Common Market Reports

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Community: A Way to Break Stalemates in Council?

As a possible way to overcome the persisting stalemate situation in the Council of Ministers, the EC's principal decision-making body, Commissioner Albert Borschette has recommended a modified procedure to ensure at least partial adoption of proposals submitted by Brussels. In cases where only a qualified majority can be secured for a Commission proposal normally requiring unanimous approval, Borschette suggests that the decision become binding at least for those member states that had backed the proposal. For the dissident countries the Commission would propose transitional steps until these states, too, could accept the decision. The transitional measures could be agreed upon either by the Commission or the Council.

Borschette believes that adoption of his recommendation would revive some 350 draft proposals now stalled in the Council, mostly directives seeking to harmonize national rules in various sectors. No action has been forthcoming on them either because the Treaty of Rome requires unanimous adoption - as provided, for instance, by Article 100 on all harmonization proposals (*Common Market Reports, Par. 3301*) - or because a member state cannot be outvoted on issues conflicting with its own "vital interests." The latter clause goes back to the 1966 Council resolution amounting to a de facto amendment to the Treaty following France's boycott of the Council sessions.

As the head of the Commission's directorate of competition, Borschette is of course aware that his idea, if ac-

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EC Stalemates *(contd.)*

cepted, could entail some discrimination and distortion of competition: member states that complied with, say, a technical directive could temporarily block imports of certain products from states that had opposed the directive. But even this drawback, Borschette believes, would be preferable to the Community's present state of stagnation.

Other Commission officials so far have declined to comment on Borschette's concept, which he outlined at the recent Luxembourg Trade Fair *(Common Market Reports, Par. 9655)*. But it obviously will have to be seriously considered in Brussels, especially since it also would amount to a Treaty amendment. Nevertheless, the Commission is pondering a number of other options as well in efforts to break the impasse in the Council.

Luxembourg: Elections Bring Surprise Shift to the Left

The unexpected results of Luxembourg's parliamentary elections on May 26 may lead to the formation of a government that excludes the conservative Christian Socialists for the first time in more than half a century. With the loss of three mandates, the party now holds only 18 of the 59 seats in Parliament. (The number of seats in the assembly had been raised from 56 to 59 as a result of Luxembourg's lowering the voting age from 21 to 18 years.)

The winners of the elections were the Socialist Workers' Party, which drew 29% of the vote and now holds 17 seats, and the Liberals, with 22.1% and 14 seats. The chances of a coalition administration without the Christian Socialists would depend on the finding of a common base by the Liberals and the Socialist Workers' Party. This alliance possibly could be joined by the Social Democrats, who polled 9.1% of the vote and wound up with five mandates, one less than before.

The Grand Duchy, the Community's smallest member state with a population of only 350,000, had been previously governed by a coalition of the Christian Socialists and the Liberals, resting on a 32-member majority in Parliament. In fact, the Christian Socialists had been Luxembourg's governing party for 55 years, and their Prime Minister, Pierre Werner, had held his office since 1959.

Germany: Compromise on Income Tax Reform Bill

The German Bundestag's tax committee, after weeks of marathon sessions, finally has returned the individual income tax reform bill to the floor for adoption, but not without some heavy editing of the government's original proposal. A number of amendments written into the measure would benefit individual as well as corporate taxpayers. One of them concerns maximum deductions allowed for business gifts: the government wanted to limit the deduction to DM 10 for each gift item, while the Opposition wanted DM 100. The compromise version puts the limit at DM 50, with the provision

Income Tax *(contd.)*

that each item must be readily identifiable as a promotional gift (by bearing the imprint of the company's name, etc.)

Another bone of contention was the deductibility of business expenses such as luncheons. The government, bound by a campaign promise, had planned to eliminate this tax privilege once and for all, especially since it is frequently abused. But the tax committee insisted that "reasonable" expenses should continue to be deductible, although the taxpayer claiming the deduction would be required to list on a special form the business partner's name, purpose of the meeting, and the proprietor's endorsement, in addition to the amount and date.

Tax committee members are not too optimistic about the future of the measure in its entirety. The bill is bound to wind up in conference again because no draft tax legislation can become law without approval of the Opposition-controlled Bundesrat, the upper house. Though the business gift and entertainment expense amendments most likely will find the necessary support, other and far more basic issues also require a compromise before enactment. The government coalition parties continue to feel very strongly about concepts such as tax relief for low and medium incomes, cash payments for children, and a higher tax rate on upper income brackets. The Opposition is just as adamant in insisting that the proposed tax relief would only be temporary, since continuing inflation would not only eat up the initial benefits but eventually would even worsen the taxpayer's position as he moves into higher income brackets because of inflationary wage increases. With government and Opposition so far apart on basic issues, it is anyone's guess on what the final compromise will be (*Doing Business in Europe, Par. 30,680*).

Switzerland: Amendment Seeks New Curbs on Aliens Influx

A government-proposed amendment to Switzerland's Aliens Law would enable cantonal authorities for the first time to limit the number of foreigners who settle in the country without taking up employment (pensioners, for instance). The amendment also would reduce further the number of aliens employed in sectors so far exempt from immigration curbs (*Doing Business in Europe, Pars. 29,115 and 29,465*), among them artists and members of the liberal professions. Other sectors that would be affected by restrictions on the hiring of aliens would include farming, hospitals, homes for children and the aged, and education. Non-Swiss physicians or attorneys could no longer take for granted the freedom to settle anywhere.

The government's latest move does not come as a surprise in view of the major policy objective of stabilizing the percentage of aliens in the country, an aim that is as-

Aliens Curb *(contd.)*

sured of broad political support. In 1973, some 1.05 million out of a total Swiss population of 6.3 million were aliens, of which 660,000 were employed. The various exemptions listed in the Aliens Law last year again enabled some 40,000 foreigners to move to Switzerland to work or retire. This trend could be stopped in the future, since the amendment even calls for cancellation of valid residence permits and a stop to the issuance of new ones.

Sweden: Agreement on Financing of Reforms

The Social Democrat minority government apparently has averted the need to call new Swedish elections this year by gaining the opposition Liberals' agreement on the financing of a series of reforms. This support of the compromise deal will assure the Olof Palme administration of a 190-vote bloc in the 350-seat Riksdag when the economic policy measure comes up for a vote. The proposals provide for income tax and surtax reductions for most income groups next year, for the abolition of employee contributions to the health insurance system, and for an increase in old-age pensions. The legal retirement age is to be lowered from 67 to 65 years as of July 1, 1976.

Almost the entire burden of the package will have to be assumed by the employers, whose social benefit costs would go up by a total of 8 billion kronor. Employer contributions to the health insurance plans would be raised as of 1975, those toward the old-age pension system would go up in steps to reach a specified level in 1977, and those toward the supplementary pension programs would be increased as of Jan. 1, 1977.

The Liberals, in defending their collaboration with the government on this package, take credit for having turned back a Social Democrat proposal for a drastic boost in the employer payroll tax, which would have hurt business and industry even further. They have also insisted on the exemption of self-employed persons (such as farmers, fishermen, shopkeepers, artists, and writers) from employer contributions on annual incomes of up to 10,000 kronor.

The Palme government evidently has picked an opportune moment for the deal, since the country's economic situation has shown a slight improvement lately: business activity and investment has been gaining momentum, unemployment is dropping, and the Finance Ministry is now predicting a 4.5% gain this year for both the national product and domestic demand. The rate of inflation, however, is still expected to exceed 10% on the average. Still, the brighter economic outlook seems to have had a decided effect on the latest public opinion polls, which give the Social Democrats and the Communists a narrow majority over the non-socialist opposition parties.

Portugal: Lisbon Decrees Minimum Wage, Price Controls

A guaranteed minimum wage, a freeze on upper-bracket salaries, and price controls have been decreed for the first time in Portugal's history by the new provisional government, which is composed mainly of representatives of the country's political Left and Left Center. The monthly minimum wage of 3,300 escudos will affect about 65% of 3.3 million workers; separate provisions are to be made later for agricultural workers and household personnel. The legal minimum wage still lies appreciably below the 6,000-escudo average now earned by industrial workers as a result of the strikes and demonstrations that accompanied the fall of the former regime.

Lisbon also froze salaries above 7,500 escudos until further notice and announced that price controls would be forthcoming shortly. The banking and monetary sector is bracing for additional regulations that are to take effect within 30 days. Temporary restrictions so far have been aimed at preventing a flight of capital from Portugal. For individual travel abroad a maximum quota of 30,000 escudos has been established, and the export of valuables has been prohibited. To prevent a rush on banks, withdrawals from accounts by both individuals and businesses have been limited to certain amounts and purposes. Furthermore, the government has released a schedule listing products that may be neither imported nor exported for at least 30 days, including luxury articles, textiles, glassware and porcelain, and cosmetics.

The appointment of a "liberal" technocrat, Vieira de Almeida, to head the important Ministry for Economic Coordination indicates that the provisional government intends to follow a moderate course in its economic policy. De Almeida is said to favor curbing the economic power of Portugal's "one hundred families," which control key industries and have consistently exerted strong influence on government policy at home and in the overseas territories. Most of them hold quasi-monopoly positions under the umbrella of a state permit system that in the past has limited or blocked establishment of new businesses or the expansion of existing facilities.

The lack of effective competition at home has enabled these groups to build their position on cheap domestic labor rather than on efficient production methods. This protected situation could change quickly under the new government. Another force to be reckoned with is the unions, which have now been legalized. Following the coup in April, wide sections of industry have been plagued by militant strikes and demonstrations, mostly for higher wages. These actions at one point even stopped public transport, mail services, and bread supplies in Lisbon, despite the government's most recent move concerning a minimum wage.

EURO COMPANY SCENE

Fiat/
Alfa Romeo/
Saviem

Italy's Fiat and Alfa Romeo, which is controlled by the state holding IRI, have signed a cooperation pact with Saviem, truck subsidiary of France's state-owned Renault, for the development and production of high-speed, medium-power (40-100 h.p.) diesel engines for use in light industrial vehicles, automobiles, motorboats, tractors, and other utility equipment. The three car makers, each holding one-third of Società Franco-Italiana di Motori (SFIM), the joint company to be formed for the purpose, will invest over 100 billion lire in production facilities to be located in southern Italy. The new plant - reportedly the world's largest for this type of diesel engine - is scheduled for completion in 1976, with an eventual capacity of 1,000 units daily and a work force of 2,300. Some 55% of production will remain in Italy, while 45% will be exported, much of it to Saviem. This is Fiat's first major undertaking with a foreign partner since the collaboration with Citroën was broken off last year.

ERT/
Hoechst/
TAQSA

Union Explosivos Rio Tinto (ERT), the Spanish chemicals group, and Germany's Farbwerke Hoechst AG have formed a joint subsidiary, Tarragona Quimica SA (TAQSA) in the province of Tarragona. ERT controls 55% of the new company's share capital, Hoechst 30%, and its Spanish subsidiary Hoechst Iberica 15%. Investments for the project, including planned production facilities for low-pressure polyethylene (50,000 tons p.a.), polypropylene (25,000 tons), and vinyl acetate (75,000 tons), are expected to total 4.5 billion pesetas. The plant is to be ready by the second half of 1976.

