading in equities very cautious over fears of more stock brokerage suspensions. Gilts post modest gains. PARIS -- Narrowly mixed,volume slightly reduced due mainly to possibility of more bourse strikes. FRANKFURT -- Firm. MILAN -- Most sectors very firm. BRUSSELS -- Most issues lose ground. AMSTERDAM -- Local industrials mainly firm; plantations and shippings narrowly mixed.

EUROMARKET NEWS

Common Market Reports
EUROMARKET NEWS

Issue No. 112 March 9, 1971

Big gains for UK reserves; domestic business climate gloomy

LONDON-- Some $720 million in foreign funds poured into the UK last month, adding $192 million to gold and currency reserves, and enabling Britain to pay off the balance of its overseas debt to central banks. The inflow appears to have been stimulated mainly by the UK's high interest rates. Indeed, most of the incoming funds appear to have been invested in gilts, a holding that would guarantee a quick profit should the UK change its discount rate. Sterling has remained strong in exchange markets, and the Bank of England appears to have pegged the pound's rate at $2.4193 and has taken in funds to prevent any movement upward.

In contrast to the UK's external financial position, domestic business prospects are gloomy. Share prices on the London bourse have tumbled to four-year lows, reflecting grave investor doubts over the profit potential of many of Britain's major corporations. Profits were under pressure at many UK firms even before the current round of bankruptcies and strikes began. Last year, workers won large wage increases--and are in the process of demanding even bigger hikes--with the companies receiving little guarantee of gains in output in return. Many UK firms are short not only on profit but also on capital, and because current returns on capital investment are so low, little new investment is being undertaken at present rates of interest. Rather than expand, most British firms are cutting back on both production and employment. Giant Imperial Chemical Industries has announced that it plans to hold new spending to less than $240 million this year. British Ford is preparing an announcement of cuts in the production of components.

Unions say Colombo will be out by spring

ROME -- Predictions by Italian labor leaders that Premier Emilio Colombo will be forced to resign by spring are being taken more and more seriously here. Even though Colombo won a vote of confidence from the Italian Parliament last week, pressure has come not only from opposition groups but also from within his own cabinet. Most of the disputes involve Italy's continuing social problems, which Colombo's detractors charge has brought about a resurgence of neo-Fascism in Italy. If Colombo remains in power, Italian labor unions plan to stage big strikes in the spring. The chief issue in the strikes will be the Government's plans for reform of Italy's fiscal system. Paradoxically, the unions originally backed the Government on this issue; now, they have decided that they can use it to reap large political gains. Currently, the labor unions are Italy's strongest and best organized political action group.

Borten out in Norway

OSLO -- The dispute that has been simmering within Norway's coalition Government over the country's possible entry into the Common Market has resulted in the ouster of Premier Per Borten. The opposition Labor party and three of the coalition Government's four member parties are firmly in favor of EEC membership for Norway. Only Borten and his Centrist party are opposed. Borten recently admitted that he has been responsible for the publication of a confidential report from the Community to the Norwegian Government that threatened veto of Norway's bid if the country insisted upon heavy protection for its agriculture and fisheries.

French announce oil price hikes

PARIS -- Citing the recent agreement between international oil firms and Persian Gulf countries over rises in the price of crude oil as responsible,the French Finance Ministry has announced increases that will push the price of French gasoline up to 21.4 cents per liter and the cost of industrial heavy fuel up 6%. The Finance Ministry also warned that because of the uncertain outcome of France's negotiations for Libyan and Algerian oil, the hikes were not definitive, and that new increases could be announced soon.

Algeria announced on February 24 that it was taking over 51% of the interests of French oil companies in Algeria. The move followed a break in talks between France and Algeria on a new oil agreement without any clear sign of resumption. Principally, it affected the holdings of Compagnie Française des Pétroles and Elf-Erap. The French Government has indicated that it will break with former policy and treat Franco-Algerian oil discussions in the framework of other trade agreements between the two countries. (France is responsible for almost 80% of Algeria's current export trade.) Whether France continues to buy Algerian oil--and to accept other Algerian exports--will depend on the indemnity that Algeria agrees to pay for the appropriated holdings. The French oil stake in Algeria is usually estimated to be $500 million; however,French officials have publicly stated that France would expect to be paid a much higher figure,because of the rights of its companies to untapped reserves.

Prices up in Belgium

BRUSSELS -- Belgium's consumer price index climbed to 116.74 (on a 1966 base of 100) in February. It stood at 115.83 in January. Most of the 1.51% rise in the index since the beginning of 1971 is due to Belgium's newly introduced value-added tax.

Schiller says foreigners make Bundesbank's job tough

FRANKFURT -- West German Economics Minister Karl Schiller told journalists at the opening of Frankfurt's Spring Fair that the Bundesbank is unable to plan long-term domestic credit policies because of the credit moves currently being made by other countries. West Germany's present discount rate --which at 6% is one of the highest among Western countries--has continued to attract large amounts of foreign funds, making Bundesbank efforts to stabilize West German monetary policy difficult. Schiller promised that the

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Bundesbank would continue to restrict domestic credit, and claimed success for Government efforts aimed at stabilizing West Germany's economy. One indication of the seriousness of the inflation in West Germany last year came with chemical giant Farbenfabriken Bayer's profit report for 1970. Profits at Bayer slid by 25.6% last year despite a rise of 8.7% in the firm's revenues. Bayer cited labor costs as the reason for the 34% dive in its net for the third quarter.

Six to offer Britain 4-1/2 year transitional period for agriculture

BRUSSELS -- Foreign ministers of the Six have agreed to offer Britain a four-and-one-half year period in which to adjust UK farm prices to those of the Community. Britain has traditionally maintained its farm prices at or near world levels,and the cost to the UK economy and to UK consumers of British adoption of the EEC's higher farm prices has been one of the chief stumbling blocks to British entry into the Common Market. British negotiators had said that the UK wanted at least six years within which to make the transition. Their statements may have been intended for UK public opinion, however, which is largely against Community entry because of the rise in food prices that memberhsip would entail. The Six will present the offer to Britain at the next negotiating session on March 16, and the UK is expected to accept it. Because of France's insistence on a formal presentation to Britain of a common Community viewpoint of each problem raised by the UK bid, the pace of the negotiations has slowed. To date, the Six have been unable to agree on a common position on UK payments to the Community budget.

UK's largest auto insurance firm collapses

LONDON -- Some half-million UK drivers found themselves without insurance, following the collapse of Britain's largest auto insurance company,Vehicle and General. The British Insurance Association estimated that the failure could cost the industry up to $12 million. Vehicle and General's shares had been under pressure for some months on the London bourse, and just before a liquidation announcement by the firm's directors fell by $0.456, to $0.384--an all-time low. Vehicle and General's largest shareholder is, according to accounts published in 1969,the Life and Casualty Insurance Company of Tennessee.

Bank of America in two European moves

PARIS -- Bank of America has announced plans for two joint European ventures,in each of which it will combine its resources with the expertise of a European banking house to form an investment bank. One of the ventures is to be Ameribas, a Luxembourg operation capitalized at $24 million and set up in cooperation with France's Banque de Paris et des Pays-Bas. Bank of America will hold a 60% stake in the firm. The second venture is to be Bank of America Ltd., which will also be capitalized at $24 million, but set up in London with the aid of Britain's Kleinwort, Benson Ltd. Bank of America's holding in this operation will be 75%. The two new investment banks are expected to be operated separately, although they may undertake some projects jointly. Both of the operations will receive an initial capital of $6 million.

Possible Burmah-Continental merger

LONDON -- Discussions are in progress between the UK's Burmah Oil and the U.S.'s Continental Oil for merger of the two firms into one giant Anglo-

American combine. Such a move would require the approval of both the British and the American Governments. Another problem could be Burmah's 23% stake in British Petroleum (BP). Last year, a Burmah attempt to acquire a U.S. East Coast oil holding failed because of the BP link. Burmah has offered to cancel a portion of its BP interests in return for some BP oil and gas reserves and exploration acreage. BP has remained cool to the proposal, however. If the discussions succeed and the two firms are permitted to merge,Continental's plans to expand outside the U.S. would get a boost, and Burmah would receive the extra production strength it needs. The new company would be set up on a 50-50 basis, with headquarters in the U.S.

<u>B and W to sell diesel-engine company</u>

COPENHAGEN -- In a surprise move, Burmeister and Wain (B and W), Denmark's second largest shipbuilder,is to sell its profit-making diesel-engine company, to gain the capital necessary to keep its loss-making shipbuilding operations from liquidation. Last month, B and W split off its diesel-engine division into a separate firm, to protect the operations from losses incurred through shipbuilding. An independent research team estimated that the shipyard would need almost $43 million over the next five years if it was to remain open. A three-month $17 million Government-guaranteed loan that B and W received to tide it through liquidity troubles expires on March 15. Possible buyers for the diesel works include Danish shipping firms A. P. Moeler and the East Asiatic Company.

<u>Soviet bank for West Germany</u>

FRANKFURT -- Soviet officials have visited West Germany to gather information on the problems involved in setting up a bank. The operation would be a branch of the USSR's central bank. West German authorities expect to receive an official request to proceed with the project before the end of this summer.

<u>Peugeot-Renault in Greek auto-plant contract</u>

ATHENS-- French auto makers Peugeot and Renault have won out in their tussle with West Germany's Volkswagen for the right to build a 75,000 unit-per-year car plant in Greece. The facility will be controlled by the Greek Government, however. The French combine has agreed to guarantee that the plant will open in 1972, with an initial production capability of 15,000 units annually. Materials to be used for production will initially be imported from abroad, but Peugeot and Renault have told the Greeks that they will attempt to switch to Greek-made components in the future. In 1970, Greece spent some $40 million on auto imports. Currently, Ford and Fiat are the market leaders.

<u>Bourse report</u>

LONDON -- Equities flat on lack of buying interest. Gilts ease in quiet trading conditions. PARIS -- Most issues quietly resistant. FRANKFURT-- Leader stocks trending downward, often on technical factors. BRUSSELS -- Oils very active, other stocks mainly lower in overall dull trading conditions. MILAN -- Very irregular. AMSTERDAM -- Shippings well maintained. Local industries narrowly mixed. Plantations lower on profit-taking. Dutch State loans quietly mixed.

EUROMARKET NEWS

Common Market Reports

EUROMARKET NEWS

Issue No. 113 No. 156, March 16, 1971

Vesco wants IOS to drop mutual funds

GENEVA -- Robert Vesco, the newly named chairman of Investors Overseas Services, reportedly intends to radically reorganize IOS, dropping mutual funds and moving into banking and real estate operations. Vesco's plan involves the transfer of IOS's mutual-fund business to London-based IOS Insurance Holdings Ltd., the opening of IOS Insurance Holdings to outside investors, and a conversion of IOS Ltd., IOS's parent company in Canada, into a banking and real estate firm. The plan has already been revealed to key IOS stockholders. They have been asked to accept a reverse split--four shares for every ten held--with the understanding that the shares would eventually be converted into IOS Ltd. common stock and IOS Insurance Holdings debentures.

Vesco reportedly has maintained contacts with, and is still interested in IOS's purchase of, Gramco Management, Ltd., the firm that manages USIF Real Estate, an offshore real estate fund that suspended sales and redemptions last year.

Lockheed offered partnership on RB-211

LONDON -- Lockheed spokesmen here stress that, contrary to some reports, the U. S. aerospace firm has not yet decided to drop its plans for use of the RB-211 engine in its TriStar airbus. Most observers here, however, feel that Lockheed will have little choice but to drop the RB-211 following a complex proposal put forward by the British Government to save the engine. The Government has offered to invest an additional $114 million for RB-211 development, but on condition that Lockheed join it on a 50-50 basis in a new company that would manage the project, and share all profits or losses. It is thought that Lockheed--already in financial straits in the U. S. -- would find it hard to arrange the necessary financing. Lockheed would also find it difficult to accept what have been termed by British officials as the "cross-guarantees" in the Government's proposal. The UK has promised to continue producing the engine and spare parts throughout the life of the TriStar, but wants Lockheed to promise in return that it will continue to manufacture the plane. The Government has agreed to keep RB-211 production going pending a Lockheed decision.

New investment - tax deduction plan proposed in France

PARIS -- France's Finance Ministry is hoping to win Government backing for a plan that would promise Frenchmen income tax benefits on money used for long-term investment. Details of the Finance Ministry's plan remain to be worked out, but essentially it involves annual tax deductions of up to 12,000 francs (about $2,181) if the sums deducted have been invested for terms of five years and up. The chief aim of the plan is to create another source of finance for French economic development over the next five years.

A number of important French banks, led by Crédit Lyonnais, have lowered their prime rates by 0.25%. French Finance Minister Valéry Giscard d'Estaing had suggested such a move last month in order to bring French domestic rates more in line with those of international money markets. For the moment, France has also discarded the use of its discount rate as pace setter for domestic credit rates.

Spain hikes luxury taxes to help pay for social security

MADRID -- Spanish authorities have revealed that increased Government expenditures for social security, which are expected to rise by some $570 million by the end of this year, will be paid for partly by increased luxury taxes. The taxes levied on fine furs, timber, coconuts, fresh dates, pineapples, beer, soft drinks, high-quality wines, whiskey and brandy will be raised by 10% to 14%. The increases, when coupled with existing turnover taxes, could force the retail price of these products up by nearly 20%. Common Market wines will not be affected. Local businessmen have predicted that the new tax will sharply curtail Spanish imports of French brandy and Scotch whiskey.

1970 payments surplus largest ever for UK

LONDON -- Britain registered a $1.5 billion balance-of-payments surplus on current accounts in 1970 -- its biggest ever. In addition to the payments flow, $1.2 billion in capital and $377 million in unidentified transactions came into the UK last year. Surprisingly, even the traditionally deficit sector of visible trade showed a surplus--$7.2 million. The lion's share of the inflow -- $1.4 billion -- came from invisible trade. Britain also received $410 million from the International Monetary Fund as its share of Special Drawing Rights.

British Government asked to cut indirect taxes

LONDON -- The UK's National Institute for Social Research has asked the Government to trim indirect taxes by some $1.3 billion in order to reduce unemployment. In its annual review of the British economy, the Institute predicts that unless the Government takes some reflationary steps soon, total UK economic output will grow by only 1.1% between the fourth quarters of 1970 and 1971. Such stagnation could push the number of British unemployed up to one million (about 4% of the total work force) by the end of this year. The Institute expects prices to continue to rise and to cut into the wage gains recently won by British workers. It predicts that consumer spending in the UK will grow by only one-half the 3% rate of 1970.

Commission appointed to investigate French bourse activities

PARIS -- French Finance Minister Valéry Giscard d'Estaing has appointed Rhône-Poulenc chairman Wilfred Baumgartner as head of a commission to study future growth of the French bourse. Part of the commission's task will be to determine how France's bourse can establish itself as a center for European investment (especially vis-à-vis the London Stock Market). It will also study ways of encouraging more private investments in French stocks. Giscard d'Estaing hopes that the commission's work will show what steps should be taken to reform existing laws regulating the conditions under which companies are permitted to buy and sell their own shares on the market.

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EEC central bank heads meet

BASEL -- Governors of the Common Market's central banks met here for two days to discuss the banking strategies that will be necessary once the Six begin to narrow the margins between their currencies. No date has yet been set for the first cut in fluctuation margins--to 0.65%--but the move is expected to be made before June. Under current market conditions, implementation of the first cut would not prove difficult. The weakness of the dollar on exchange markets has already narrowed the margins between EEC currencies and pushed them together at the top of the exchange spectrum. The Governors have carefully arranged communications systems, however (including "hot line" telephone links), to permit their quick intervention on markets should problems crop up. EEC central banks will also have special market managing teams.

Foreign joint ventures in Romania?

FRANKFURT -- Romanian officials are attempting to persuade BASF, Hoechst, Bayer, and Degussa to undertake important chemical projects in Romania. It is understood that the Romanians have told directors of the four firms that they are willing to allow joint ventures in which the companies would share on a 50-50 basis in the capital and profits of any operation. Up to now, foreign firms have been allowed only technical agreements in Romania.

INCO to get 49% stake in SAMIPAC

PARIS -- The French Government has unofficially agreed to allow Canada's International Nickel (INCO) to acquire a 49% holding in SAMIPAC, the firm that is INCO's majority partner in a joint nickel mining venture in New Caledonia (COFIMPAC). The New Caledonian veins are reputed to hold some 50,000 tons of copper, but the big French mineral firms, including Péchiney, have balked at providing the finance necessary for a successful operation. Nevertheless, the French Government has continued to count on the mine as a source for future French nickel supplies. INCO holds a 40% stake in COFIMPAC, and if it acquires a 49% interest in SAMIPAC, it could be held responsible for nearly 85% of COFIMPAC's total financial needs. The French Government has not yet decided whether it will permit INCO to hold its SAMIPAC stake indefinitely or on a short-term basis. Government officials have hinted that INCO's SAMIPAC holding may be bought out in six months' time by the IDI, France's industrial development agency.

Mokta - Le Nickel merger completed

PARIS -- Shareholders of Société Le Nickel have approved the acquisition of 94% of the capital of Compagnie Mokta through a share exchange. Mokta faced serious difficulties in the wake of the mergers of France's four top metallurgical firms--Le Nickel with Penarroya, and Péchiney with Ugine-Kuhlmann. With the addition of Mokta, Le Nickel-Penarroya will have a consolidated annual turnover of nearly $450 million.

Semperit buys West German chemical holding

VIENNA -- Through its West German subsidiary, Austria's Semperit tire group has acquired a 25% stake in Koepp & Co., a West German chemical producer. The shares acquired were those that belonged to the Koepp family. Reportedly, Semperit will seek to expand its stake through private bids to other large shareholders. Semperit and Koepp & Co. are to cooperate on a broad basis, starting first with the production of polyurethane foam. With Semperit's help, Koepp & Co. is to increase its current $1 million capital to $1.5 million soon.

Bowater-Reed merger called off

LONDON -- The UK's two largest paper-making concerns, Bowater Paper and Reed International, have canceled plans to form an integrated pulp and paper group. Bowater's interests are world-wide and include the largest existing newsprint mill (in Tennessee); Reed is Europe's leading paper producer. Merger talks between the two firms began in 1970, in response to Scandinavian and Canadian competition,but dragged on; finally, the proposed linkup was referred to Britain's Monopolies Commission. The two firms announced in a joint statement that the merger would not go through because of the impossibility of arranging mutually acceptable terms.

Agreement near on UK-Belgian insurance linkup

LONDON -- The month-old cooperation discussions between Britain's Commercial Union Assurance (CUA) and Belgium's Provinces Réunies appear likely to end in the takeover of Provinces Réunies by CUA. Such a move would give CUA,which is one of the UK's leading insurance groups and also well established in West Germany, the direct Belgian insurance holding that it has been seeking. Last year, CUA signed a cooperation agreement with La Royale Belge, another Belgian insurance concern,which did not involve an exchange of holdings. CUA will probably make a public buying offer for Provinces Réunies shares.

General Automation expands

FRANKFURT -- The U.S.'s General Automation, Inc., which specializes in the manufacture of small computers and automatic industrial control systems, has formed a sales and service subsidiary in West Germany, General Automation GmbH. Last year,General Automation acquired control of Era-Elektronische Rechenanlagen, a West German electronics group, and formed sales and service subsidiaries in Britain and Belgium.

French bourse battle

PARIS-- A heated battle has broken out on the French bourse for control of Unipol, a large French food products group. Two months ago, Unipol, which has an annual turnover of nearly $78 million, agreed to the acquisition of 34% of its stock by a rival food products group,Les Rizeries Indochinoises. The cooperation agreement that was signed was complex, and carried a clause (according to Unipol's management) restraining Rizeries Indochinoises from further acquisition of Unipol stock. At that time, the shares were trading at 150 francs (approximately $27.25); the week ending March 6, they were being quoted at 245 francs (approximately $44.55). Both firms have accused the other of a breach of faith, and as the one responsible for the flurry of buying. In the meantime, Rizeries Indochinoises appears to have decided to make an all-out bid for Unipol, and may have acquired the 51% of outstanding shares necessary for control.

Babcock Atlantique, Samifi to pool refrigeration resources

MILAN -- France's Babcock Atlantique and Italy's Samifi have agreed to all but merge their industrial refrigeration interests. The two firms are to form Samifi Babcock Samifi Internationale (SBS),a Paris-based holding company,to control production and marketing of their individual refrigeration products. SBS is expected to employ 450 people, and to have an initial annual turnover of $20 million.

Federal Mogul expands in Belgium

BRUSSELS -- Federal Mogul Corporation,the U.S.'s leading producer of anti-friction equipment,has subscribed the $1.6 million share capital--20% paid up--for a manufacturing subsidiary in Belgium. The new firm will initially produce ball bearings. Federal Mogul Corporation, which recently expanded operations in France, already has a marketing and sales subsidiary, Federal Mogul Benelux, in Belgium.

Onassis loses bid for Harland and Wolff

BELFAST -- Greek shipping magnate Aristotle Onassis has been temporarily thwarted in his bid for control of Harland and Wolff, Ltd.,following a decision by the Irish Government to grant the troubled shipyard $12 million in financial support. Harland and Wolff has been under direct Government management for the past several months. Onassis already owns a 26% stake in the firm. Britain's Swan Hunter group and Norwegian shipper Fred Olsen had entered rival bids for the company late last year, but dropped out in January. Most experts doubt that the yard will remain independent for long, but the Government appears reluctant to permit control to go to a foreigner.

DAF strengthens West German network

AMSTERDAM -- Dutch auto producer Van Doorne's Automobielfabrieken (DAF) has established a regional distributorship near Munich, in an effort to strengthen its sales capabilities in southern West Germany. DAF had been rumored as seeking a linkup with another European auto firm. However, company chairman W. A. V. Van Doorne has stated,in an interview with the West German newspaper Handelsblatt, that outside of a technical cooperation agreement with France's Renault, none appeared in sight. DAF hopes to increase its present production to 100,000 units annually by the end of 1972.

Montedison sets up central fiber marketing organization

MILAN -- Montecatini Edison plans to group the marketing, promotion, and sales activities of its three synthetic fiber subsidiaries (Chantillon, Polymer and Rhodiatoce), into a central marketing firm. The new organization will be called Sinteo, and its first task will be to cut down on duplication. Montedison's management also hopes that in time Sinteo will improve sales and expand the range of service to export markets of Montedison's fibers firms. Montedison shares are currently under pressure on the Milan bourse, not only because of recent management shakeups but also because of reports that the company will not pay a dividend for 1970 because of losses at its fibers and textiles firms last year.

Belgian bank takes over Lausanne bank

ZURICH -- Through subsidiaries, Belgium's Banque Lambert has acquired complete control of Switzerland's Banque Commerciale de Lausanne. Lambert has had an important stake in Banque Commerciale since 1968. Banque Commerciale's name is now to be changed to Banque Lambert (Suisse).

Ugine-Kuhlmann plans new French methanol operation

PARIS -- Ugine-Kuhlmann,one of France's leading metallurgical concerns, is to build a plant capable of producing 600 tons of methanol per day at Villers-Saint-Paul (north of Paris). The cost of the project has not been revealed. Ugine intends to give up its 40% stake in France's Société Methanol Lacq as soon as the new complex begins production. Société Azote et Produits Chimiques appears the most likely purchaser of the holding.