Monsanto

Monsanto Polymers & Petrochemicals, a unit of Monsanto Co., St. Louis, Mo., plans to expand its European plastics production by 75,000 tons to about 200,000 per year with the construction of two new plants adjacent to existing facilities at Wingles (Pas de Calais), France. The company did not reveal the cost of the "multimillion-dollar" projects, although elsewhere a figure of up to $30 million has been reported. One of the plants, with an annual capacity of 50,000 tons of polystyrene, is to go on stream by the end of next year, while the other (25,000 tons of expanded polystyrene) is scheduled to be operational by mid-1976. Monsanto's other major plastics production facilities in Europe are located at Monzón, Spain, and Newport, South Wales.

Norrbottens

The Swedish parliament has approved the government's plan for a new 3.8 billion-kronor semifinished-steel production complex to be built for Norrbottens Järnverk Ab (NJA), the state-owned steel concern, at Lulea, northeastern Sweden.

Norrbottens *(contd.)*

Action on the Social Democrat-backed plan is said to have been hastened in order to give Norrbottens a jump on the expected competition from other European steelmakers, a factor that has produced much skepticism about the project's eventual profitability. The new facilities, with an annual capacity of 4 million tons, will employ some 2,300 workers. Most of the investment capital is to be supplied by the state, either directly or through its industrial holding Statsföretag. The rest will have to be raised on the international money markets.

Shell U.K./ Condeep

Shell U.K. Exploration & Production has ordered yet another £33-million oil production platform from Norwegian manufacturer Condeep. The concrete platform, ordered under an option for a second Condeep installation written into a contract negotiated in August 1973, will be operational by 1976. Shell spokesmen noted that Condeep was the only European platform builder that could deliver to Shell specifications in that time.

Grace

Grace GmbH, one of the two German subsidiaries of W.R. Grace Co., New York, currently is building a new plant for the production of chemical compounds for the construction industry. The facility, near Worms, will require investments of about $4 million. With a worldwide turnover of $2.8 billion, W.R. Grace last year had sales totaling $809 million in Europe, where the concern now operates 49 production plants and employs 25,600.

Sté. Suisse Horlogère/ Hamilton

Société Suisse pour l'Industrie Horlogère, a Swiss holding company, reportedly has increased its 17% stake in Hamilton Watch Co. of the United States to complete ownership for $2.25 million. Three years ago the Swiss group acquired Hamilton's trademark and marketing rights outside of North America.

VDO Schindling/ Solid State Scientific

VDO Adolf Schindling AG of Germany has confirmed that it is forming a joint semiconductor venture together with Solid State Scientific, Inc. (SSS), of Montgomeryville, Pa. Although VDO will put up 100% of the SF 10-million capital in the new subsidiary, probably to be based in Switzerland, SSS will acquire a 40% stake by contributing know-how. The joint holding - as yet unnamed - is expected to begin operations in 1976.

Siemens/ Applied Radiation

Germany's Siemens AG has taken over Applied Radiation Corp. of Walnut Creek, Calif., for an undisclosed sum. Siemens will now handle worldwide distribution and service of the company's cancer radiotherapy equipment.

Van Delden

The Van Delden textile group of Germany has established Delden, Inc. in New York to produce for the American market.

Alcan Germany/ Aluminium-folienwerk	Alcan Aluminiumwerke GmbH and its subsidiary, Alcan Folien GmbH, German members of Canada's Alcan aluminum group, have taken over Aluminiumfolienwerk GmbH, a Berlin-based processing operation, for an unnamed price.
Sony/ Eltra Trading	Sony Overseas, a member of Japan's Sony group, is said to have acquired the entire 1.2-million-kroner share capital of Eltra Trading & Holding, Sony's Danish distributor. Details of the transaction were not revealed.
Ralston Purina/ FMS/ Confood	A spokesman for Ralston Purina Intercontinental AG, of the U.S. Ralston Purina group, indicates that the company has not sold its Food Management Services BV (FMS) subsidiary in the Netherlands to Confood Management Services BV as was previously reported. Confood, a Dutch industrial catering concern, has merely purchased the FMS "food component preparation business in Holland." According to Ralston Purina, "present plans for (FMS) remain uncertain, but the company shall continue in existence and may eventually resume its food preparation and/or distribution activities."
First National Finance/ Chase	First National Finance Corp. has announced plans to sell 50% of its consumer finance operations in the U.K. to Chase Manhattan Bank. FNFC is one of London's leading secondary banks; its consumer finance operations have gross assets of some £120 million. Final details of the deal were still to be announced, and the extent of Chase's financial commitment was not yet known. There was some speculation in the City that the deal was essentially a "rescue operation" and that FNFC was experiencing difficulties similar to those encountered by a number of U.K. secondary bank institutions. This was denied by the company's managing director, Pat Matthews, who stressed the advantages of the link-up - notably for Chase, which recently shelved plans to launch its own retail banking operation in Britain. Before the transaction becomes final, approval must be obtained from the U.S. Federal Reserve Board and the Bank of England.
Bank of New South Wales	With the opening of a Frankfurt bureau, the Bank of New South Wales reportedly has become the first Australian bank to establish a representation in Germany.
Bank of Ireland	The Bank of Ireland has opened its first Continental European representation in Frankfurt.

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Community: Draft Directive on Protecting Worker Rights

The European Commission has prepared a draft directive to protect employee rights in case of corporate merger or other changes in ownership (for example, when a nonlegal entity is being absorbed by another business, corporate or noncorporate). In taking this step, Brussels follows the Council of Ministers' call for a social action program expressed at the Paris Summit of October 1972 and reaffirmed last January. The Commission would like to see existing national rules harmonized, but not at the cost of a setback for advanced legislation already in effect in some member states, since this would be contrary to the Treaty of Rome objective of improving the standard of living and working conditions throughout the Community (Article 117, *Common Market Reports, Pars. 3902 and 3906*). Adoption of the directive would entail substantial obligations by the U.K., Ireland, Denmark, Belgium, and the Netherlands, which have no rules at all in this area. But even France, Germany, and Italy would have to upgrade existing or proposed legislation.

Incorporation of the concepts contained in the directive would ensure that employees do not forfeit "all rights" and benefits acquired prior to the change of ownership. This would be achieved mainly in three ways:

- an automatic transfer of responsibilities in the employer-employee relationship to the new owner;

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Worker Rights *(contd.)*

- prohibition of layoffs resulting entirely from legal consequences of the ownership change (dismissals could be justified, however, by "pressing business reasons"), and
- the requirement to inform employee representatives, usually the unions, of any planned merger or other change of ownership likely to prejudice employee interests. In such a case, both the present and future employers would be required to negotiate with the employee representatives on social relief measures to be taken.

Commenting on this proposal, Commission Vice-President Patrick Hillery readily conceded that the draft closely follows demands made by the labor unions of all member states and that business leaders are less than enthusiastic about it. Hillery was confident, however, that the Council eventually would approve this measure, perhaps with minor changes.

EC Relieved over Giscard's 'Promise'

In view of the fact that no high hopes had been riding on the Paris meeting of French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt, Giscard's promise not to resort to import restrictions as a way to cope with his country's payments problems was considered spectacular enough. If France keeps its word to stay clear of the protectionist route, the Community might be spared yet another crisis despite the recent Italian and Danish measures and a possible similar move by the U.K.

Many economists point out, however, that the French government has very few options for trying to deal with the estimated deficit of $6-7 billion in the 1974 balance of payments, caused for the most part by high-priced crude oil and raw material imports. Raising taxes would be one way of obtaining additional revenue to pay for these imports, but here Giscard finds himself in a dilemma: placing a greater burden on low incomes is entirely out of the question, and a tax boost on medium incomes would also endanger the support the President hopes to get from at least some of the backers of his defeated opponent François Mitterrand. Additional revenue would be needed anyway to carry out some portions of Mitterrand's programs, a move through which Giscard would hope to protect his slim majority.

Devaluation of the franc, the classic monetary instrument, offers no solution, either. France's breakout from the EC's monetary "snake," which amounted to a de facto devaluation, has failed to produce the hoped-for results. An outright devaluation at this point actually could make things worse, since the vital crude oil imports would become even more expensive in franc terms.

France could perhaps choose to boost its exports through state aids, a step which in this particular situation may be compatible with Treaty Article 92 (*Common Market*

EC Relief *(contd.)*

Reports, Pars. 2922.21, 2922.25, and 2922.28). Another option, which would find backing in Brussels, could be to compel taxpayers to make larger advance payments. This could serve as a stopgap measure and at the same time prepare the ground for financial assistance, which Bonn had already offered last year but which was rejected by the late Georges Pompidou. While Schmidt did not repeat the offer this time, acceptance would now be more likely, provided that Brussels rather than Paris proposed a stand-by credit from the Germans.

Britain: Green Paper on Company Law Reform

In its Green Paper on company law reform published on May 29, the U.K.'s Labour government working party (policy committee) predictably has taken a tougher line than did the previous Conservative government in the subsequently lapsed Companies Bill (*Doing Business in Europe, Par. 30,692*). The two principal points in the document are

- a proposal to establish a Companies Commission responsible to Parliament but with wide-ranging authority over the at present self-regulatory bodies of the Stock Exchange and the Takeover Panel and, perhaps, over the new Credit Commission, and
- the establishment of "industrial democracy" in the form of two-tier board structures in which 50% of the upper, supervisory board would be composed of labor union-elected representatives. As expected, the Labour committee opts for this structure rather than the works council concept, which would, it is believed, run counter to collective bargaining by labor unions.

In proposing the establishment of a Companies Commission, the committee made it clear that it did not consider the City capable of regulating itself effectively. The Stock Exchange was singled out for criticism as lacking the will and determination to curb "widespread City scandals" (such as those involving Distillers Co. and London and County Securities). Both the SE and the Takeover Panel were deemed incapable of keeping abreast of current practices and abuses. Although the Stock Exchange rejected the allegations and queried the need for a Companies Commission, there can be little doubt that the City's traditional preference for self-regulation is not as pronounced as it once was. Leading figures in the City have acknowledged that the case for legislative control is a good one, given the highly convoluted state of the financial markets.

Apart from the controversial proposals outlined above, however, the Green Paper contains few major suggestions for the reform of company law that were not already contained in the Conservatives' bill. Proposals in respect of warehousing and nominee holdings are only marginally different, al-

Green Paper *(contd.)*

though a noteworthy attempt has been made to provide a definition of insider dealing. Whereas the Conservative bill held that an insider was someone "connected" with a company (for instance a director, large shareholder, or professional advisor), the working party has widened the definition to include "anyone" who uses price-sensitive inside information in order to make a profit (or avoid a loss). Critics have been prompt to point out, however, that the working party has failed to describe how its "global" approach could possibly be given practical effect.