Cunard explores Chandris links

LONDON -- Chairman Basil Smallpeice has revealed that Cunard -- one of Britain's best-known shipping lines - plans to refit and modernize its passenger ships Carmania and Franconia in an effort to cut costs. Smallpeice hinted that Cunard was also exploring possible links with Greece's Chandris Line. The Queen Elizabeth is currently Cunard's only profit-making passenger ship.

Bourse report

LONDON -- Most leader stocks rise despite low trading volume. PARIS -- Well maintained in very active trading conditions. FRANKFURT -- Auto and engineering firms very firm; leading banks, electricals and chemicals lose ground. MILAN -- Most sectors lower under very quiet conditions. BRUSSELS -- Firm. AMSTERDAM -- Local industrials narrowly mixed, shippings and plantations mainly lower.

EUROMARKET NEWS

COMMERCE, CLEARING HOUSE, INC.

Common Market Reports
EUROMARKET NEWS

Issue No. 114 March 23, 1971

UK companies trim labor forces

LONDON -- British industry has begun to make dramatic cuts in its labor force in an effort to pare increased labor costs and raise productivity through reorganization. On March 12, five UK firms announced the dismissal of a total of 2,600 men. The action capped a week during which 19,000 workers lost jobs in UK aerospace, paper, toy, newspaper, steel and automobile components plants. The worst layoffs may be yet to come. For example, British Steel, which dismissed 2,500 men on March 11, warned 5,000 others that they could soon lose their jobs too. Many firms have drawn up plans for layoffs, but are delaying action until after the British budget is announced. The Rolls-Royce collapse and the UK postal strike can be expected to cause more bankruptcies and thus more dismissals. The UK's Trades Union Congress has pointed out that the pool of jobs in UK industry used by Government statisticians to calculate national output has shrunk by over 100,000 since December, and asked the Government to act quickly to spur greater industrial activity. It does not appear, however, that the Government is ready to ease its anti-inflation policies and aid general industrial expansion.

Bundesbank to cut West German discount rate

FRANKFURT -- The Bundesbank is expected to cut the West German discount rate at its next regular meeting, following the decision of leading U.S. banks to reduce their prime rates. Economics Minister Karl Schiller and Finance Minister Alex Moeller have announced that they will attend the meeting, an indication that an important decision is to be made. Bundesbank president Karl Klasen has publicly lifted his long-standing opposition to a cut, claiming that the objective of the high rate -- reduced demand in the West German economy -- has been attained. The West German discount rate, which has remained at 6% since a one-half point reduction last November, has been a target for short-term dollars. Two days before U.S. banks made prime rate cuts of up to 1/2%, the Bundesbank was forced to purchase some $660 million on foreign exchange markets to protect the D-mark's parity. It is thought that the Bundesbank has intervened even more heavily following the cuts. Foreign exchange dealers in London are attempting to weigh the effect that a reduction in West Germany's rate will have in Britain. The UK discount rate presently stands at 7%, and most experts have thought for some time that it would be forced down in the wake of a reduction of the West German rate. The UK Government, however, has displayed no interest in an easing of the cost of credit in Britain.

Continental Can subsidiary accused of EEC antitrust violation

BRUSSELS -- The Common Market Commission is preparing to take legal action against Europemballage, a wholly-owned subsidiary of the U.S.'s Continental Can Corp., for violation of Community antitrust statutes. The Commission says that, through a complicated series of market-sharing and price-fixing arrangements, Europemballage has broken EEC laws covering "the abuse of a dominant market position." Such laws have never been fully tested in Community courts, and the case involving Europemballage is likely to be long and complicated. The Commission has sent a list of grievances to the firm, and Europemballage now has one month within which to reply. The next step would be hearings before the European Court of Justice. One of the problems of the case will be the difficulty of establishing Europemballage's exact share of the EEC packaging market. Another will involve ascertaining if the act of holding a dominant market position is in itself an abuse of competition under Community law.

Barre says inflation, U. S. credit policies pose biggest EEC headaches

STRASBOURG -- Raymond Barre, Vice President of the Common Market Commission, has expressed his concern over Community economic prospects for 1971 and sharply criticized the United States for not acting to cure its balance-of-payments difficulties in his annual report to the European Parliament. Barre predicted that economic expansion in the EEC would be very moderate this year, with an increase in industrial production of only 4.2%. He stressed that inflation would remain a prime problem. Barre claimed that current price increases in the Community were due mainly to rising production costs rather than expanding demand. Estimating a dollar influx of some $2 billion into Community countries during the past two months, Barre insisted that current U.S. credit policies were frustrating efforts to follow coherent credit policies in several EEC countries. He attacked U. S. experts "who advocate a policy of 'benign neglect' for U.S. balance-of-payments problems" and asked the U.S. to finance the deficit by conventional methods instead of by unlimited and unconditional accumulations of dollar balances in the central banks of other countries.

Ruhrkohle in trouble

FRANKFURT -- Preliminary reports indicate that Ruhrkohle, the group that controls nearly 90% of production at West Germany's Ruhr coal pits, sustained losses of upwards of $35 million in 1970. The true figure will not be revealed until April 14, when the concern's board of directors meets. However, if the $35 million figure is confirmed, Ruhrkohle, under West German company law, would be obliged to file a public statement on the matter. That action could conceivably lead to the nationalization of the group by the West German Government. Ruhrkohle's difficulties began last year when workers won wage increases and the group, after a plea for higher subsidies was ignored by the Government, raised coal and coke prices. The price increases were not big enough to offset the higher labor costs but were big enough to drive off customers.

Leading French and German chemical firms cooperate on plant project

PARIS -- France's Rhône-Poulenc and West Germany's Farbenfabriken Bayer are to join to form a company that will construct and operate a $14.5 million chemical plant at Pont-de-Claix in France. The unit will produce MDI, a product used in the manufacture of rigid and elastic polyurethane foam. The process to be used at the plant is one developed by Bayer. Production will be marketed and profits shared on a 50-50 basis by the two firms. Rhône-Poulenc and Bayer have cooperated closely since 1966, when the two firms signed an agreement calling for joint research efforts in pharmaceuticals.

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Dow Corning bid for control of UK silicon market

LONDON -- If Dow Corning Corp. -- a joint subsidiary of Dow Chemical and Corning Glass -- succeeds in its bid to acquire the entire share capital of the UK's Midland Silicons Ltd., it would control nearly three-quarters of the UK market for silicons. Dow Corning has held a 40% stake in Midland since 1950. Now it has offered $8.4 million for the 60% Midland holding of Albright and Wilson Ltd. (a British chemical group), which needs funds to reduce debt and finance long-term projects. If the offer is accepted, Dow Corning would also gain control of Midland's foreign subsidiaries. Interestingly, it was Dow Chemical -- through sale of its 40% stake in France's Société Industrielle de Silicons last June -- that helped France's Rhône-Poulenc become Europe's biggest manufacturer of silicons.

Bankers Trust in Zurich

ZURICH -- Bankers Trust Co. of New York plans to open a Zurich subsidiary soon. The establishment will have an initial capital of some $5 million and will offer advice and services for international investors.

Coppée-Rust wins Rumanian contract

BRUSSELS -- Coppée-Rust, the Brussels-based engineering firm that is jointly owned by the U.S.'s Rust Engineering and Belgium's Evence-Coppée, has been awarded an $8 million contract for the construction of a urea plant in Rumania. The unit is to produce 300,000 tons of the material per year and is scheduled to go on stream by mid-1972.

New Dutch refinery planned

ROTTERDAM -- The Netherlands' NV Euromin will go ahead with plans to build a $1.5 million refinery capable of processing 4 million tons of crude oil per year near Rotterdam. The project has been delayed because of finance problems. Euromin has announced a change in its shareholder structure whereby West Germany's Mabanaft is to acquire the 40% stake in Euromin previously held by Avia.

Ciments Lafarge to raise $20 million for Canadian projects

PARIS -- France's leading cement concern, Ciments Lafarge, is in the process of raising $20 million on international capital markets to finance projects in Canada. The loan, which will run for 15 years and have an effective yield of slightly above 8-3/4%, is being placed by Crédit Commercial de France.

Dutch porcelain merger

AMSTERDAM -- Sphinx-Ceramique and Mosa, the two largest Dutch porcelain and earthenware producers, will merge operations as soon as possible. Mosa paid a dividend of 19% in 1969 and has announced one of 21% for 1970; Sphinx is thought to have sustained substantial losses last year.

Opposition to Ursina-Nestlé merger

ZURICH -- Two separate groups of Ursina-Franck shareholders have announced their opposition to the projected takeover of Ursina by Nestlé. The shareholders contend that thus far they have been supplied with too little information on how their interests will be protected. They also say that the terms offered by Nestlé appear insufficient in view of the basically healthy state of Ursina. Ursina's management is to dispatch a letter to all stockholders on April 8 in an effort to clarify the Nestlé proposals and to clear the way for stockholder approval of the takeover at Ursina's annual meeting on May 5.

AMF expands

VIENNA -- AMF Inc. (formerly American Machine & Foundry Co.) plans to acquire a 50% stake in the Austrian ski-boot firm Smolka. AMF, whose interests range from metallurgy to telecommunications, appears intent on developing extensive sports equipment holdings. The firm recently purchased the U.S.'s Head Ski, including Head's Koeffach subsidiary in West Germany. Smolka's specialty is ski-boot bindings.

Alliance Wall in Belgium

BRUSSELS -- Alliance Wall Corp. of Alliance, Ohio, has formed Alliance SA, a Belgian firm that will make and market metal products. Alliance SA is to be located at Genk and will have an initial capital of $350,000.

Shakeup coming in French paper industry

PARIS -- The Banque de Paris et des Pays Bas (Paribas) has acquired the 73% holding of Britain's Reed International in Papeteries de la Chapelle, which in turn owns 58% of Papeteries de la Chapelle-Darblay, France's largest producer of newsprint. The move threatens a shakeup of the entire French paper industry and could lead to a splitting of France's paper market between Paribas and La Cellulose du Pin. Reed reportedly sold la Chapelle because of the firm's 1970 losses. These were caused mainly by Government restrictions that have kept the price of newsprint in France low. The Government imposed the restrictions as a means to force France's 180-odd paper companies to regroup and become profitable through rationalized production. The Reed decision to sell may influence other, much smaller, French paper makers to sell also.

Bourse report

LONDON -- Generally featureless trading in very hesitant trading conditions. PARIS -- Narrowly mixed. FRANKFURT -- Very well maintained mainly on speculation of a change in the West German discount rate. MILAN -- Firm in moderate trading. BRUSSELS -- Most shares down slightly on general lack of buying interest. AMSTERDAM -- Shippings rise strongly on eve of annual reports. Most plantations firm; local industrials quietly mixed.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.

Common Market Reports

EUROMARKET NEWS

Issue No. 115 — No. 157, March 30, 1971

Farmers demonstrate; EEC sets farm prices increases

BRUSSELS -- One man died and another was seriously injured after clashes between Belgian police and 80,000 Common Market farmers, who marched through Brussels to demonstrate in favor of higher prices for farm produce. The farmers were prevented from entering a Council of Ministers meeting, where EEC representatives were discussing farm price increases. The meeting had been called in an effort by the Six to agree on price increases by April 1, the date the new EEC farm season opens. Agreement was finally reached by the Council on higher farm prices. Under this agreement the prices received by the farmers were raised for milk, beef and most grains. Thus, wheat and rye prices go up 3% (durum wheat by 2%) and barley rises by 5%. The price for milk will rise by 6%, and beef will go up by 10% over a two-year period. Another feature of the agreement is a $1.48 billion program for joint projects involving farm structure. This will include measures to assist persons who want to leave agriculture and those who want to remain, vocational training of farmers, and improvement of marketing methods.

French demand on sterling unlikely to be adopted by the Community

BRUSSELS -- A demand by France that a solution to "the sterling problem" be found before Britain is allowed to join the Common Market is not likely to be supported by the other Community countries. All of France's EEC partners share to some degree France's opinion that Britain's worldwide monetary responsibilities cannot easily be reconciled with a role in the EEC. However, the Six had agreed that discussions on sterling would not take place during the initial negotiations, but be held once UK entry into the Common Market had started. Britain had asked that such discussions be held outside the framework of the membership negotiations.

Sources in Paris indicate that France's intentions in making the demand were to underline its opposition to any easing of the Common Market's position on other entry issues (UK contributions to the Community budget, and acceptance of EEC agricultural policies) and not to force the Community to examine sterling problems at this time.

OECD group studies U.S. payments problems

PARIS -- The problems posed by the U.S. balance-of-payments deficit for the international monetary system are currently under review by a special OECD task force. Most of the OECD's experts have become increasingly concerned over mounting evidence that America's balance-of-payments difficulties are caused by the overvaluation of the dollar in terms of European currencies. The U.S. argument has been that European countries should revalue in order to stem present dollar flows. The Europeans want America to finance balance-of-payments deficits through normal international financial channels rather than ask European central banks to build up big dollar holdings.

Because of the size of the U.S. deficits--$11 billion in 1969 and an estimated $6 billion in 1970--Europeans are increasingly questioning the future of the IMF's Special Drawing Rights (SDR's). The SDR's were originally intended to provide an alternate supply of world reserves as the U.S. balance-of-payments moved back into equilibrium. Now, European economic planners,faced with rising inflation, are beginning to doubt the wisdom of introducing SDR's before the U.S. payments difficulties are corrected.

Sweden lowers discount rate

STOCKHOLM -- Sweden has reduced its discount rate from 7% to 6.5%,a cut of one-half point,in a move that Central Bank officials characterized as made in order to ease the high liquidity ratios of commercial banks,rather than to align the Swedish discount rate with the prevailing rates in other Western countries. The Central Bank has recommended that the commercial banks cut their lending rates too. At present these stand at 10% to 11%.

Oil consortium seeks Euro-loan

BRUSSELS -- The consortium of firms that is prospecting in the North Sea for oil is negotiating for a medium-term Eurocurrency bank credit with a group of international banks. The consortium would like to borrow $70 to $80 million for a period of up to seven years. The talks have been slowed, however, pending clarification of the position of the Norwegian Government regarding oil found off Norway. If the Norwegians insist on State control of their off-shore fields,the consortium will probably not be able to convince the banks to provide the loan. The North Sea consortium is made up of the U.S.'s Phillips Petroleum, Belgium's Petrofina, Italy's ENI, and France's Petronord. Early this year, Ward Dunn, a Phillips vice-president, estimated that between $350 and $400 million would be needed to develop oil and gas fields in the Norwegian sector of the North Sea.

Swiss buy $75 million of U.S. gold

ZURICH -- In one of the largest dollar conversions of the past two years, the Swiss National Bank is believed to have bought nearly $75 million worth of gold from the United States. The Swiss were believed to have bought the gold as part of a complex $450 million swap credit arrangement with U.S. authorities. The plan included accepting some $250 million worth of Roosa Bonds as well as cash. The Swiss traditionally cooperate with efforts to finance U.S. deficits, but insist on at least a token gold purchase when they accept U.S. Government bills. Such a procedure is meant to demonstrate dollar convertibility.

Overhead transport for London?

LONDON -- A new system of transport, consisting of small automatic buses operating on rails that have been integrated into building structures, has been proposed for use in central London. A. J. Cryer, chairman of an official group set up two years ago to study pedestrian problems in London, has estimated that such a system, serving an area of about five square miles in central London,would cost upward of $14.4 million to install. The arrangement proposed by the study group consists of a 9-foot long vehicle, seating six passengers, which travels on a track placed ten feet above the

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ground. The track would go through or around buildings. The proposal is under review by London Government bodies.

Concorde talks postponed

PARIS -- Talks between French and British Government officials over the future of Concorde have been postponed. A meeting had been scheduled for March 28,but French Government representatives have indicated that no discussions will take place now until early April. The initiative for the postponement came from the French, but the British welcomed it, probably hoping to see the problems surrounding future production of the Rolls-Royce RB 211 engine solved before proceeding to Concorde matters. The chief decision on Concorde that has yet to be taken is an order to the firms involved in construction of the supersonic aircraft to move from the development to the production stage. The British have indicated that they are ready to authorize the funds necessary for such a move; so far, the French have not.

Increase sought for Swiss television advertising time

ZURICH -- A group representing Swiss television advertisers hopes to convince the Government to allow an increase in the amount of time currently permitted to advertisers on Swiss television networks. At present, only 15 minutes per day of TV time is allotted to advertisers in Switzerland. The group hopes that this will be increased to 18 minutes by January 1973, 19 minutes by January 1974, and finally to 20 minutes by January 1975.

Daimler expected to withdraw from Soviet truck project

FRANKFURT -- Spokesmen for West Germany's Daimler Benz have confirmed reports that the firm will withdraw from negotiations on a contract to build a giant truck factory in the Soviet Union. No official company announcement to that effect has yet been made, however. The Daimler spokesmen say that so far the sums offered by the Soviets to cover license and know-how agreements would not even pay subcontractors' fees. In addition, the USSR has been reluctant to provide assurances that production from the factory would not be used to compete with Daimler on third world markets. The Soviets have insisted that Daimler's cost estimates have been too high.

Volkswagen to bid for full control of Audi

FRANKFURT --Discussions concerning the acquisition of full control of Audi NSU by Volkswagen are under way. Since 1970, Volkswagen has owned an estimated 75% of Audi; the bid now being advanced involves the 25% of shares outstanding. Of these, 6% are owned by the Israel British Bank Ltd. of Tel Aviv, which has privately declared that it will do all it can to prevent a full takeover. The main reason for the sudden Volkswagen interest in the remaining Audi shares appears to involve the rights to the Wankel engine. Audi's share in royalties derived from license agreements for the engine is 60%. Recently, General Motors bought non-exclusive licensing rights, and several agreements for Wankel rights with other big automakers appear certain to follow. Volkswagen presumably would like a bigger share in the Wankel profits. Audi spokesmen have confided that the Volkswagen bid for the remaining Audi shares will be less than one Volkswagen share for each Audi share.

Dutch rubber firm makes cuts in labor force

MAASTRICHT — Following a steep rise in costs in 1970, Bataafsche Rubber Industrie Radium, a member of the Dutch Vredestein group, has cut back employees at its rubber sole and shoe plants to 1,400. The lay-offs accompanied an announcement by the firm of cancellation of its plans to expand production facilities.

AKZO to step up Xylee marketing, after Du Pont drops Corfam

THE HAGUE -- Following an announcement by the U.S.'s Du Pont to drop production of Corfam because of some $80-$100 million in losses, The Netherlands' giant chemical firm AKZO has decided to step up its production of Xylee, a competing product. AKZO spent an estimated nine years to develop Xylee but has refrained from selling the product on consumer markets. Now, AKZO will introduce the material at the Utrecht and Düsseldorf shoe fairs. The price of Corfam and Xylee is similar, but Xylee, unlike Corfam, does not contain a woven base.

Bundesbank stands firm on interest rates ...

FRANKFURT -- The Bundesbank has decided to leave key West German credit rates unchanged despite continuing inflows of U.S. dollars and other foreign funds. Dealers reported that on March 17, the Bank was forced to buy between $80 to $100 million in an effort to support the dollar at its floor price of 3.630 D-marks. Recent inflows of foreign currencies are believed to have boosted West Germany's total holdings in foreign currency reserves to $15.5 billion, an increase of $2 billion since the beginning of this year. The West German discount rate now stands at 6% and the Lombard rate (for loans against collateral) stands at 7.5%. The main reason for the Bundesbank stand against any change in the rates was thought to be the current pace of West German inflation. Economics Minister Karl Schiller has stated that inflation progressed by 4.2% (on an annual basis) in February. He has affirmed that this rate must come down to 3% before the Federal Republic will consider a change in its discount rate.

... while Swiss think result will be weaker dollar

ZURICH -- Most Swiss money men think that the Bundesbank decision to hold the West German discount rate at 6% will put added pressure on the dollar on European money markets. The Swiss experts, however, do not expect a dollar crisis to develop unless speculators believe that a revaluation of a major European currency is on the way. The Swiss view is that West Germany will not consider another revaluation until the effects of the last one--made in 1969--and recent large wage increases work their way through the West German economy. A reduction in the current West German trade surplus would remove any possibility of a D-mark revaluation.

Bourse report

LONDON -- Buying interest picked up, but equity leaders remain below the best; gilts close on very firm tone. PARIS -- Irregular in fairly active trading. FRANKFURT -- Narrowly mixed. MILAN -- Most issues lose ground in light trading conditions. BRUSSELS -- Well maintained; overall trading volume remains low. AMSTERDAM -- Plantations and shippings mostly lower; local industrials firm in quiet trading conditions.

EUROMARKET NEWS

Common Market Reports
EUROMARKET NEWS

Issue No. 116 April 6, 1971

Big tax changes in new British Budget

LONDON -- Tax reductions of some $1.3 billion are included in this year's British Budget. Both individuals and corporations will receive concessions. The big cut in personal income tax will come through a $96 across-the-board increase for the child allowance(deductions allowed for dependents). High-income earners -- those making over $9,600 per year -- will also get relief. Corporations have been granted a 2-1/2% rate reduction on top of the 2-1/2% reduction they were promised for the fall. In addition, the UK's Selective Employment Tax (SET) will be reduced by 50%.

The changes foreshadow the complete restructuring of the UK's tax system that will take place from now until April 1973. The income tax and surtax will be replaced by a single graduated personal tax. SET and sales taxes will be abolished in favor of a TVA (Added-Value Tax). Also, the structure of British corporate taxation will be completely revised. The legislation that will detail the changes has not yet been introduced in Parliament,but it is expected to be by next year.

The UK Government has explained that the effect of the tax reductions on demand will be less than suggested by the figures, and puts the actual amount released for spending by consumers this year at $600 million. Anthony Barber, the Chancellor of the Exchequer, stated that the tax cuts were designed to increase output this year -- probably to 3% -- and provide a base for expansion in the future. Barber's intention is to hold growth in bank lending to about 2-1/2% per quarter, and ensure that growth in the UK's money supply is held to about 3% per quarter.

Because of the strength of the UK's balance of payments,Britain will speed up repayment of its remaining debts to the International Monetary Fund. By the middle of April, these debts should be reduced to $1.6 billion. They stood at $3.5 billion last June, when the present Government took office.

European countries cut bank rates

PARIS -- Five European countries have lowered their interest rates in the last few days. Belgium was the first country to lower its discount rate - from 6-1/2% to 6%, the third cut in five months. Germany then reduced its rate from 6% to 5%, followed by Britain, which dropped its rate from 7% to 6%. The Netherlands reduced its rate from 6% to 5-1/2%, and Italy lowered its rate from 5-1/2% to 5%. The basic reason for this flurry of rate reductions is to stem the inflow of foreign currency, mostly U. S. dollars, into Europe.

Europemballage prepares reply to EEC antitrust violation charge

BRUSSELS --Europemballage, the European packaging subsidiary of the U.S.'s Continental Can, has denied Common Market Commission charges that it has violated EEC antitrust regulations. The EEC has accused Europemballage of misusing a dominant position in the metal can industry in West Germany, Belgium, The Netherlands and Luxembourg, following the acquisition of two European packaging firms two years ago. Waldmar Freibel, Europemballage's president, has stated that the firm is preparing a formal reply to the Commission's charges that would be submitted in June. The firm has issued a statement claiming that Commission estimates that Europemballage controls some 60% to 70% of the European metal can market could only have been derived through selection of very limited areas of the packaging industry, or in limited geographical districts. Europemballage claims that it controls only 10% to 20% of Europe's packaging markets. The Commission regards the complaint as a major test case of the Community's antitrust regulations and of its own jurisdiction in such affairs.