Stock Exchange to Tighten Liquidity Rules

The U.K.'s Stock Exchange Council is taking steps to tighten its supervision of the cash position of member firms by stipulating that they submit quarterly returns, in standard form, showing their liquidity margins. The council has also indicated that this obligation may in time be imposed on a monthly basis. The council is at present reviewing its liquidity requirements, as well, and is expected to announce stricter ones soon. Up to now, noncorporate members have been obliged to submit audited accounts at year-end only plus one unaudited liquidity margin statement during the course of the year. Stock Exchange rules require each partnership to have £5,000 cash per partner in excess of liabilities; limited corporate members require similar coverage, namely, £10,000 per director or associate member.

The council's moves - although long in the pipeline - were precipitated by the recent spate of "hammerings" of major stockbroking firms that were suddenly unable to meet their commitments.

Italy: Action Urged 'Before It Is Too Late'

The desperate status of Italy's payments and trade balances and the corresponding ills in the domestic economy have prompted a number of urgent appeals for a national crisis program while there is still time. Speaking at the central bank's annual meeting, the governor of the Banca d'Italia, Guido Carli, demanded sweeping fiscal measures to complement the existing monetary restrictions. A return to economic stability and "solvency," Carli said, could not be accomplished without major sacrifices by all Italians. Specifically, the governor favored a draconic increase in income taxes at all levels, a raise in value-added tax to cover all products, the discontinuance of "political prices," and additional curbs on imports, particularly of raw materials. For the international monetary sector Carli recommended the sale of gold among central banks in order to enable them to settle their payments deficits.

Earlier, the new president of the Confindustria employers' association, Fiat's Giovanni Agnelli, warned that "only a few months" remain for Italy "to correct its errors." Agnelli offered industry's cooperation to the government and

Action Urged *(contd.)*

labor, but in return demanded a change in the policies which, he said, have favored state industries and "parasitical" operations of public agencies to the detriment of private enterprise.

Meanwhile, Budget and Planning Minister Antonio Giolitti was quoted as saying that the government was indeed willing to impose "cruel and surgical" measures if necessary. In fact, the Rumor administration reportedly was preparing several moves to contain the deficit spending of the public sector and skim off purchasing power. Aimed to raise a total of 3,000 billion lire in additional revenue, these measures are said to include higher gasoline taxes and utility and transport rates, introduction of a special tax on meat to throttle consumption and imports, as well as higher income tax and VAT rates.

OK for Change in Dividend Taxation System

Government-sponsored legislation reintroducing the dividend withholding tax (*cedolare secca*) as part of a limited stock market reform has now been retroactively approved by Italy's Chamber of Deputies. The law, which had been in effect since April 9 by virtue of a decree, provides for a flat 30% tax rate on dividends at source and precludes the need to declare dividend income in annual tax returns. The withholding system had been tried once before, in the years 1964-67, but was then discontinued.

In submitting the bill to Parliament, Treasury Minister Emilio Colombo explained that the legislation was necessary to boost investors' confidence and thus give productive industry, which is already chafing under severe capital restrictions, a better chance to raise venture capital on the domestic stock market.

Germany: Proposals for More Consumer Protection

The German government's Consumer Advisory Council has recommended a variety of measures, both legislative and nonlegislative, to broaden consumer protection. Proposed is an ambitious research and development program, specifically including intensified scientific efforts in evaluating and controlling toxic matters (in additives, for example). Also recommended is adoption of standardized methods of analysis in tracing and measuring residues, including uniform sampling methods for statistical evaluation. The council furthermore encourages development of additives having few or no toxic effects to replace certain existing additives considered to be potentially hazardous to human health.

In the legislative area, the consumer advisors urge a ban on nitrate in foodstuffs and a reduction in permissible nitrite levels as well as a limit on foreign matters in animal feed and in meat and meat products. The use of drugs and vitamins in the raising of livestock should also be curbed, the council says.

Consumers *(contd.)*

Some of the suggestions concerning legislation already have been incorporated in pending bills or are being studied, government officials said. It is doubtful, however, whether even a few of the nonlegislative recommendations could be realized because of budgetary limitations.

EURO COMPANY SCENE

Commission/ Glass Producers

The European Commission has accused leading producers of glass containers in Belgium, France, Germany, Italy, and the Netherlands of violating free competition provisions of Article 85 of the Treaty of Rome and has ordered them to immediately desist from their illegal activities. No fines were imposed, especially since the affected companies had apparently been unaware of their offenses. The firms had belonged to the Liechtenstein-based "International Fair Trade Practice Rules Administration," through which they had agreed to observe certain "fair competition" rules. In reality, these turned out to be restrictive in the areas of pricing, discounts, and trading conditions, according to the Commission. Since the Italian and German manufacturers reportedly quit this association in late 1971 and '73, respectively, only the other glass producers still must comply with the ruling.

Volkswagen

Following brief but intensive investigation, Germany's Federal Cartel Office has dropped the proceedings it had instituted against Volkswagenwerk AG for alleged abuse of a market-dominating position in setting new 6% price increases. According to the agency, evidence brought by the auto maker regarding its present financial situation and the magnitude of cost increases it is being forced to absorb (estimated at some DM 1.4 billion) has removed any suspicion of illegality. The Cartel Office commended VW for its "unreserved frankness" in disclosing company accounts and other pertinent information.

In other news, Bridgetown, Ohio, is rumored to be heading Volkswagen's list of possible sites for U.S. manufacturing operations. Company spokesmen have confirmed that the city is under favorable consideration but have declined to comment further.

Chrysler France

French unions are bitterly opposing Chrysler France's intended dismissal of 700 of its 33,000 employees to offset the consequences of declining sales. Chrysler reportedly has been hardest hit of the leading French auto makers, all of which have suffered market setbacks except for Renault, because of its limited model range - not enough small types - and high dependency on exports. Labor leaders have threatened to appeal directly to the new government should Chrysler go through with the dismissals.

BLMC Spain

In reaction to a prolonged strike for higher wages, the management of British Leyland Motor Corp.'s Authi branch plant at Pamplona, Spain, has locked out 1,700 workers, about 80% of the work force. It was not announced how long the lockout would be in effect. The workers started strike action on May 27 in support of their claim for a monthly pay raise of 6,000 pesetas. Company management had limited its offer to 2,300 pesetas. Since strikes are illegal under Spanish law, the rebellious Authi workers have been meeting in churches, which police supposedly cannot enter without specific permission. The occasional circumvention of this rule by the police has now also led to confrontations between the Roman Catholic Church and the authorities.

Ministry of Industry permission for General Motors to take over BLMC's 98% stake in Authi is still pending.

ESRO/ 'Spacelab'/ VFW-Fokker

The administrative and financial committee of the European Space Research Organization (ESRO) in Paris decided on June 5 that the European "Spacelab" will be built by a consortium of companies headed by Erno Raumfahrttechnik GmbH, Bremen, subsidiary of the German-Dutch aerospace group VFW-Fokker-Werke. The $200-million Spacelab project will be Europe's contribution to the United States' post-Apollo program involving the development of space shuttles for launching in the 1980s.

Sundstrand

Zahnradfabrik Friedrichshafen AG (ZF) of Germany, a leading European manufacturer of gears and transmissions, and Sundstrand Corp. of Rockford, Ill., have concluded several cooperation agreements and a licensing pact covering hydrostatic-mechanical drive systems, primarily for mobile plant and construction equipment. ZF will handle sales of Sundstrand hydrostatic units in Europe, while Sundstrand will distribute ZF products on the U.S. market and will manufacture certain ZF equipment under license. ZF has also just set up a new U.K. subsidiary, ZF Gears Great Britain Ltd.

Voith/ Morden/ Esco

Germany's Voith mechanical engineering group has obtained a majority stake in Morden Machines Co. of Portland, Ore., from former owner Esco Corp., also of Portland, for an undisclosed sum. The takeover of Morden, supplier to the cellulose and paper industry, offers Voith a strong foothold on the U.S. market, where the German company is also considering setting up manufacture.

Athlon/ Lippische

Athlon Industries of Parsippany, N.J., is reported to have acquired 80% of the DM 3.9-million share capital of Germany's Lippische Eisenindustrie AG for $480,000. The German manufacturer of nuts and bolts had sales totaling some DM 19 million last year.

Comco	Comco Electronics Corp., a joint venture of Hughes Aircraft, Inc. of the United States and Compagnia de Electronica y Comunicaciones SA (Cecsa) of Spain, is chief contractor for a Spanish-U.S. government project to develop an electronic airspace surveillance system for Spain. The "Combat Grande" system is officially being supplied by the U.S. Air Force.
Winterthur/ CNA/ Loews	The Winterthur insurance group of Switzerland reportedly has received permission from the State of Illinois to acquire an unspecified stake of over 10% in CNA Financial Corp., a Chicago-based insurance holding. At the same time, Loews Corp. of New York, which owns 7% of CNA and is contemplating a takeover offer for at least another 50% of the company's capital, has filed a U.S. District Court suit in Chicago against Winterthur, its president, and the president of CNA. Loews claims that Winterthur and CNA conspired to influence Illinois state insurance authorities in order to block Loews' bid. Loews also accuses the Swiss company of violating the U.S. Securities and Exchange Act.
EIB/ Electricité de France/ North Scotland	The European Investment Bank (EIB) in Luxembourg has placed two loans worth 34 million units of account for major projects in the European energy sector. Electricité de France has obtained a 20-year, 14 million-unit credit for construction of the second segment of its Bugey nuclear power plant now being built at St. Vulbas on the Rhone. The loan carries interest of 9.5%. The bank is lending 20 million units of account, also for 20 years and at 9.5%, to the North of Scotland Hydro-Electric Board, which is building a 1,320-Mw thermal power plant in Peterhead, Aberdeenshire, on the northeast Scottish coast.
Bank of America/ Banco Bilbao/ BBA Leasing	Bank of America NT & SA has joined with Spain's Banco de Bilbao to set up a new industrial and commercial leasing venture in Madrid, BBA Leasing SA. The two banks are equal partners in the company.
Barclays/ First Westchester	U.S. banking authorities have granted approval to the U.K.'s Barclays Bank International Ltd. for its takeover of First Westchester National Bank of New Rochelle, N.Y.