Developing countries to get EEC trade preferences

BRUSSELS -- The Common Market plans to grant duty-free status to the manufactured exports of 91 developing countries as of July 1. The quantity of goods granted the preferential treatment will not be permitted to exceed the total 1968 EEC imports from developing countries plus 5% of EEC-manufactured imports from developed nations. The value of such trade amounts to some $1 billion, and will mean a loss to the Community in revenues of about $100 million. The project was first proposed to the West's industrialized nations by UNCTAD (United Nations Conference on Trade and Development). EEC officials expect the United States to adopt a similar plan soon.

RB-211 agreement reported close

LONDON -- The U.S.'s Lockheed Aircraft Corporation has reportedly reached agreement with the British Government on a plan that would ensure continued production of the Rolls-Royce RB-211 jet engine for use on Lockheed's Tri-Star airbus. Lockheed officials and the British Government have not disclosed any details of the arrangement, but it is believed the UK Government has promised to provide additional development funds -- estimated at $288 million -- and that Lockheed has agreed to pay more than the original contract price of $840,000 per engine. The British Government also appears to be seeking some kind of guarantee from banks or the U.S. Government that Lockheed will not go bankrupt during the period of any contract.

West Germans buy U.S. gold

BONN -- West Germany has arranged to purchase $500 million worth of gold from the United States in an effort to counteract the enormous inflow of dollars into the country. The Bundesbank has described the move as a "quasi-repurchase," since the Federal Republic had sold the same amount of gold to the U.S. following the revaluation of the D-mark in 1969. Currently, the Bank's ratio of dollars to gold is five to one. Most West German bankers consider a three-to-one ratio as comfortable.

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France changes method of computing cost of living

PARIS -- Reflecting what officials call changes in consumer spending habits, the French Finance Ministry has introduced a new cost-of-living index. The new index will be composed of 295 items -- up from 259 -- and will place more emphasis on the cost of manufactured goods. Food prices will account for only 31.5% of the new index, as compared with 42.8% of the old. Services will account for 27.5% of the new index -- up from 15.2%. According to the new system, prices rose by only 4.7% last year. The old system measured the increase as one of 5.3%. The cost-of-living index is closely watched by French labor unions, since increases in the minimum wage and many contract wages are based on it.

IOS banned in Switzerland

GENEVA -- The Swiss Banking Commission has banned Investors Overseas Services (IOS) from using Switzerland as a base from which to sell its mutual funds. It also banned the sale of the last two IOS funds, Venture International and International Investment Trust, which have been permitted to operate in Switzerland. IOS has expected the action for some time, and has been quietly moving its offices across the border from Geneva to Ferney-Voltaire, France. IOS also plans to move some of its administration to Britain. IOS Management, Ltd., whose funds still manage some $1.2 billion, has announced that it is withholding payment of first-quarter dividends in order to acquire the assets and operating rights of IOS Ltd., the firm that owns nearly 83% of IOS Management's stock.

U.S. corporations to increase European spending

PARIS -- According to U.S. Commerce Department estimates, recently released here, U.S. corporations plan to increase their investments in Europe by 27% this year. The projection was made on the basis of information gathered from about 450 American firms. The firms planned to spend nearly $6.5 billion for development of their European subsidiaries and affiliates. One problem: If the planned investments are fully realized, the result might be large capital outflows from the U.S.--particularly if the present trend toward lower interest rates in the U.S. continues.

Trading suspended in Leopold Minerals

LONDON -- Trading in Leopold Minerals, the newest Australian glamour mining stock, has been suspended on the London and Sydney Stock Exchanges. The suspension was made at the request of Leopold chairman Allan Treloar, after rumors that the firm had found the richest first strike ever discovered by a nickel-mining concern. On March 12, Leopold shares were quoted in London at 31 cents. One week later, the price of the stock soared to a phenomenal $10.20. However, by the time the suspension took effect, Leopold was trading at $6.11. The trading suspension will remain in effect until the exact procedures used to assay the ores are revealed.

UN survey predicts sluggish European economic growth

GENEVA -- A new survey, prepared by the United Nations Economic Commission for Europe, forecasts that economic growth rates in Western Europe will decline in 1971 for the second consecutive year. The UN group also stated that Europe is likely to benefit from a business recovery in the U.S. Overall, the growth of Western Europe's gross national product is expected to be only 3.8%. It was 4.7% in 1970, and 6% in 1969. Identical growth rates of 8% were predicted for European exports and imports; the two were, respectively, 10.1% and 12.8% last year. The group thinks that in nearly all Western European countries, the chief impetus to economic expansion will be increased consumer spending. The survey also noted that inflationary pressures in Europe are stronger than at any time since the Korean War. Wholesale prices of manufactured goods rose by an average 5.9% in 1970, against 4% in 1969. Pay increases were higher last year than during the previous 18 years, in eight out of thirteen countries.

Foreigners boycott Paris Auto Show

PARIS --Despite recent rumors that it might be canceled entirely, the Paris Auto Show will be held this year in October. However, French importers of foreign cars have decided to boycott the event. The association of importers of foreign cars decided to advise its members to take such a step in view of a decision by the French Government to fix profit margins on foreign car sales in France, and also because of the refusal of the show's organizers to allow foreign car dealers to be represented on the show's planning committees.

Girotti resigns at Montedison

MILAN -- Raffaele Girotti has resigned as vice-president in charge of Montecatini-Edison, the largest Italian, and third largest European, chemical firm. Last October, Cesare Merzagora resigned as president of the company. Merzagora had resigned in protest against what he termed a shift in control of Montedison to Italian state holding companies. The resignation of Girotti, who is also vice-president of Ente Nazionale Idrocarburi (ENI), a major Montedison shareholder, was related to the continuing conflict between public and private interests over control of the firm. ENI and the Istituto per la Ricostruzione Industriale (IRI), a Government development agency,represent the public interests in the syndicate that controls Montedison.

Italian - German pipeline firms cooperate on pipeline

FRANKFURT -- West Germany's Ruhrgas and Italy's SNAM plan to construct a $95.5 million pipeline to carry Dutch natural gas across West Germany to Switzerland. The project is to be completed by 1973.

Japanese bank to acquire Rothschild interest

LONDON -- The Industrial Bank of Japan has agreed to acquire a 12.5% holding in Britain's Rothschild Intercontinental Bank, which specializes in medium-term international finance. Rothschild Intercontinental is owned 62.5% by the Rothschild group, and 12.5% each by the First National City Bank of Cleveland, First National City Bank, Houston, and Seattle-First National City Bank. The transaction is subject to the approval of the Japanese Government.

Bourse report

LONDON -- Leading issues mark spectacular gains on Budget news. PARIS -- Very well maintained. FRANKFURT -- Most issues lose ground slightly on moderate trading volume. MILAN -- Irregularly lower on nervous two-way trading by investors fearful over Montedison prospects. BRUSSELS -- Very slack trading conditions; most stocks lower. AMSTERDAM -- Local industrials firm. Plantations and shippings narrowly mixed.

Common Market Reports

EUROMARKET NEWS

LT GV JB KL EK BS MC

Issue No. 117 No. 158, April 15, 1971

West Germany lowers discount rate . . .

FRANKFURT -- In an effort to put a halt to large transfers of dollars from foreign to West German banks, the Bundesbank has cut West German interest rates by one full point. The West German discount rate now stands at 5%; the Lombard rate (for loans against collateral) is 6.5%. Since February 1, nearly $250 million in hot funds has poured into West Germany every week, pushing the basic West German payments surplus up to $22.7 million in February -- after a January deficit -- and probably much higher in March. The Bundesbank has indicated that it currently holds a reserve ratio in dollars to gold of five to one and has reportedly arranged to purchase $500 million in gold from the United States in an effort to narrow the difference to the three-to-one ratio considered acceptable by most West German bankers.

The interest rate action had been delayed for almost one month by disagreement among Bundesbank governors. Most of the governors feared that lower rates would make the Bank's domestic anti-inflation policies much more difficult to apply. The Bundesbank's chief anti-inflation tool will now be currency control. Minimum reserve requirements for commercial banks will be kept high, and the ceilings on loans by commercial banks will be cut by 10%.

. . . and Britain follows suit

LONDON -- Britain has lowered its discount rate by one point, to 6%, the lowest level since 1967. The move was widely anticipated in international money markets following similar action by West Germany, and announcement of a mildly expansionist UK budget. The British discount rate, like that of the West Germans, has appeared unnecessarily high in view of strong balance-of-payments surpluses. At 6%, the UK rate is still one of the highest among Western countries, and not much of the current flow of dollars into Britain is expected to be cut. The effects of the reduction were immediately felt by the pound. Sterling closed on the day of the cut at 2.4152, a net drop of 15 points from its previous level.

The British rate reduction fits neatly into the Government's overall plan for economic expansion this year. The new rate makes the cost of borrowing less expensive. Money will also be more plentiful. UK banks have been authorized to raise the ceilings on the volume of their loans.

Pressure on dollar eases

PARIS-- Pressure on the dollar eased throughout Europe,following two days of massive capital shifts after reductions in the West German,British,Belgian, Italian and Dutch discount rates. Belgium reduced its rate by one-half point, to 6%, the Italian discount rate was reduced by one-half point, to 5%, and the Dutch rate by one-half point,to 5-1/2%, in an attempt by those countries to minimize the effect on their economies of the West German and British discount rate cuts. The combination of reductions,however, rather than decreasing dollar inflows into Europe, only increased them for a time. Dollar inflows into West Germany increased in intensity immediately after the Bundesbank announced a cut in West German interest rates, sparked off by rumors that the Bundesbank was considering a D-mark revaluation. European countries have been forced to absorb billions of dollars to keep the dollar off its floor.

The dollar gained strength following an announcement by the U. S. Treasury that it would sell $1.5 billion of three-month notes to overseas branches of U.S. banks, and denials by the Bundesbank of the D-mark revaluation rumors. However, many money market managers have regarded the change in the tempo of currency dealings as due to technical factors. Currently, the dollar is trading at 3.6302 D-marks. The floor price is 3.6300 D-marks.

Central bankers reportedly plan to force Eurodollar rate higher

BASEL -- The Governors of Europe's major central banks are reported to have decided to propose a plan that calls for an increase in Eurodollar interest rates as a means of deterring speculative flows of dollars into West Germany, at the next regular meeting of the Bank for International Settlements (BIS) on April 17. The Governors reportedly will suggest that central banks isolate the dollars they accumulate instead of recycling them into world money markets. In this way, it is thought that Eurodollar rates could be pushed up to around 6.5%. If the plan is to suceed,the U.S. Federal Reserve would have to agree to coax U.S. interest rates higher in order to make the transfer of dollars from U.S. to Eurodollar markets more difficult. The current three-month Eurodollar rate is 5.75%. Despite the reduction in the West German discount rate, the three-month D-mark rate is 6%.

More British labor problems . . .

LONDON -- Wildcat strikers have prevented the resumption of work at two of Ford's major UK plants,despite a union call for a return to the production lines following Ford's agreement to give its laborers a 32% pay increase spread over two years. More than 27,000 of Ford's 30,000 men have obeyed the union orders, but shop stewards at the Halewood gearbox plant and the Swansea axle factory have maintained picket lines. Ford production throughout the UK depends on the two operations for supplies. The Halewood and Swansea stewards say that the pay settlement does not give Ford's workers pay parity with the rest of the industry. They are demanding a 40% wage rise, spread over two years. Ford's continuing troubles are not Britain's only labor difficulties. Railwaymen are engaged in a work-to-rule strike, and have slowed commuter service to London. Currently, 75% of the trains on several of the busiest lines into London have been canceled. Others are running behind schedule. Electrical workers are also preparing for a

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strike. The electrical workers are demanding a 14% wage increase and are threatening power blackouts as a means of underlining their demands.

. . . and new strikes scheduled in Italy

ROME -- The leaders of Italy's three major labor unions plan to call two more national strikes during the month of April. One such walkout was already successfully carried out on April 7. According to the unions, over 11 million Italian workers joined in the protest. The strikes, which will take place on April 17 and 21, are being called to underline union dissatisfaction with Government housing plans. The unions say that the Government has failed to carry out promised housing reforms. Premier Emilio Colombo, who held eight hours of talks with the union chiefs just before the April 7 walkout, has countered that the most advanced piece of housing legislation in Italian history is now before Parliament. The legislation would provide nearly $4.8 billion for public housing investment during the next three years. The unions charge that, among other things, the bill being considered by Parliament does not deal satisfactorily with the expropriation of land for low-cost housing.

Belgium announces new anti-inflation measures

BRUSSELS -- Belgium's Government has announced a 5% cut in administrative expenses as one step in its battle against inflation. Other moves to be taken are a decrease in Government aid programs and a regrouping of some state-sponsored organizations. Premier Gaston Eyskens told a gathering of industry and trade union officials that the Government was not planning any new taxes, but if it were forced to raise taxes, the increases would be on company profits. Eyskens said that the Government plans to reduce some income taxes--probably those of persons in low-income brackets. Belgium's chief inflation problems are thought by some to be caused by a shift as of January 1, 1971, to a TVA (value-added tax) system.

Renault, Peugeot in joint Congolese venture

PARIS-- Renault and Peugeot, two French auto makers who have a long-standing tradition of cooperation, will once again form a joint venture, this time to manufacture cars and trucks in Kinshasa, the Congo. No definite date has been set for the project to begin, but the two firms have estimated the cost of the operation at $5 million. The capital of the new firm will be split equally between the French and Congolese Governments and the two auto companies. The new operation will turn out some 12,000 vehicles annually.

Perrier to receive Rowntreee Mackintosh know-how

PARIS -- Talks are progressing between the UK's Rowntree Mackintosh and France's Perrier, on formation of a joint company to operate Perrier's Menier chocolate business. Perrier hopes to acquire some of Rowntree's management know-how and product licenses as part of the deal. Rowntree would like to benefit from Perrier's marketing network in France.

André sells technique to Salamander

FRANKFURT-- Two of Europe's largest shoe firms, Salamander of West Germany and André of France, have reportedly signed a technical cooperation agreement. It is believed that the agreement provides for the transfer to Salamander of a process developed by Andre for the manufacture of the upper parts of shoes.

British Euro-currency dealer opens Paris office

PARIS -- British stockbroker Guy Butler Ltd., a member of the Clive Holdings Group,has formed a subsidiary in France to carry out Eurodollar operations. The new firm will be called Guy Butler France, Sarl. This is the first time that a British stockbroker specializing in Euro-currencies has opened a French office.

More funds for Italy's industrial development

ROME -- The Italian Government will double the amount of funds currently available to the IRI--Italy's industrial development agency--as a means of providing a boost to Italy's sagging economy. The agency will receive an added $2.7 million, and will use it for investment in industrial projects. The Government will also back a $320 million bond issue of Ente Nazionale per l'Energia Elettrica, the chief state-controlled power group. Economists in Italy have become increasingly concerned over what they regard as the failure of the Italian economy to recover ground lost last year. In 1970, Italian GNP rose by only 5.1%, in comparison with a gain of 5.9% in 1969. During the first two months of 1971, overall production was 0.9% below the corresponding period for 1970. Domestic consumption and export trade are also lagging.

Tenneco to take control of Albright & Wilson

LONDON -- The U.S.'s Tenneco, Inc., has agreed in principle to acquire majority control of Albright & Wilson (A&W), Britain's second largest chemical firm. Tenneco, which already holds a 10% interest in A&W, is to subscribe for $42 million of new unsecured A&W debentures. The U.S. firm will have an option running until 1976 to convert the bonds into common shares of the UK company. If Tenneco makes the conversion, it would hold 50.6% of A&W's enlarged capital. The takeover is subject to British Government approval.

Abex and Presswerk form French subsidiary

PARIS-- The U.S.'s Abex Corporation and West Germany's P.A.G. Presswerk AG will form a joint subsidiary in France. Called Abex Pagid Equipement, the new firm will have an initial capital of $1.14 million, and will produce friction materials. Abex and Presswerk recently formed a similar operation in West Germany.

Another Dutch branch for Continental Illinois

ROTTERDAM--Continental Illinois National Bank and Trust Company has opened a full-service branch in Rotterdam, its seventh in Europe. Continental already has one other Dutch branch--in Amsterdam--which it opened in 1969.

Bourse report

LONDON--Very firm trend for most leading equities in wake of discount rate cut. Gilts suffer from profit-taking. PARIS -- Very irregular in modest trading conditions. FRANKFURT -- Uneasiness over foreign exchange problems counted by experts as most important factor in across-the-board losses. MILAN -- Most issues tumble on news of more industrial unrest. BRUSSELS -- Well maintained in quiet trading conditions. AMSTERDAM -- Shippings and local industrials mixed, plantations mainly lower.

Common Market Reports

EUROMARKET NEWS

Issue No. 118 April 20, 1971

Six to ban tax incentives for plant location

BRUSSELS-- The EEC Commission plans to propose a ban on tax incentives and limit other inducements that the Six currently grant to firms that set up operations in developing regions. The Commission has long been critical of the way the Six compete against one another in offering bigger and bigger aid packages to companies in order to attract them to specific regions. The first inducement to go may be the tax allowances. These make it difficult for EEC economists to calculate how much of an inducement member countries offer to companies. Also, through tax allowances, the Six can disguise the subsidies for national industries as regional aid. The Commission wants to rule out all tax allowances except those granted for small projects where the value of the aid can easily be calculated. France and Italy would be the two EEC countries most affected by the adoption of such a system. They would both be forced to change the overall structure of their aid programs. Britain -- if it joins the Common Market -- would be forced to scrap its new tax allowance system.

State wins control of Montedison

MILAN -- The long struggle for control of Montecatini Edison, Italy's largest publicly held firm, apparently has ended. The dispute began nearly two years ago, when state and private shareholders clashed on how to run the giant chemical concern. Last April, the state was thought to have acquired a majority of Montedison's outstanding shares, and since then, through the IRI and ENI, two state holding groups, was believed to be steadily increasing its holding. However, independent stockholder groups effectively prevented outright state control of Montedison's board. The continuing battle hurt profits. In fact, Luigi Madia, a board member, has revealed that in 1970 Montedison did not make a profit, even though sales had increased by 5%. Rumors that stockholders would not be paid any dividends sent the firm's shares plummeting on Italian bourses. Madia said that Montedison could pay a dividend by using reserves, but according to him, this action has been blocked by state-controlled interests on Montedison's board. Madia, who is also chief spokesman for the 300,000 individual Montedison shareholders, said that there was no way that total control of the firm by the state could be prevented.

France wants U.S. help in Algerian crisis

PARIS-- France is seeking U.S. Government help in its dispute with Algeria over oil. The French fear that the El Paso Natural Gas Company plans to purchase large quantities of Algerian liquefied gas, a move that would reduce the efficiency of any embargo on Algerian products that France may impose as a result of its disagreement with Algeria over oil. El Paso is thought to be ready to invest heavily in the facilities needed to transport the gas to the eastern seaboard of the U.S., but any contract for the shipments would have to be approved by the U.S.'s Federal Power Commission. The French would like the U.S. Government to discourage El Paso from signing a contract with the Algerians for the moment.

The French and Algerians have been discussing oil since last August. In February, Algeria nationalized 51% of the oil interests of French firms in Algeria, and the spirit of the discussions turned acrimonious. The Algerians have promised "adequate compensation" for the seizure, but so far have not revealed any compensation plans. Recently, the Algerians stopped pumping oil through the TRAPSA pipeline to Tunisia because of "technical difficulties," and they adopted a new petroleum code which poses new difficulties for French oil companies. Meanwhile, France's state-controlled auto producer, Renault, has shut down its Algerian assembly plant and laid off nearly 1,000 workers in a financial dispute with the Algerian Government. The Algerian Finance Ministry says that Renault owes some $16 million in back customs dues. Officials at Renault deny the charge, and are making plans to close the Algerian operation permanently.

Report says EEC recession coming

BRUSSELS--A new report prepared by the Common Market's committee on short-term economic policy indicates that the Community is facing a period of economic stagnation, higher unemployment, and increased inflation. Although sales are up, company profits are down in West Germany, The Netherlands, and Belgium. Italian concerns are suffering from strikes, and French firms have never quite resolved their profit problems. In addition, costs and prices in the EEC are rising. The Commission is forecasting an increase in consumer prices this year of 5%, compared with 4.6% in 1970. Wages are currently rising in the Community by 10%. Corporate profits are suffering from the pressure of rising labor and materials costs, and may suffer further from a rise in energy costs. The effects of recent oil price settlements with several Arab countries have yet to be felt. Also, EEC experts argue that inflation is doubly difficult to curb at this time, because of the huge influx of surplus dollars into Europe. The Report's conclusion is that a slowdown in the level of economic activity and employment in the Community may be just around the corner.

Italian cost of living up

ROME-- The cost of living in Italy rose 4.8% during the period of February 1970 to February 1971. The Government's institute of statistics revealed that Italy's overall cost-of-living index registered a 0.3% gain in February of this year. Wholesale prices during the same month were up by 0.2% over those of February of 1970.

Industrial output slows in France

PARIS -- Industrial production in France increased at a much slower rate in February than in January. The seasonally-adjusted industrial index rose by 1 point, to 165, on a 1962 base of 100. This is a gain of 0.6%. In January, the gain was 1.2%.

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Britain to pay more for coal

LONDON -- Coal price increases announced by Britain's National Coal Board include a 16% rise in the price of coke. Hardest hit by this hike will be British Steel. British Steel had announced price increases of its own of 14%, but they were cut by the Government to 7%. The rise in the price of coke could add another $24 million to the losses that the state-controlled steel producer expects to suffer this year. The National Coal Board has also scheduled increases in the price of other grades of industrial coal, ranging between 6% and 12%. The increases here are expected to add some $72 million to the costs of Britain's electrical industry this year. The price of domestic (household) coal is to be raised by 7% to 8%, but not until July 1.

Gas Council to pay high price for Viking gas

LONDON -- The UK's Gas Council has agreed to pay nearly 36 cents for each 1,000 cubic feet of gas produced by the joint North Sea venture of the U.S.'s Continental Oil Company and Britain's Coal Board. The price is a 25% markup over that normally paid to other North Sea gas producers. The Continental - Coal Board consortium had pressed for a high price, arguing that the nearness of its Viking field to major gas users in the UK's Midlands would save the Government some transportation costs. However, the Gas Council agreed to pay the high premium mainly as an incentive to other producers to develop the gas fields that lie just off Britain's North Sea coast. The U.S.'s Gulf Oil Corporation is only one of a number of oil firms that have left such fields undeveloped. The Gas Council also agreed to include a cost escalation clause in its contract with Continental and the Coal Board. Deliveries from the Viking field are scheduled to start in late 1972, at an initial volume of 300 million cubic feet a day. The field will provide nearly 15% of the Gas Council's needs by 1975.