Common Market Reports

EUROMARKET NEWS

Issue No. 283 *Report No. 241, June 19, 1974*

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Community: U.K. Stalls Directive on Mass Layoffs

The Council of Ministers has failed to adopt the European Commission-drafted directive seeking harmonization of national rules on mass layoffs, although the measure earlier had had the unanimous support of experts from all member states. Paradoxically, it was the U.K. Labour government's stalling tactics in connection with renegotiation of entry terms that blocked what would be, in effect, a major extension of workers' rights. British spokesmen had claimed that more comprehensive mass dismissal legislation would be introduced in the U.K. parliament: it is known, however, that this is still in the discussion stage and that a bill is several months away. At any rate, legal observers consider this argument too weak - its application in other situations would bring the Council to a complete legislative standstill. In view of this latest maneuver, the U.K.'s pledge that renegotiation will not hold up the normal work of the Community is beginning to look unconvincing to many observers. *(See also page 4.)*

In Brussels, Commission officials were still confident, however, that the British eventually would accept the draft directive on mass layoffs, assuring its passage. Largely modeled after German rules (*Doing Business in Europe, Par. 23,436*), the directive would not actually prohibit layoffs, but it would require member state legislatures to introduce uniform and, for several states, new safeguards against unfair dismissal. These would include

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Mass Layoffs *(contd.)*

- an employer's obligation to notify the authorities of planned large-scale layoffs;
- the opportunity for authorities to intervene, and
- mandatory consultation between the employer and workers' representatives, possibly leading to compensation agreements.

The draft provides that if the management of a company with at least 250 employees wished to lay off 25 or more within a one-month period, it would have to consult with the workers' representatives prior to notifying the authorities. This requirement is meant to avoid, or at least reduce, the number of layoffs effected by means of transfers or retraining and to alleviate the economic consequences to the dismissed employees.

In its notice to the authorities, management would have to substantiate the planned layoffs and indicate the results of the consultation and negotiation with the workers' representatives. Dismissals would not take effect for one month after notice was given, during which time the authorities could seek or propose solutions. Finally, the authorities could prevent a layoff if the reasons given were considered inadequate.

Agreement with Washington on Tariff Cuts

The Common Market's new agreement with the United States on tariff cuts compensating the U.S. for damage caused to its exports when Britain, Ireland, and Denmark joined the EC has been hailed as a "mutually beneficial breakthrough" that serves to avert the danger of an international trade war. The failure of the agreement to include cereal grain, the most sensitive commodity of American agricultural exports, does not detract from this success (the wheat debate will be resumed at the GATT negotiations in Geneva later this year). Nor is the accomplishment diminished by the Commission's statement that "the accord will have no great effect on the flow of trade," because it logically follows from Brussels' position that the EC's enlargement never inflicted any real damage in the first place, precluding compensation under GATT Article XXIV(6). It was conceded that between $750 million and $1 billion worth of U.S. exports to the three newcomers was affected, but that actual damage caused by higher British, Irish, and Danish tariffs involved only a fraction of total American exports.

Still, the concessions for the goods affected - primarily citrus fruit, nonmanufactured tobacco, kraft paper, nonagricultural tractors, dump trucks, and earth-moving equipment - were substantial enough. They even prompted Belgium, traditionally a supporter of free trade, to abstain from the provision lowering tariffs on photographic film from 12 to 8%. Duty cuts to take effect on Jan. 1, 1975, involve oranges and grapefruit (from 15 to 4% for imports between April 1 and Oct. 15), nonagricultural trac-

Tariff Cuts *(contd.)*

tors (from 20 to 14%), and caterpillars (from 11 to 9%). For dump trucks, a bone of contention between France and the other member states, two reductions are scheduled: from 22 to 20% next January and further down to 17% on Jan. 1, 1976.

Italy: Rumor Cabinet Quits in Rift over Proposals

Disagreement over a crisis program for Italy's stricken economy has broken up the Left-Center coalition government of Prime Minister Mariano Rumor, who submitted his resignation on June 10. His cabinet had been in office less than 13 weeks. The collapse followed several days of heated argument about Socialist and labor objections to the drastic austerity measures the administration had planned to impose, including higher income and value-added tax rates and public transport fares as well as price increases for gasoline, certain consumer goods, and foodstuffs (meat).

During the negotiations that preceded the government's fall, the labor unions had made their approval of any crisis program conditional on a firm pledge that the measures would not lead to a loss of jobs and further reduce the purchasing power of workers. The Socialists wanted to prevent additional problems for small and medium-size business and industry, though they basically favored higher taxes. The government's difficulties were compounded by a disagreement with central bank authorities over the policy to be followed in the monetary and credit sector, specifically over feasibility and modalities of an international loan in the amount of $1 billion, which was to have been secured by the national gold reserves.

In the course of the latest confrontation, there was persistent speculation on an impending devaluation of the lira, which has lost more than 18% in value since it began to float in February 1973. Earlier, the Bank of Italy had revealed that the country must meet an annual interest debt of $700 million on some $10.5 billion borrowed from abroad over the last two years. At latest report, Italy's foreign payments deficit is totaling more than $1 billion a month, and the trade deficit for the January-April period amounted to 2,700 billion lire, nearly three times as much as for the corresponding 1973 period. In an interview published three days before the collapse of the government, Trade Minister Matteo Matteotti called for further tightening of the import curbs imposed on May 7 because their effect on imports of consumer goods and foodstuffs had so far been negligible.

There is still the possibility that the Rumor government will tentatively continue in office: the Italian President on June 14 rejected its resignation "in the higher interest" of the country and urged that talks continue.

Britain: Softer Tone Marks Bid for Renegotiation

U.K. Foreign Secretary James Callaghan's speech to the EC Council of Ministers in Luxembourg early this month provided further details of the changes Britain is pressing for in the terms of its Community membership. The tone of the speech, however, provoked the most comment: gone was the strident approach that had characterized Callaghan's earlier statement of April 1 (*Doing Business in Europe, Par. 30,705*). There was little doubt that the U.K. had acknowledged the new political realities in France and Germany and recognized the possibility that a growing entente between these two countries could well be matched by a growing impatience, bordering on intransigence, vis-à-vis British demands.

The charter for renegotiation still contains five principal headings: the Community budget, the Common Agricultural Policy, the position of Commonwealth and developing countries, the U.K.'s domestic regional and industrial policy, and, on the horizon, the future of Economic and Monetary Union. But the British attack is concentrating on the Community budget. Callaghan claimed that, based on recent estimates, Britain's share of the budget by 1977 would be on the order of 550-600 million units of account; this would rise to 700-800 million in 1980. This means that the U.K. would be providing some 24% of the Community's "own resources" in 1980 as against 13.5% in 1975. At the same time, however, recent estimates also predict that the British share of Community GNP will be some 16.5% in 1977 and will slump to 14% in 1980. These figures, it was emphasized, are generous and allow for revenue from valuable North Sea oil supplies.

Callaghan thus would appear justified when he claims that the initial terms of entry as negotiated were inequitable. In effect, the U.K., with below-average GNP per capita, would be obliged to make "massive resource transfers" to other members of the Community, including those with above-average GNP. No specific proposal was advanced by Callaghan, although "a possible principle might be based on the recognition that a member state with below-average GNP per head should be accorded appropriate treatment." This "system" could be "self-correcting in the sense that the adjustments would become smaller as the dimensions of a member state's problems diminished." It was here that the Secretary was at his most conciliatory; he stressed that he was not asking for a "special regime" for the U.K. alone but that it was in the interest of all members to find a solution taking account of economic differences and helping promote economic convergence. An essential requirement of British renegotiation was that the Community find such a solution.

Callaghan's change of tone predictably angered anti-EC backbenchers in Parliament who insist that renegotiation will result in Britain's once again being "sold short."

U.K. Publishes Revised Code on Takeovers

The U.K. City Code on Takeovers and Mergers has been revised and the new version, published June 6, is effective from that date. The revised Code reveals major changes from the 1972 version, the most important of these relating to a new "30% requirement," partial bids, conditional bids and withdrawals, and persons "acting in concert."

Of these changes, by far the most important is the requirement that a purchaser who builds up a 30% stake in a company must make a formal bid for the rest of the shares in that company. This means that the buyer is obliged to offer other shareholders the highest price he has paid in the course of the previous 12-month period for shares in the company in question. The rewritten Rule 34 also provides that an offer will not become conditional unless the bidder secures a sufficient number of acceptances to bring his holding to a controlling level of over 50%.

As of June 6, partial bids will generally not be allowed if they bring a holder's stake to between 30 and 50%. The new requirements (Rule 27) also specify that partial offers to provide a holding between 50 and 100% will generally be dependent on the acquiescence of the board and the offer will be subject to the approval of the holders of not less than 50% of the voting rights not already held by the offerer and persons acting in concert.

Stringent provisions have also been laid down in Rule 8 to prevent bidders from making offers that they cannot carry out (as in the recent St. Martins Property/Hays Wharf case, where the shareholders of the bidder company declined to approve the raising of extra capital that would have been vital to implement the proposed bid). As of June 6, a general bid will not be possible until clearance for such a bid has been obtained, where applicable, from the bidders' shareholders or other parties. Rule 8 also stipulates that all conditions relating to a bid must be announced at the time the offer is made known: this would include above all an announcement that where an offer comes within the statutory provisions for possible reference to the Monopolies and Mergers Commission, a condition must be included that the offer will then be withdrawn. All conditions have to be met within 21 days of the bid's closing or being made unconditional, failing which it will lapse. The Panel has also made it clear that withdrawal of a bid will be possible "in only very exceptional circumstances."

France: Paris Decrees Higher Personal, Company Taxes

In efforts to cool down domestic inflation and safeguard the country's payments position, the French government on June 12 submitted a 16-point program imposing higher taxes on upper-bracket personal incomes and on companies, public expenditure cuts, curbs on fuel consumption, and continued credit restrictions. In all, these measures are

Higher Taxes *(contd.)*

to sift off some FF 10 billion within 1974 and to slow price inflation from a current annual rate of nearly 20% to less than half within a year.

The major impact will be on companies, for which the 1973 tax bill goes up by 18% on a retroactive basis. In addition, certain limits will be placed on tax write-offs during a one-year period ending on June 30, 1975. All this should raise the total corporate tax debt by FF 6 billion.

Furthermore, the Treasury expects to raise some FF 2.5 billion by way of a progressive tax increase of between 5 and 15% this year for earners of higher incomes. Only the first 5% of this surcharge is to be refunded as of July 1975.

Other measures - some of which still require parliamentary approval - include the proposal to reduce public consumption of oil products by up to 20% in order to cut the country's large fuel imports bill.

EURO COMPANY SCENE

Slater Walker/ Bowater

The U.K.'s Slater Walker group has demonstrated that it is determined to reduce its interests outside Britain in a new policy devoted to building up its cash reserves. Hard on the heels of its move out of the United States and Australia, SW has now sold its bank and its 84.3%-owned industrial holding company in Germany to the U.K.'s Bowater Corp., subject to approval by the British authorities. Bowater expressed satisfaction at being able to acquire SW's Slater Walker Bank AG and Colditz Industrieholding AG, both in Frankfurt, for about DM 21.3 million. The Bowater group is already represented in Germany through majority interests in Wickrather Handels- und Beteiligungsges. AG, Rhenania Schiffahrts- und Speditions GmbH, and other indirect participations.

International Paper/ Chambers/ BPB

International Paper of the United States has gained a first foothold in the U.K. packaging industry following the acquisition of Chambers Packaging, a minor producer of corrugated containers previously owned by Britain's BPB Industries. No price was disclosed.

Montedison/ Sojuzchemexport

Italy's Montecatini Edison SpA and Sojuzchemexport of the Soviet Union have signed a five-year, 100 billion-lire agreement for the exchange of chemical products. According to the pact, Montedison will export base chemicals to the USSR in exchange for intermediary chemicals.

GKN/ Arcos

Britain's GKN Engineering has acquired over 90% of the shares in Belgium's La Soudure Electrique Autogène Procédés Arcos SA and 100% of its subsidiary Arcos Gesellschaft für

GKN/Arcos *(contd.)*	Schweisstechnik in Germany, major producers of electric arc welding equipment with interests throughout Europe and in the United States, Canada, Brazil, and Japan. Details of the transaction have not been revealed.
Boehringer/ Sturge	C.H. Boehringer pharmaceuticals of Germany has made a 117p-per-share cash bid for the U.K.'s John & E. Sturge chemicals group, manufacturers of citric acid and calcium carbonate. Directors of the British company have recommended acceptance of the offer, which will amount to almost £5.3 million if Boehringer acquires all 4.5 million Sturge shares. Late last year the British group warded off a £4-million takeover attempt by another U.K. company, Croda International.
Mobay	Mobay Chemical Co. of Pittsburgh, Pa., a division of Baychem Corp., which is owned by Germany's Bayer chemicals group, plans to build the world's largest production plant for hydrazine hydrate to date in Baytown, Texas. The factory, costing some $11 million, is to go on stream by the end of 1975. Hydrazine hydrate is an intermediary product used to manufacture plant sprays, fuels, dyes, and other chemicals.
Genesco/ Goetz	Following a course charted last summer by its parent Genesco, Inc., of Nashville, Tenn., Genesco Bekleidung AG in Munich has sold back its Eterna Herrenwäschefabrik division to the original owner, Germany's Goetz group, for an undisclosed sum. Over the past months Genesco Europe has been selling off a number of unprofitable operations in Belgium, France, Germany, Italy, and the Netherlands.
Matsushita/ SDS/ MS Relais	Matsushita Electric of Japan and Germany's SDS Elektro, a manufacturer of electronic components, reportedly are forming a German joint venture, MS Relais, to produce electromagnetic relays for precision control systems and automation equipment. Matsushita will control 60% of the new company's DM 2-million capital and SDS Elektro, the rest.
Electricity of Ireland	The Electricity Supply Board of the Republic of Ireland announced June 5 that it has arranged a 10-year, $30-million loan to finance its development program. The banks that are to provide the funds are Morgan Guaranty Trust Co. of New York, Allied Irish Investment Bank Ltd., Dublin, and Kredietbank NV, Brussels. The loan is guaranteed by the Irish government.
Samuel Montagu/ BEC/ EBIC	Samuel Montagu & Co. Ltd., the London merchant bank, has transferred its interest in Banque Européenne de Crédit (BEC) of Brussels to the other BEC shareholders, i.e., the seven members of the EBIC banking group (Deutsche Bank, Am-

Montagu/BEC/ EBIC *(contd.)*

sterdam-Rotterdam Bank, Banca Commerciale Italiana, Creditanstalt-Bankverein, Midland Bank, Sociète Génèrale, and Sociète Generale de Banque). The step was decided on after Midland Bank Ltd. acquired the Montagu group at the end of last year. BEC, founded in 1967, is primarily active in the area of medium- and long-term credits.

Algemene Bank

Algemene Bank Nederland, the leading Dutch commercial bank, has opened a branch in Hamburg, its first in Germany.

First National of Chicago

First National Bank of Chicago reportedly will become the first U.S. (or Western) bank to open a representative office in Poland with the establishment of a bureau in Warsaw.

Continental Illinois

Continental Illinois National Bank & Trust Co. of Chicago plans to open a representative office in Rome some time this summer, pending approval by the Bank of Italy. The bank has operated a branch in Milan since last year.

Merrill Lynch

Merrill Lynch & Co., New York-based stockbrokerage firm, has announced it will open a new Eurobond trading office in London as of July 1. According to the company, the lifting of U.S. controls on capital outflow in January led to this decision. On the other hand, the imposition of higher Swiss taxes on dealings in outstanding securities and a n[illegible] tax on dealings in Switzerland between nonresidents are [illegible]pected to put a dent in Merrill Lynch's current Eurobond trading operations in Geneva.

National Airlines

National Airlines, the U.S. carrier, which is primarily active in domestic transport, reportedly plans to expand its European flight services. National now offers a Miami-London run, which it is seeking to supplement with Paris and Frankfurt connections.

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Community: Revived Hopes for Progress in the Council

The progress achieved in several Council of Ministers meetings in recent weeks has once more kindled hopes throughout the Community that this modest momentum can be carried forward into the second half of 1974. Among the Council's most encouraging actions lately have been

- the trade accord and improved consultation procedures with the United States, which helped to mend strained relations somewhat;
- a tentative halt to a further breakup of the customs union and the agricultural market;
- Council approval of a measure granting the European Parliament more budgetary powers, and
- some progress in the drive for mutual recognition of diplomas, in that there has been at least agreement on the principles.

At its June 25 meeting, moreover, the Council was expected to approve several proposals that would grant travel agents and forwarders the right to establish themselves in other member states or to provide services from their home state. Adoption of these and other proposals, though only a trickle of the 350-odd pending draft regulations and directives, would lend credence to the Council's avowed determination to move on. Also noted has been a more posi-

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Revived Hopes *(contd.)*

tive attitude shown by the new French government in negotiations toward common rules pertaining to pharmaceuticals, an area in which talks have been going on for nine years (*Common Market Reports, Par. 9643*).

In the field of taxation, on the other hand, member state experts debating harmonization of tax rules are still elucidating each other's positions in regard to the various European Commission proposals; substantive discussions have not even started, according to Brussels sources.

Luxembourg: Liberals Form Coalition with Socialists

The formation of a Center-Left government in Luxembourg by the Liberals and the Socialists three weeks after the May 26 elections has ended more than half a century of uninterrupted rule by or with the conservative Christian Democrats. The new coalition administration, based on a majority of 31 seats in the 59-member Parliament, is headed by Prime Minister Gaston Thorn, 45, a Liberal who was foreign minister in the outgoing government and who will continue to hold this post. Thorn's 11-member cabinet includes Socialist leader Raymond Vouel as deputy premier and finance minister. The Economics, Energy, and Transport Ministry will again be in the hands of Marcel Mart, a Liberal.

Belgium: Walloons Join Tindemans' Administration

With the inclusion of members of the Rassemblement Wallon federalist party in his cabinet, Belgium's Prime Minister Leo Tindemans has succeeded in securing a relatively comfortable parliamentary majority for his Center-Right coalition government. A confidence vote on June 14 was won by a 108-79 margin. Following the April 25 elections, Tindemans had been forced to operate with a minority base in Parliament. One of the most immediate benefits of the cabinet expansion is the government's improved position in the upcoming submission of the 1974 Budget and possible anti-inflation measures.

The French-language Rassemblement Wallon is represented by one minister and two deputy ministers in the cabinet. Campaigning for more autonomy for the country's Walloon area as well as linguistic freedom, it is the first of three Belgian federalist parties ever to join a government. Political observers, in fact, have termed this move a "historic turning point," since it extends the spectrum of domestic politics beyond Belgium's "traditional" Christian, Socialist, and Liberal parties.

Britain: Wilson May Call New Elections in the Fall

There are distinct signs that U.K. Prime Minister Harold Wilson will call for a general election in September or, more probably, October of this year. Opposition party chairman William Whitelaw has urged his party to gear up

New Elections? *(contd.)*

for an election in October, and leading Liberals have declared that they are "psychologically prepared." The Conservatives recognize, of course, that an election soon after the summer recess would favor the incumbent government and are now beginning to mount a campaign seeking to discredit Labour's policies and minimize its achievements.

Wilson's future as Prime Minister depends largely on his government's ability to maintain the oft-quoted "social contract" (or "compact") with the labor unions and to effect a change in the country's trade balance. The viability of the social contract was challenged severely by the miners, who have demanded massive pay rises which, it is feared, could trigger a virtually uncontrollable wage rush across the board. It has also been placed in jeopardy by the fact that threshold payment agreements available under Phase Three of the last government's counter-inflation program are now recognized to be extremely generous, i.e., dangerously inflationary. Paradoxically, the unions themselves have always been mistrustful of threshold agreements, principally because an "automatic" increase conflicts with their traditional penchant for negotiations. In this situation, the government is now obliged to convince the unions that, following the promised return to free collective bargaining, they must lower their expectations and accept less than they would have received under the unpopular threshold system.

On the second crucial issue, that of foreign trade performance, the Wilson government can draw little consolation from the latest results, which revealed a record trade deficit of £481 million. In mitigation, government ministers stressed that exports were showing an encouraging upward trend and voiced the hope that the huge deficit was largely due to "temporary stockbuilding" and higher import prices of raw materials, foodstuffs, and oil. Industrial leaders do not share this optimism: they continue to be angered by the government's "negative" attitude as regards stimulating industrial investment and expansion as well as by the specter of nationalization or increased state control.

The Prime Minister has some five weeks before Parliament goes into recess in which to convince the nation that his minority government has done a good job so far. On the fragile basis of current opinion polls, it would seem that Wilson has gained considerable fresh support. Whether he will be able to maintain this impetus in the face of parliamentary opposition, labor union disenchantment, and industry's fears is an open question. Should Wilson fail to do so, however, he would have another option: he could postpone his call for an election until spring 1975.

Business Scorns Proposal for Multiple VAT Rate System

The U.K.'s Customs and Excise is facing strong opposition in its campaign for a system of multiple-rate value-added tax. Although talks with trade organizations and industrial groups are still at a preliminary stage, it is known that Customs and Excise has called for one or two additional VAT rates above the present zero and 10% rates. Exact figures are not known, but there is speculation that an alternative might be the introduction of a 5% and a 20% rate, a system that would at least offer the government an opportunity, within the framework of a supplementary budget, to lower prices of certain non-food essentials, thereby easing the cost-of-living index. At the same time, the government would be in a position to exact a higher VAT on luxury items.

Interested groups, such as the Confederation of British Industry and the Retail Consortium, have already declared their opposition to a multiple VAT rate system. They mainly reject such a structure for being "administratively inconvenient" (the introduction of the present standard 10% rate proved to be far from smooth) and stress that it would result in price anomalies and, inevitably, price increases.