Dollar firmer, but markets nervous

FRANKFURT -- The dollar last week traded in Frankfurt at prices much firmer than at any time since late March. For the first time since heavy speculation brought large dollar inflows into West Germany, the Bundesbank did not buy any three-month dollars. However, foreign exchange experts attribute the improvement to the change in German interest rates rather than to investor confidence in the dollar. In London, dealers indicate that the U.S.Treasury and leading European central banks are beginning to hold dollars instead of recycling them into the money markets. This action is raising short-term dollar interest rates. Many investors are eager to buy and sell dollars on a day-to-day basis, but long-term positions are being held. The dollar has also firmed in Zurich. Financial experts in Zurich indicated, however, that most European money markets appeared nervous, and that any rumors or hints of currency changes could set off new floods of hot money. The same experts also noted that a real currency crisis could still develop this summer.

French air conditioning firm to reorganize

PARIS -- Tunzini-Ameliorair, a French air conditioning firm, which is controlled by Saint-Gobain-Pont-à-Mousson, the Banque de Suez and Société Lyonnaise des Eaux et de l'Eclairage, plans a major management reorganization. Tunzini holds about 10% of France's air treatment market, and has a turnover of about $50 million, but suffered heavy losses in 1969 and 1970.

Pont-à-Mousson won the approval of the other shareholders to appoint Robert Vandange chairman of Tunzini, and hopes to arrange a convertible bond issue to ease the firm's liquidity problems. Most French economic experts feel that Tunzini's reorganization indicates a growing interest on the part of Pont-à-Mousson in France's air treating equipment market. Saint-Gobain-Pont-à-Mousson plans to expand its interests in France's building and construction industry.

Solvay drops plans for fiber plant

BRUSSELS -- Solvay, Belgium's leading chemical firm, has canceled its plans to invest some $7.9 million in a synthetic fiber plant at Tournai. The unit was to have produced eltexil, a polyethylene fiber. Although prices have begun to pick up recently, EEC fiber markets have been depressed since last summer, indicating over-production. The trend until late 1970 was for major fiber producers to open new plants every three to four years. Now, that trend has been halted. AKZO, the Dutch chemical-fiber group, has decided to delay its plans for further factories; so has ICI Europe.

Hoogovens in U.S. venture

THE HAGUE -- Dutch steelmaker Hoogovens will join the U.S.'s Jones and Laughlin Steel Corporation and Pickands Mather to set up a coal-mining company in West Virginia. Spokesmen for the firm indicated that Hoogovens' main interest in the venture was to assure itself of a regular supply of high-quality coke. The new firm is to be called the Beckley Coal Mining Company. Jones and Laughlin will hold a 50% stake, and Hoogovens and Pickands Mather 25% each.

Continental Edison acquired by Thomson-Brandt

PARIS -- Compagnie Générale d'Electricité (CGE) has sold its control of ailing Continental Edison to Thomson-Brandt for the token sum of one franc. Thomson-Brandt has agreed to provide Continental Edison with nearly $1 million immediately and with a further $2.6 million later this year. Continental Edison, which manufactures radios and television sets, is thought to have lost $10.9 million during the past two years.

Du Pont subsidiary signs agreement with Yugoslav firm

FRANKFURT -- West Germany's Du Pont Fotowerke Adox has agreed to sell its know-how on the manufacture of black and white film to Yugoslavia's Fotokemika. Up to now, Fotokemika's specialty has been X-ray film plates for medical uses. The firm does manufacture photographic film and paper, but its expertise does not approach that of Du Pont's.

Bourse report

LONDON -- Equity trading stays firm, gilts plummet on announcement of coal price hikes. PARIS -- Narrowly mixed. FRANKFURT -- Investors hesitant; market generally firm, with demand for foreign issues offset by local professional selling. MILAN-- Most sectors lower in quiet trading conditions. BRUSSELS -- Firm. AMSTERDAM -- Plantations weaker, shippings mainly higher, local industrials narrowly mixed.

Common Market Reports

EUROMARKET NEWS

Issue No. 119 No. 159, April 28, 1971

Bigger European interest in U.S. stocks reported

PARIS -- Investment officials at several European banks and brokerage houses report that European investors are starting to step up their purchases of United States securities. The purchases appear to be prompted by European opinion that the current rise in Wall Street is solid, and that U.S. corporations have a higher potential for growth this year than European firms. One broker estimated that the flow of European money to the U.S. since the beginning of this year was nearly $1.5 billion. The purchases have been concentrated on blue-chip stocks. If European interest in Wall Street is maintained throughout the year, this might help the U.S. balance-of-payments position.

D-mark as reserve currency?

LONDON -- Figures in the latest Bank of England quarterly review show that non-German D-mark deposits in commercial banks in London rose to $2.76 billion at the end of 1970. At the end of 1968, there was only $830 million worth of such holdings in London. Observers in Britain have taken the trend to reflect a growing investor confidence in the D-mark as a currency for trade, and a corresponding decrease in confidence in the dollar. The D-mark phenomenon may prove to be only temporary, but central bankers of the Western trading nations meeting in Basel recently discussed the impact of the D-mark holdings--especially of smaller countries--on the reserve role of the dollar and the pound. If D-marks continue to gain acceptance as a currency used for trade, the International Monetary Fund's plan of internationally managed reserve creation could receive a setback. At the moment, West German financial centers do not have the expertise, the instruments, or the services that would be necessary to promote the D-mark as a reserve currency. However, these things could be acquired.

BIS Eurodollar operations give unwelcome boost to world liquidity

PARIS--Operations in the Eurodollar market appear to have been responsible for nearly half of the new reserves created in the world in 1970, and the Bank for International Settlements (BIS) seems to have set the trend. At least $3 billion of the world's new liquidity in 1970 was created by investment by the BIS of the funds of its member central banks in the Eurodollar market. Another $3 billion to $4 billion was invested by non-BIS member central banks. The BIS funds appear to have returned to plague the same European central banks to which they originally belonged, and were responsible for a kind of ever-expanding liquidity. The phenomenon proved especially embarrassing to West Germany.

Central bankers seek more influence over Eurodollars

BASEL -- The central bankers of the major Western countries met last week in Basel to discuss ways of increasing their influence over the flows of Eurodollars that were thought to have been the source of recent world currency disorders. Eurodollar rates already have moved up one percentage point in the last month, largely because of U.S. projects designed to prevent the recycling of some $3 billion of the funds. Sources at the central bankers' meeting said that West Germany may launch a similar operation. The Germans are thought to have acquired nearly $2 billion for future delivery in recent contracts, and could be in a strong position to help the U.S. engineer an even further upswing in Eurodollar rates. London money market sources said that the central bankers appeared to be acting in concert during the past few weeks to hold back dollars, and avoid recycling them on world money markets. It was thought that Belgium and The Netherlands, the only two countries that have made firm purchases of U.S. gold recently, questioned the U.S. at the Basel meeting on repayment of short-term loans, which come due at the end of this month. The U.S. reportedly owes Belgium $80 million. The French representatives revealed that France plans to delay renewal of an agreement guaranteeing some $5.76 billion of reserves held in countries in sterling. Their action is largely tied in with efforts to force a common EEC position on sterling.

Euroclear, Cedel dispute breaks into open at AIBD meeting

PARIS -- The behind-the-scenes dispute between Euroclear and Cedel,the two rival Eurobond clearing systems, broke out into the open at the annual meeting of the Association of International Bond Dealers (AIBD). Euroclear is the older and far bigger system, set up and operated by Morgan Guaranty Trust; Cedel was formed only recently, and is run by a group of Luxembourg banks although owned by nearly 50 European financial institutions. The dispute between the two institutions is centered on whether the clearing system (which enables traders to complete transactions through computer bookings rather than actual delivery) should be controlled by one bank or by a group that has no readily recognizable head. The AIBD's executive committee had prepared a resolution for the meeting which would have asked Euroclear and Cedel to establish some sort of link, to permit transactions to be passed between them. Many London-based brokers told Euromarket News that they favored such a link. The AIBD executive committee would have liked to set up a system under which traders could merely telex their orders to a central computer,which would match them up,cut bank office work, and ensure much quicker delivery than is now possible. However, the proposals failed to gain the two-thirds majority needed for adoption. Immediately after the vote, Armand J. Mattle, AIBD's secretary and manager of Bondtrade,disclosed a letter that Cedel had sent to its member firms urging defeat of the proposal. Mattle added bitterly that the AIBD had reached the point where it is "Cedel versus the rest." In the letter, Cedel indicated that it would soon make available to its members the same kind of service that AIBD was suggesting.

UK trade in balance; unemployment situation worsens

LONDON -- The British Government has revealed that the UK's overseas visible trade in March was $2.4 million in surplus, a comeback after a February deficit of $158 million. The Department of Trade, however, warned

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that the real February figures might have proved to be much higher except for the postal strike which distorted the transmission of documents. March's import bill was also high, due to the purchase of three 747 airliners.

In contrast to the balance-of-trade news, statistics on British unemployment remain bleak. On April 19, the jobless total stood at 814,189, representing 3.4% of the UK's total work force, the largest number of people unemployed in 31 years. The Government blamed the high number of unemployed Britons on wage inflation brought about by a recent series of pay strikes. Union officials predicted that there would be more Britons jobless unless there is more expansion of the UK's economy.

Carli to mediate Montedison dispute

ROME -- The dispute between private and public shareholders over the choice of a new president of Montecatini Edison, Italy's number one chemical company, will be mediated by Guido Carli, the governor of the Bank of Italy. Recently, Pietro Campilli resigned from the top spot at Montedison. He was the third president to quit in the past year. All three quit in protest over growing Government influence within the firm. It is believed that two state holding companies, the Istituto per la Riconstruzione Industriale and Ente Nazionale Idrocarburi, hold a majority of Montedison's stock. However, private shareholder groups have continued to battle to prevent outright takeover of the firm by the state. Sources in Italy say that the fight for control of Montedison has been complicated by the entry of politicians into behind-the-scenes discussions concerning the future of the company.

Goodyear and Goodrich forbidden to acquire more Vredestein shares

THE HAGUE -- A court of appeals in The Hague has forbidden the Goodyear Tire and Rubber Company and B.F. Goodrich to either register or vote their shares of Rubberfabriek Vredestein. Goodyear and Goodrich have battled for almost a year for control of the Dutch rubber company. Vredestein, which has annual sales of about $75 million, was helped by Goodrich in 1946 to form a subsidiary. Goodrich still owns 21% of the subsidiary, and Vredestein still reportedly uses some Goodrich techniques. Early last year, Goodyear made an agreed bid to acquire Vredestein, which was blocked in court by Goodrich. Goodrich then began buying Vredestein shares on the market. Recently, Vredestein doubled its common shares, and offered the new stock to Goodyear. None of the new stock went to existing shareholders. The court of appeals injunction applies to the new shares. For the moment, control of Vredestein remains with the present management. Yet to be decided by the courts is whether the new shares are valid. If they are, Goodyear will control Vredestein; if they are not, Goodrich may.

Barclays to buy out DCO

LONDON -- Barclays, Britain's biggest bank, has announced plans to take over its partly-owned overseas operation, Barclays Bank DCO, a move that could make it the world's second largest bank. Barclays already owns 56.5% of DCO's shares; acquisition of the remaining stock could cost $168 million. Spokesmen at Barclays stated that in the past the two institutions' operations were complementary, and although rumors of a merger have circulated for almost thirty years, no takeover had actually been discussed until last year, when operations of the two began to overlap. Another impetus to the bid was supplied by the recent linkups of American, British, and Continental banks to form large international units.

French frozen food firms merge

PARIS -- Société Vivagel and Société Primagel, two French producers of frozen foods, will merge to form a firm that will have an annual turnover of nearly $50 million and control 40% of France's frozen food market. Vivagel is 40% owned by Compagnie du Nord; Primagel is wholly owned by Compagnie du Nord.

General Foods expands in Sweden

STOCKHOLM -- The U.S.'s General Foods Corporation has acquired Victor Engwall and Company, Sweden's largest coffee and spice producer. The purchase price was not disclosed. Engwall in 1970 had sales of $53 million, and is thought to control 30% of the Swedish coffee market.