France: Increases for Minimum Wage, Social Benefits

Following up on its stability program announced a week earlier, the French government on June 19 submitted the first portion of a social reform package to which President Giscard d'Estaing had pledged himself prior to the election. It provides that, as of July 1, the legal minimum wage will be raised from FF 1,128 to 1,213 per month based on a 43-hour week. Family and child allowances will go up by about 12%, and pensioners' benefits also will be increased. The second, long-term part of the social reforms is to be worked out in upcoming talks with the unions and employers.

The French employers' association, Patronat Français, meanwhile has raised a number of objections to the government's anti-inflation program, which it termed "profoundly disquieting" for businesses. The added tax burden in combination with the restrictive credit policy would hurt companies' chances of financing new investments and thus threaten the sorely needed expansion and modernization of production facilities. The Patronat's president, François Ceyrac, cited statistics whereby total industrial investment has declined steadily for the past three years to the point of being wholly inadequate. To impose new taxes solely as an instrument to control the economy's performance can only deepen business frustration, Ceyrac charged, the more so since such taxes are no longer in force elsewhere in the Community.

At about the same time, the country's largest labor union, the Confédération Générale du Travail, had reacted

French Policy *(contd.)*

to the government stability proposals by presenting its own catalogue of tough demands. Still, it does not appear as though the unions are seeking an open confrontation with the Chirac administration at this time, being well aware that the brunt of the fiscal measures will be on business and on earners of higher incomes and that they demand no sacrifices on the part of the lower paid. It is this absence of real austerity measures, on the other hand, that leads many economic observers to doubt the effectiveness of the French program. One of the most outspoken critics, Olivier Wormser, in fact chose to resign as the governor of the Banque de France over "policy differences" with the new administration.

Germany: High Court Invalidates Inspection Fees

Germany's Supreme Administrative Court has ruled that plant inspection fees charged by German health authorities on fruit imports from member states are contrary to the Common Market's customs union principle, which rules out duties as well as charges having equivalent effect (*Common Market Reports, Pars. 202.01, 202.21, and 222.08*). For the court, the fee imposed on a German importer by Bavarian authorities for inspecting several shipments of Italian oranges was a clear-cut violation of Treaty Articles 9 and 12. The assessment was voided on the ground that it was "contrary to directly applicable Community law having priority over national law." But the Court also said that the practice was lawful as far as imports from third countries were concerned.

This decision follows case law of the European Court of Justice and most national courts, but in the past this was not always so. It took a series of judgments by the Court of Justice, particularly against Italy, before a variety of national charges were eliminated (*Common Market Reports, Par. 8079*, to cite one). As late as last year, Brussels had difficulties making the Italian government forego the practice of charging health inspection fees, in that case for imports of cattle into Italy from Bavaria.

Switzerland: Still Higher Tax Rate for Companies?

The tax committee of Switzerland's lower house of Parliament has returned to the floor a substantially amended government-proposed tax bill. The committee did go along with Bern's requested increases in sales tax rates (from 4 to 6% for retailers and from 6 to 9% for wholesalers). But it also proposed amendments that would partially compensate individual taxpayers for loss of purchasing power due to inflation. Important to corporate management would be the recommended raising of the maximum tax rate from the present 7.6 to 10%. The original version called for an increase to 9% (*Doing Business in Europe, Par. 29,338*). This

Tax Rates *(contd.)*

larger increase would help the government recoup some of the loss in revenue expected with the proposed relief for individuals.

Committee-sponsored amendments would entitle married couples to claim SF 3,000 exemptions for husbands (now 2,500), SF 2,400 for wives (2,000), and SF 1,500 for each child (1,200). (*Doing Business in Europe, Par. 29,315.*)

The committee rejected other amendments that would have increased the federal income tax rate to a maximum of 12% (currently 9%), introduced a proportionate rate for entities, and reduced the number of variable tax rates from three to two (*Doing Business in Europe, Par. 29,338*). However, these amendments may again be presented during the upcoming final floor debate, although their chances for approval by the full house are considered slim.

EURO COMPANY SCENE

Akzo/ Philips

The Akzo and Philips industrial groups of the Netherlands are conducting preliminary talks for a cooperation agreement in the pharmaceuticals and chemicals sector. Executives of Akzo and Philips Duphar announced last week that they are considering formation of a new joint subsidiary to manage all R&D, production, and servicing for the two concerns, except for the activities of holdings in the United States and Canada. Akzo would put up 75% of the capital for the joint undertaking and Philips the remainder. This venture reportedly would include more than 8,000 Akzo employees and more than 4,000 Philips workers. Combined sales would exceed 1 billion guilders annually.

Hoechst Fibers

Hoechst Fibers Inc., U.S. subsidiary of Germany's Hoechst AG chemicals, plans to build a second manufacturing plant for polyester fiber and thread at Orangeburg, S.C. The $70-million facilities will employ 900, with a yearly output to total 160,000 tons by 1980. Hoechst Fibers is reputed to be the country's fourth-largest producer of polyester fibers and threads.

American Hoist

American Hoist & Derrick Co. reportedly plans major expansion of its U.K. activities in order to take advantage of the major growth in North Sea oil exploitation. The company will invest £400,000 in expansion of Harris-Economy, a scrap-processing equipment subsidiary at Bridgend, Glamorgan, in Wales, and will begin manufacturing crane parts at a plant in Church, Lancashire. Eventually the group hopes to produce its oil exploration cranes in Britain rather than importing most of them from the United States, as is now the case.

Statoil

The Norwegian parliament has reached a compromise on proposals for legislative control over the activities of Statoil, Norway's nationalized oil concern. Voting with the non-socialist bloc in the Storting, Labor Party members approved a motion requiring the minority Labor administration to submit to Parliament a special report on Statoil plans, including cost estimates and other important information. The non-socialist parties reportedly had been alarmed by Statoil's strongly expansionist policies and originally wished to subject its budget to parliamentary approval.

IRI/ Iranian Steel

Italy's state holding company Istituto per la Ricostruzione Industriale (IRI) and National Iranian Steel Co. reportedly have agreed to carry out a 2,000-billion-lire joint project to build a large steel complex at Bandar Abbas on the Persian Gulf. The undertaking is to include the development of nearby iron ore mines, an iron and steel manufacturing plant with an annual capacity of 3 million tons, a 500-Mw electric power plant, desalinization facilities, and an adjacent city planned for 80,000 residents.

BLMC/ GM

British Leyland Motor Corp., which recently announced six-month losses of over £16 million, has been prompt to deny speculation that the sale of its Spanish subsidiary Authi to General Motors (first mooted in February) is essential to the company's financial well-being. There has been a considerable hitch in the GM deal, involving some £27 million; the Spanish authorities have yet to give their consent and have shown reluctance to do so without guarantees from GM that the takeover will be merely a prelude to major capital investment in Spain's automobile industry. A further stumbling block has come in the form of concerted opposition to the deal from domestic automobile manufacturers.

Pernod/ Ricard

After over two years of negotiations, leading French aperitif producers Sté. Pernod and Sté. Ricard finally have announced plans to merge and set up a new joint holding company, Sté. Pernod-Ricard, to control all their financial assets. The combined group reportedly will form two new sales and manufacturing subsidiaries as well and will set up a separate export arm for foreign sales. Terms of the merger have not yet been elaborated but are to be presented to shareholders before the end of this year. Pernod currently owns 48% of Ricard stock. Combined turnover of the two companies totaled FF 1.964 billion in 1973. In addition to its own beverage production, Pernod distributes Coca-Cola under license to the Paris region. Ricard's interests include Bisquit cognac, Busnel calvados, and other alcoholic drinks.

Innovation-Bon Marché/ GB Entreprises	Stockholders of Belgium's two leading department store and supermarket groups Innovation-Bon Marché SA of Brussels and GB Entreprises of Antwerp have now approved plans for the merger of the two concerns, first announced in January. The combined group had sales of BF 48 billion last year, putting it far ahead of the country's second-largest retailing firm, Sarma (BF 14.5 billion), which is controlled by J.C. Penney of the United States.
Hussel/ Micron	Hussel-Holding AG of Switzerland, a wholly-owned subsidiary of Germany's Hussel candy retailing network, has acquired 51% of Micron Corp., Salt Lake City, Utah, for an unspecified price. The U.S. company operates consumer discount shopping services in Utah, Colorado, Idaho, and Nebraska and will soon expand to Kansas.
United Biscuits/ Keebler	United Biscuits (Holdings) of the U.K. has completed its $51-million takeover of Keebler Biscuit Co. of the United States, producer of cookies and crackers.
Wedd Durlacher Mordaunt/ Goldman Sachs	The U.K.'s largest stockjobbing firm, Wedd Durlacher Mordaunt, is reported to be planning a link with one of the United States' major investment banking and brokerage houses, Goldman Sachs. The link will be in the form of a "correspondent relationship," a relatively common arrangement allowed under the Stock Exchange rules, whereby a jobber joins with a broker in a foreign financial center for the purposes of arbitrage. The proposed link has met with stiff opposition among other U.K. brokers, who are somewhat alarmed at the size of the resultant arbitrage operation and at the anticipated concomitant loss of business (in the form of commissions). Since the removal of U.S. controls on overseas investment, American purchases in the U.K. market have noticeably increased and a number of U.S. brokerage houses are expected to seek relationships with British stockjobbing firms through which they can handle their arbitrage business directly.
BfG	Germany's labor union-controlled Bank für Gemeinwirtschaft (BfG) has converted its five-year-old London representative office into a full branch. The bank is expected to take an active part in the sterling money market, Eurocurrency dealings, and consortial lending. A BfG subsidiary was set up in Luxembourg last year to handle international business with non-banking clients.
Continental Bank	Continental Illinois National Bank & Trust Co. of Chicago reportedly intends to open a third branch in Greece in Salonika.

Common Market Reports

EUROMARKET NEWS

Issue No. 285 Report No. 242, July 2, 1974

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SPECIAL FEATURE

Nigel Spinks: Protecting Software in the Community

Community: Consumer Action Program Ready for Council

Responding quickly to the European Parliament's suggestions and criticism with respect to the initial draft of a consumer action program, the European Commission has now completed revisions and has sent the new draft to the Council of Ministers. The revised program spells out four basic principles, giving consumers the right

- to protection against health hazards and to economic safeguards;
- to information and education;
- to bring action for damages, and
- to be heard during the preparation of legislation as well as in court proceedings.

The new draft is basically in keeping with a European Parliament resolution, adopted on May 13, which contained the request that national consumer associations be allowed to become active in drafting legislation. (Individual MPs, in fact, urged that the groups not only be entitled to join in court suits as intervenors but also be permitted to bring legal action on their own.) The Commission further was asked to rearrange its list of priorities, emphasizing the introduction or harmonization of legislative provisions that would facilitate enforceable action by consumers against manufacturers. Last but not least, the parliament

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EC Consumers *(contd.)*

asked that the language of the draft program be simplified so as to make it more understandable.

Should the Council approve the revised program, the Commission is expected to become very active in proposing consumer protection legislation and in sponsoring pertinent studies. A Council decision is tentatively scheduled for July 31, and Commission officials are confident that it will be positive inasmuch as the draft also includes numerous suggestions made by member state governments.

The presentation of the revised program follows the establishment earlier this year of the EC Consumers Consultative Committee, which is to represent national consumer groups at Community level. Furthermore, the Commission has entrusted a group of legal experts from the member states with the compilation of an inventory of existing national rules on consumer protection. *(See also page 4.)*

Italy: Parties Reach Compromise on Crisis Program

A tentative compromise agreement on an economic crisis program has been reached by the four Italian government coalition parties after differences over credit policy last month had led to the resignation attempt of the Marian Rumor administration, which was rejected. At a marathon "summit meeting" it was decided that both credit and fiscal measures due to be imposed will not be nearly as severe as originally favored by Rumor's Christian Democrats and the Treasury Minister. This was seen as a major concession to the Socialists, who had brought on the latest government crisis by refusing to go along with plans for stringent credit restrictions.

The program now being worked out and not entirely clear in all its details reportedly calls for a total of 3,000 billion lire in additional tax revenue to be raised, shrinking the public debt, providing urgently needed funds for social sector investments, and at the same time slowing booming consumer demand. Of this total, 400 billion lire each are to be derived from higher prices for gasoline and natural gas (for private households). Another 770 billion would come from an increase in electric power rates and help the state utility, Enel, to cover its huge operating deficit and reduce its debts. A 1.5% raise in health insurance contributions reportedly would account for another 500 billion.

As concerns the upcoming fiscal actions, the coalition partners were said to have agreed on substantial increases in taxes, both direct and indirect. A 10% surtax reportedly is to be levied and the basic allowance eliminated on incomes exceeding 6 million lire annually. The corporate tax rate would go up from 25 to 30%. Value-added tax rates would be raised on a broad front, including that on meat

Crisis Program *(contd.)*

(particularly veal), most of which is imported. In order for the state to meet its most critical capital requirements, car owners must expect to pay a one-time special levy on top of already stiff automobile taxes.

Britain: Another Retreat on Taxation of Foreigners

The U.K. government continues to make concessions in its controversial plan to tax foreign residents in Britain as if they were domiciled in the country and subject to U.K. tax on all their income, regardless of its origin. Clause 18 of the Finance Bill has now been modified to the effect that, from 1976-77 onward, foreign residents will pay U.K. taxes on 75% of their income arising in Britain, provided they have been in residence for nine out of the previous ten years. The important concession is, however, that they will pay tax on investment income and capital gains arising abroad on the previous "remittance basis" only. In its earlier form, Clause 18 would have required such income and gains to be treated as if they had been earned in the U.K.

Ever since Chancellor of the Exchequer Denis Healey first outlined the new tax proposals, there has been sharp criticism and a spate of thinly disguised threats, notably from U.S. business representatives, who said that they were seriously considering pulling up stakes. Healey earlier changed his initial proposal that the new measures would apply to those who had been in residence for five out of the preceding six years, and there is little doubt that further amendments could follow. The Chief Secretary to the Treasury noted, somewhat apologetically, that "it has never been the intention of the government to drive foreigners out of the business and cultural life" of Britain.

Ireland: Bill Heralds Major Changes for Unions

The Trade Union (Amalgamations) Bill 1974 currently under debate in the Irish parliament (Dail) can safely be described as a piece of legislation with revolutionary implications. If passed in its present form - and, quite significantly, there has been minimal opposition - the bill will result in a radical restructuring of Ireland's labor unions (*Doing Business in Europe, Par. 25,422*). Ultimately, it could lead to the establishment of one single trade union body for all of the country's workers.

For some years the Irish Congress of Trade Unions (ICTU) - whose principal role is that of coordinating the functions of Ireland's many unions, over eighty in number - has actively encouraged union mergers and amalgamations. The important Trade Union Act 1941 imposed union formation requirements that were conducive to the creation of small unions, sometimes with as few as 20 members (Trade Union Act 1941, No. 22 of 1941). A major step forward was the Trade Union Act 1971 (No. 33), which imposed more stringent

Union Bill *(contd.)*

requirements, such as a minimum membership of 500, an 18-month waiting period, and a Ŀ5,000 deposit, but did not affect unions formed prior to its passage. In many cases, unions have refused to amalgamate or, more precisely, have found the procedural requirements of amalgamation too complex. The principal effect of the proposed new legislation, which imposes no actual obligation on the unions, is to simplify voting requirements so that an amalgamation can be carried by a straight majority vote. It is thus a matter of time before the number of existing unions is reduced and the individual unions within specific sectors are consolidated.

It is significant that both employers and employees have tacitly acknowledged the thinking behind the proposed legislation. The labor situation in Ireland has been comparatively stable over the past two years and promises to remain so if the third National Pay Agreement concluded by the ICTU with the country's employers is as successful as the previous two. The agreement provides for phased pay raises over the next 12-month period, the first phase offering a 9% increase for the first Ŀ30 of basic pay, and the second an additional 4% plus 60p per week. In addition, employees will benefit from a cost-of-living increase of 1% for every 1% increase in the Customer Price Index.

Germany: Broader Powers on Consumer Protection

The German Bundestag has granted the federal government broad statutory powers to protect consumer interests in connection with the proposed reform of the Food, Tobacco, and Cosmetics Law. The bill now goes to the Bundesrat, the upper house, where adoption is assured. As part of the reform, 16 statutes (several of them dating from the 18th century) and some 40 regulations would be either repealed or revamped.

Throughout the four main areas of the legislation - covering food, tobacco, cosmetics, and "daily-use items" - the government would gain the regulatory powers to protect consumers against health hazards and deceptive labeling and advertising. By the same token, Bonn would be authorized to grant temporary exemptions to particular industries or products in cases where government standards outstrip technological means or where immediate compliance could result in financial hardship.

Specifically, the government could prohibit manufacture and marketing of foodstuffs and ban equipment and methods used in food production that are potentially hazardous to human health. Vegetables and fruit derived from plants sprayed with insecticides or fertilizers could be kept from the market if these chemicals exceeded limits still to be fixed in upcoming regulations. The same would apply to food additives and to hormones used in the raising

Consumer Bill *(contd.)*

of livestock. Stricter rules also would apply to cosmetics; no cosmetic product could ever contain prescription drugs. The government furthermore could prevent the import of foodstuffs and cosmetics that did not meet federal standards. Labeling and advertising would have to be truthful; deceptive practices could incur severe penalties, including imprisonment of up to two years.

Austria: Amendments to Offer Some Tax Relief

Taxpayers with monthly incomes of up to 15,000 schillings would be the main beneficiaries of government-drafted amendments to Austria's 1972 Income Tax Law. The amendments, now before Parliament, would increase certain exemptions or allow deductions from tax liability rather than from taxable income; they would also provide for a reduced tax rate in the low-income brackets, where taxpayers would benefit from a net income boost of about 6%.

Two of the amendments are meant to compensate for loss of purchasing power due to inflation: lump-sum allowances for expenses connected with employment (car mileage, for instance) and special expenses (insurance premiums) would be increased by 50%. Taxpayers would be entitled to deduct 4,200 schillings from tax liability for each child.

Adoption of the amended legislation is expected to result in a loss of approximately 11 billion schillings in revenue, but the government hopes that these tax concessions will persuade the unions to soften their wage demands in future bargaining talks. Such a cooperative attitude would be vitally necessary if Vienna is to succeed in its efforts to slow domestic inflation, running currently at an annual rate of 9.3%.

EURO COMPANY SCENE

U.K./ '20 Companies'

The U.K.'s Secretary for Trade and Industry, in a written answer in the House of Commons, has disclosed the names of the 20 British companies now being examined with a view to establishing how much state assistance they have been accorded over the past four years. Both Opposition members and industrial leaders have voiced fears that the investigation may be the forerunner of "government interference," possibly in the form of a partial "takeover" or even - although Labour spokesmen have discounted this - nationalization. The companies are (in alphabetical order) Allied Breweries, Bass Charrington, Bowater, BICC, British Leyland, Courtaulds, Esso (Exxon), Ford, Gallaher, Grand Metropolitan, General Electric, GKN, ICI, Imperial Group, Ranks, Reed International, Sears Holdings, Tate and Lyle, Unigate, and Unilever. Conspicuous absentees are British Petroleum and Shell, the two largest U.K. industrial compa-

'20 Companies' *(contd.)*

nies (in which the government already has nearly 49% and 40% shares, respectively), British American Tobacco, Dunlop, Associated British Foods, Rio Tinto Zinc, and Shipping Industrial Holdings, all of which figure among the country's "top 20" companies. With the exception of Ford and Esso, which have American parents, all the companies named in the Secretary's list have a stock exchange quotation, giving a combined value of more than £4 billion.

Peugeot/ Citroën

French automobile manufacturers Citroën SA and Peugeot SA have announced plans to merge into one concern, which would continue, however, to turn out cars under the two established names. The combined venture, for which a legal form is yet to be determined, will be largely under the management of Peugeot. The merged company would account for over 36% of the French and 12% of the European automobile market. The European market share rises to 22.1% if Peugeot's partial link to state-owned Renault is included. This would compare to Volkswagen's 15.9% and to Fiat's 14.5%, according to French figures.

The majority interest in the new company will be held by Michelin, which already controls Citroën and which agreed with Peugeot that the merger would create "a coherent entity, the dimensions of which would be adequate to strengthen the position of both makes on all markets." A study detailing the technical merger arrangements is to be completed by Nov. 1; the financial participations are to be worked out subsequently.

Volkswagen

Talks between the government of Rumania and Germany's Volkswagenwerk AG for construction of a Rumanian assembly plant reportedly have snagged on the current state of the international automobile market. Spokesmen for the German company denied that negotiations had been broken off completely, however, declaring the project still to be of interest. In other news, the German government announced two weeks ago that it had increased its stake in Volkswagen from 16 to 20% for DM 76.5 million. Private shareholders own 60% of VW and the State of Lower Saxony holds the rest.

Clark Equipment/ Barreiros Hermanos

Clark Equipment AG of Zurich, Swiss offshoot of the U.S. Clark International concern, has signed an agreement with Barreiros Hermanos, one of Spain's leading industrial holding groups, to form a joint venture, Barreiros-Clark SA. The new company, in which Clark will hold 40%, will produce the American firm's complete line of industrial lift trucks under license. Initial output is expected to total about 1,000 units per year, starting in spring 1975.

IMR/ IMT

Industrija Motora Rakovica (IMR), Yugoslav licensed producer of Perkins diesel engines, has pulled out of the Belgrade metal-processing industrial group Udruzena Metalska Indus-

IMR/IMT
(contd.)

trija (UMI) in which it has been associated with Industrija Masina i Traktoren (IMT), a tractor-making affiliate of Canada's Massey-Ferguson group, for some five years. Both the management and, to a greater extent, the work force of IMR reportedly rejected the terms of their collaboration with IMT, which required them to supply the other company with diesel motors and forbade any competing production of tractor equipment. IMR now plans to "go it alone." A previous short-lived cooperation between the two firms broke up in 1965. The current split is expected to affect a project involving IMR's supply of small engines for IMT farm cultivators. Further, IMR's resignation from UMI is considered to have political overtones, insofar as it represents a worker decision to withdraw from an arrangement that supposedly served the interests of rationalization and labor-oriented production.