ICI to acquire Atlas Chemical

LONDON--In a move described by Chairman Jack Callard as the most important single step ever taken by Imperial Chemical Industries (ICI) in the Western Hemisphere, ICI plans to pay nearly $169.9 million to take over the U.S.'s Atlas Chemical Industries.The offer is equivalent to 25 or 26 times net earnings per Atlas share, a price that Callard said was "not excessive." Atlas is a specialty chemical and pharmaceutical products company; in 1970, it had profits of $6.3 million. ICI is Britain's largest chemical company. Although the merger will probably be examined by the antitrust division of the U.S.'s Justice Department, Callard stated that he does not think the move will pose any antitrust problems. The products of ICI and Atlas are believed to be complementary, without much overlap. The deal will need the approval of the British Treasury and the Bank of England, as well as Atlas' shareholders.

Volkswagen reveals Audi share exchange offer

WOLFSBURG -- Volkswagen will offer one of its shares for every 2.5 shares of Audi-NSU,the West German auto firm of which it is seeking full control. Volkswagen has owned 75% of Audi since 1969, but wants the remaining 25% largely because of rights to the Wankel engine. Many West German auto engine experts look to the Wankel as the solution to auto industry problems arising from anti-pollution laws. Until now, despite the large Volkswagen holding, Audi has operated as a separate company, although some $585 million of Volkswagen's 1970 reported consolidated sales was based on Audi turnover.

Bourse report

LONDON -- Equities very strong, seeing best days since Budget .revision. Gilts slightly firmer. PARIS -- Well maintained in moderate trading. FRANKFURT -- Most stocks firm at fairly low levels; prices mainly lower on lack of buying interest. MILAN -- Mostly lower on heavy selling. BRUSSELS -- Narrowly mixed. AMSTERDAM -- Plantations ease from previous technically oversold positions. Shippings very well maintained. Local industrials mainly lower.

EUROMARKET NEWS

COMMERCE CLEARING HOUSE, INC.

Common Market Reports
EUROMARKET NEWS

Issue No. 120 May 4, 1971

EEC finance ministers discuss dollar, pound sterling

HAMBURG -- The Common Market finance ministers have met for talks on current EEC money problems. One topic discussed was the problem of what to do with the millions of dollars that have flooded the Common Market countries during the past few months. Another topic was the future of the pound sterling, should Britain enter the EEC. Sources at the conference said French Finance Minister Valéry Giscard d'Estaing suggested a rise in the price of gold — tantamount to a dollar devaluation — as one method of stemming the inflow of dollars. The suggestion was reported to have been sharply attacked by the Belgians and Italians. Giscard d'Estaing's intentions appear to have been not so much to gain backing for a gold price increase as to convince the West Germans to drop their support for flexible exchange rates. The West Germans had hoped to convince the Six to agree to the principle of greater exchange rate flexibility before the annual meeting of the International Monetary Fund in September. The French seem to be opposed to greater flexibility because of fears that it would create a greater imbalance in their trade with the United States.

The French reportedly went to great lengths at the meeting to play down what they termed a misunderstanding over their position on Britain's sterling balances, a problem that has slowed UK-EEC entry talks. The French have argued that the UK should progressively reduce the balances — suggesting a decrease by as much as 70% — as it moves toward union with the Six. In the past, the French have taken a very hard line on the problem. Now, they appear to be ready to soften their approach. Giscard d'Estaing revealed that France would ask neither for a detailed timetable on the reduction nor that the decrease be made within the transitional period that will lead to full UK membership in the EEC. Giscard d'Estaing said that a simple commitment by the British that the reductions will be made will now be enough to satisfy France.

French oil firms to promote Algerian oil boycott

PARIS -- Elf-Erap and Compagnie Française des Pétroles (CFP), the two leading French oil companies, have sent a letter to international oil buyers warning them that purchases of Algerian oil could be blocked through legal action. The move has been widely regarded as the opening shot in a campaign that the two firms hope will lead to a worldwide boycott of Algerian petroleum products. Elf and CFP say that the oil is theirs. Early this year, Algeria nationalized 51% of the two companies' interests in Algeria. Following extensive negotiation between the Governments of Algeria and France over indemnification for the seized property, the Algerians advanced the sum of $100 million. The French Government and Elf and CFP contend that this amount is hardly representative of the true worth of the interests. Sources close to the two oil firms say that the hands of Elf and CFP, which were tied during the negotiations, have now been unbound, and that the two firms are now free to pursue policies that were frowned upon by the Government. It is likely, however, that the French Government is involved in the new moves of Elf and CFP, since it owns Elf outright and controls 35% of CFP. Government officials involved in the negotiations say that the State has not asked the two firms to pursue a boycott. They add, however, that the State is not trying to prevent such a move.

The Elf-CFP letter is intended to scare off purchasers who fear the effects of legal action, and to muster support among those who oppose the Algerian expropriation. Elf and CFP are reportedly ready to bring suit before the International Court of Justice at The Hague for an indemnification of between $500 million and $800 million for their expropriated interests. They also have indicated that they will bring suit in selected countries to tie up purchases of the disputed oil. Elf and CFP have already notified the U.S. Government that a pending contract between the U.S.'s El Paso Natural Gas Company and Algeria for the purchase of natural gas concerns gas that would come from the former holdings of French companies that still remain to be indemnified.

Wilson takes tougher stance against EEC entry

LONDON -- Former British Prime Minister Harold Wilson, in a speech at Birmingham, listed half a dozen major items on which the Common Market has taken a position which he thought the UK could never accept in its bid to enter the EEC. The speech fell short of being a declaration of opposition to British entry into the Common Market, but nevertheless dismayed pro-Marketers, who have long feared that Wilson's Labour Party might use the issue of EEC entry as the lever needed to regain power. Wilson's role could be crucial,since British public opinion remains largely against membership in the EEC. The Common Market positions that Wilson found unacceptable were those on Britain's monetary contribution to the EEC budget, the proposed agricultural levies, Commonwealth sugar and butter, newsprint and fisheries, sterling balances held overseas, and cheap labor. It was under the Wilson Government that momentum for the present British bid for EEC membership built up.

Bundesbank buys forward funds to stabilize dollar

FRANKFURT -- The West German Bundesbank has bought another $500 million in three-month forward money in an effort to support the dollar. According to foreign exchange experts in Frankfurt, the purchase was in addition to a recent transaction in which the Bank bought $750 million in forward dollars. On April 27, the dollar closed at 3.6353 D-marks, up from a fixing price of 3.6351 D-marks, but down from an opening of 3.6360 D-marks. The continuing pressure, in the opinion of many West German money men, reveals basic dollar mistrust in the market. Frankfurt exchange experts have noticed a growing tendency among West German investors to treat the dollar as overvalued.

Belgium buys gold

BRUSSELS -- Belgium has converted $25 million of its foreign exchange reserves into gold. Reportedly, the transaction was with the United States,

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and involved half of a $50 million sum that the Belgians received from Britain late last March, in exchange for $50 million worth of Belgian francs. The U.S. used the money it received to repay an International Monetary Fund debt. The other $25 million was recently exchanged with the U.S. for Special Drawing Rights.

Lombardi says Italian economic outlook is bleak

ROME -- Renato Lombardi, president of Italy's manufacturers' association, told the group at its annual meeting that prospects for the Italian economy during the remainder of 1971 appear anything but encouraging. Lombardi said most of Italy's small and medium-sized firms face real possibilities of bankruptcy. Continuing political and social unrest threaten to hamper the reforms that would help to solve their problems. Lombardi thought that a recession in Italy could be avoided through higher investment, but that the business confidence necessary to prompt such investment was lacking. The association's annual report reveals that Italian textile, construction, and paper industries are in the midst of a crisis, and chemical and steel firms are in difficulties. Labor costs across-the-board rose by 20.6% last year. Social and welfare charges to companies increased by 14.9%. The result has been reduced profits and investments for almost every Italian firm.

EEC monetary committee backs renewal of Basel agreement

BRUSSELS -- The monetary committee of the Common Market has agreed to back renewal of the Basel agreement,the 12-nation pact that provides $2 billion in credit for official central bank holdings of sterling. The governors of the EEC's central banks already had agreed to back the renewal at their monthly meeting in March. However, problems over Common Market backing of the Basel agreement were expected to crop up in the monetary committee. France was seeking to make the reserve role of sterling an issue in the EEC's entry negotiations with Britain. The monetary committee did not place any ceiling on the amount of sterling that was to be guaranteed.

Record quarter for West German auto production

FRANKFURT -- For the first time ever, West German auto producers manufactured more than one million units during a first quarter. Production at West German auto plants rose to 392,886 units in March,setting a new record for that month, and pushing total 1971 first quarter output to 1,074,841 units. In January,output rose by 5.3% over the same month of last year; in February, it rose by 11.3%; and in March,it was up by 16.8%. The increase for the quarter as a whole was 11.4% over the first quarter of 1970. The figures seemed to belie manufacturers' claims that since the D-mark revaluation export sales have suffered. Some 50% of the 1971 first quarter output was exported, a unit rise of 17.6% over last year's level. However, increased labor costs have not been offset by price increases on home and foreign markets. Thus, most German auto firms are reporting substantial declines in profits.

British Steel will close ten plants, lay off workers

LONDON -- State-controlled British Steel Corporation has announced plans to close ten plants and lay off 7,255 employees between mid-1971 and end-1973. The move will cut almost 1 million tons from the firm's current annual output of 25 million tons. The main impact of the action will be felt at the Irlam works, near Manchester. There, a two-stage phasing-out will cost 4,353 workers their jobs. Company spokesmen have described the cutbacks as part of a cost-cutting program.

The company still intends to carry out its plans to invest some $432 million for new plant and equipment this year. $16.8 million of this has been earmarked for an industrial development program, which should provide up to 4,000 new jobs.

Thomson, RCA plan joint venture

PARIS --France's Thomson electrical group will hold 51%,and the U.S.'s RCA Corporation 49% of a new French company that will produce and market color television picture tubes. If the project receives the necessary French Government approval, the two companies hope to begin production some time in 1973.

Swedish Government, shipyards sign cooperation pact

STOCKHOLM -- The Swedish Government and Sweden's four major shipyards have signed a cooperation agreement to improve the yards' competitiveness,profits,and expansion prospects. The Government is to provide nearly $680 million in guarantees over a five-year period, in order to save the shipyards the expense of borrowing money on the commercial markets. This should ease the firms' problems in granting customers credit.

BASF links with APC on glue plant project

FRANKFURT -- West Germany's BASF and France's Azote et Produits Chimiques (APC) plan to share on a fifty-fifty basis the cost of constructing a glue works at Toulouse, in southern France. The planned factory will be capable of producing 60,000 metric tons of urea-formol glues per year, come on stream in 1972, and be run by a joint subsidiary. BASF is one of West Germany's chemical giants. APC belongs to the Entreprise Minierè et Chimique group, an organization controlled by the French Government.

Vetco forms Swiss subsidiary

ZURICH -- The U.S.'s Vetco Offshore Industries, Inc., which specializes in equipment and services for offshore drilling,has formed a Swiss subsidiary. Based at Zug,the new firm will arrange leases of Vetco equipment in Europe. Vetco already has marketing and technical subsidiaries in Britain and West Germany.

Bourse report

LONDON -- Equities remain strong, largely on institutional buying. Gilts register slight overall gains. PARIS -- Generally lower on lack of buying interest. FRANKFURT -- Forecast of lower dividend by Hoechst pushes most industrials down. Leading banks, motor stocks decline. MILAN -- Irregularly lower. Insurances eagerly sought; industrials slip badly. BRUSSELS -- Most industrials slightly higher; others firm. AMSTERDAM -- Plantations ease;shippings well maintained. Most local industrials weaken after strong early week showing.

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