Trailor

Trailor of France, 65%-owned by Pullman of the United States, is launching a German subsidiary operation next month. The company, which produces 10,000 containers and 6,500 trailer units annually, has already set up or leased sales bureaus and service facilities throughout Germany and in West Berlin.

Electrolux/
National Union

Electrolux of Sweden has made a formal offer of $28 per share for all 2,040,342 shares of National Union Electric Corp. of Stamford, Conn. The offer, which was to be withdrawn if Electrolux failed to obtain at least 1.06 million shares, reportedly has been endorsed by National Union officials.

Ciba-Geigy/
Airwick

Ciba-Geigy Corp., the Swiss pharmaceuticals group, has acquired more than 3.18 million shares, or over 91%, of U.S. chemicals producer Airwick Industries, Inc. The Swiss company's bid was for all 3.477 million outstanding shares of Airwick at $12.50 per share.

SME/
Alimont

Italy's SME Meridionale Finanziaria SpA, foods industry holding for the state's IRI financial group, has now obtained a majority of the 15-billion lire capital of Alimont SpA, another foods holding. IRI thus gains a top position in the Italian foods sector, with consolidated turnover of some 400 billion lire anticipated for this year.

Campbell-
Tagart/
Europâtés

Campbell-Tagart, a U.S. bakery chain group, is reported to be forming a new French subsidiary, Europâtés, to produce baking paste at Liévin, Pas-de-Calais. Operations are to begin this fall. France's Sté. Gervais-Danone will handle distribution.

NAF

Nordic Cooperative Union (NAF) of Scandinavia and Iceland has announced it will merge its cooperatively managed soap,

NAF *(contd.)*

detergent, and cosmetics factories - representing annual sales of over $65 million - into one company, Nordkemi, to be controlled by a new holding, NAF Industries, in Copenhagen. The move is intended to strengthen the Nordic group's independent competitive position vis-à-vis multinationals such as Proctor & Gamble and Unilever, which is currently Nordic's chief supplier. NAF industries is also to merge Nordic's packaging, furniture, and seed and bulb operations into one group and is said to be planning an Icelandic rock-salt mining venture.

Court Line

The misfortunes of the U.K.'s Court Line shipbuilding and package-tour group have now assumed the dimensions of a political cause célèbre. The group's financial difficulties, principally due to the collapse of the overseas vacation industry, had made some kind of rescue operation inevitable. Instead of this being of a private nature, however, the U.K.'s Secretary for Industry, to the consternation of the parliamentary opposition, has announced that Court's shipbuilding interests will be nationalized in order to safeguard the 9,000-plus jobs involved and the vacations booked through Court subsidiaries. Negotiations are now "in the final stages" between the government, Court, and Court's bankers (including Bankers Trust of New York). Rubbing salt in Conservative wounds, the Secretary stressed that the intervention was made possible under powers provided in the last government's Industry Act 1972.

KLM/ Silverjet/ Wagon-Lits Cook

KLM Royal Dutch Airlines has bid to acquire the 50% stake in Silverjet Tours, a leading travel organization in the Netherlands, held by partner Wagon-Lits Cook, with which it co-founded the company about three years ago. The offer was made through KLM travel subsidiary Touristfonds. Several months ago KLM and Nederlandse Scheepvaart Unie (NSU), the country's leading shippers, announced the merger of most of their interests in the tourist sector, including Touristfonds, through formation of the joint Holland International Travel (HIT). If the Silverjet deal materializes, control of the Dutch travel market thus will be concentrated virtually in one firm, which is largely state-owned.

Scott Lithgow/ Jebsens

The Lower Clyde shipbuilding group Scott Lithgow of the U.K. is expected to announce major orders totaling some £42 million for two offshore drilling ships. The orders are believed to be placed by the A/S Kristian Jebsens Rederi group of Bergen, Norway. Scott Lithgow recently received an order for a similar installation from the Anglo-American Ben-ODECO group.

Special Feature

The Legal Protection of a Computer Software Investment in the European Community

By NIGEL SPINKS, Solicitor
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Although nearly every client of a business law practice must be a computer user - and hence a software user - most legal systems have failed to accommodate software programs into the industrial and intellectual property field. Due to this lack of property status for software, potential users therefore are often unaware of the commercial availability of tested common-form programs that might meet their needs. Software, as we shall see, constitutes an important, relatively new type of property that does not quite fit into any of our existing classifications of property right or protection. Any software program represents an investment, and this investment is made to seek a return, either by the developer's direct use or by sale or licensing. An investor expects his investment to produce or be manifested as property. Thus every legal system has developed sets of rights and laws designed to protect property and give it meaning. New developments in commerce and industry have always precipitated new kinds of property rights. This process, which is an interplay of politics and commerce, in the past has dealt with trademarks, patents, copyrights, and - in a different field - banking and bills of exchange.

Progress in the area of property rights is usually limited by two factors. First, there is the time lag that leads to lawyers' and lawmakers' failing to perceive the significance of commercial and technical developments until it is impossible to ignore them. Secondly, there is a generally accepted public policy in favor of commercial freedom that denies the proliferation of property rights that might be operated restrictively against the public interest. For instance, the Banks Report on the U.K. Patent System[1] maintained that "to introduce a new registration system purporting to protect 'know-how' would...involve an unacceptable restraint on industrial competition." This is particularly significant in the EC, where competition is the chosen instrument of economic management and where this freedom of competition is closely guarded by Article 85 of the Treaty of Rome (*Common Market Reports, Par. 121.41*).

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[1] HMSO London Cmnd. 4407

The software sector is facing this property problem now. As the British Computer Society notes in its Code of Conduct: "It is recognised that the concept of property applied to computer programmes and systems is currently not fully protected by law and that, in particular, patent and copyright law are inadequate in this area. The absence of adequate legal protection and the increasing commercial value of the property vested in computer programmes and systems emphasises the importance of the confidence placed in members of the Society. Any act which diminishes the confidence will place a member at risk of disciplinary action."

Copyright on Software

Of the established types of property rights, copyright exists throughout the EC to protect author's investment. In every Community country this grants the right to prevent copying and is concerned with words and their form. It does not protect the ideas expressed and the principles used, and neither does it grant any monopoly right, even in respect of actual words or figures used. Certain aspects of a computer program are protected by national copyright laws, provided that there is a human "author" and only insofar as a concept is written down. This probably will be in note form, but even a series of mathematical notations normally will be protected, though only against copying. The flow chart and structural diagrams may be subject to copyright but these are sometimes produced by computers subject to other programs relating to flow-charting. If a flow-charting machine is operated by a programmer, the copyright normally will extend to him or his employing company. There probably will be no copyright if the chart is produced without detailed control.

Assuming that the initial stages of programming are subject to copyright, the translation into computer language will produce a fresh "translator's" copyright, and recording on tape also will be specifically protected against mechanical reproduction of copyright work. Further, the manual will be partly subject to its own copyright and partly protected as a reproduction of earlier copyright work in program development. Nothing here reflects the significant part of the total investment that will have gone into testing the program. The unsatisfactory nature of copyright as a means of protecting ideas and principles is reflected in the fact that, in the opinion of one of the largest patent departments in the computer business, there has never been, anywhere, an action for breach of copyright in software. This is even more surprising when it is remembered that almost every program will carry with it a copyright in respect of at least one of its stages of preparation.

Trademark Law

At this point it is worth considering the contribution trademark law can make to the protection of the software developer's investment. Trademarks are not, of course, concerned with the development of original work and the protection of ideas. However, when the developer is a software consultancy or wishes to trade in developed programs there are ample opportunities for the use of trademarks to promote the marketability of a package and the prestige of the software house. Trademarks can be used on spools of tape, on peripheral equipment supplied with the program, on manuals, and even on print-out paper. The use of trademarked material also as-

sists the detection of copyright infringement or any other infringement or unauthorized use (detection being one of the most difficult aspects of this whole field). Any lawyer advising on software protection should not overlook the importance of trademarks in maximizing the potential return from a software investment. Because of the intangible nature of software, a trademark representing an acknowledged level of achievement and reliability in one country can mean the difference between an anonymous package and a very attractive licensing deal with a foreign distributor.

Patent Law

If the problem with copyright is primarily that it does not prevent the outside use of the ideas that went into the program, then patent law would apparently offer the necessary protection to inventive ideas. At this point, patents exist in the EC as national property laws. The levels of invention required in each country for patent protection vary, aside from the fact that program concepts generally will not be considered inventive in the sense used by patent law. Occasionally there will be a programmer who steps outside the boundaries of the art as they exist at the time. When this happens, the legal situation will differ according to the philosophical approach each EC country has to patent law.

Under U.K. law an invention is patentable if it entails a "new manner of manufacture." It is well settled that a mere mathematical calculation or equation cannot be patented. Essentially, a program can be said to be just mathematics, but in practice the same basic invention can be made in either hardware or software form. In the former case, the invention is manifested in special-purpose circuitry (an analog computer), which has only one function. In the latter, it appears as a program stored in a general-purpose computer. Where this program is expressed as an operating procedure and the invention related to the modification of a machine, then it is logically in the same position as an analog computer and a patent will be granted. (In 1970, a U.K. patent was granted to Badger Co., Inc., for computer-aided design of chemical plants, the claim being for a process conditioning the operating of a computer and an associated plotter to produce a piping layout.)

French law takes the opposite position by specifically holding computer programs to be unpatentable, whereas the Netherlands specifically permits the issue of a grant for software. In practice, any competent patent agent can prepare a specification that will support patent claims to software by claiming a modified machine. When the invention relates to software as part of a process control system, it can be even more strongly claimed as a step in the manufacture of goods. The usefulness of such a patent in terms of commercial feasibility remains questionable, however. International patenting is expensive, and publication of the specifications effectively discloses the invention to the competition. In a situation where claims must be very different from country to country, even within the EC, the policing of infringement will be difficult, if not impossible, and there will be no identifiable finished product from which to detect patent infringement. Under these circumstances, the costs of enforcing a patent are astronomical. Besides, a patent does not itself grant a monopoly -- it merely accords a right to apply for a monopoly to be upheld.

The European Patent Convention

The EC member states, along with other European countries, have recently signed the European Patent Convention, which provides for a uniform 20-year patent to take effect in up to 21 countries as designated by the patent holder and as a national patent in each country. On the face of it, this convention should overcome some of the problems involved in separate jurisdiction. However, not only will each country apply different standards to patent rights and infringement, but computer programs are again stated to be unpatentable. The fact that this does not bar the claiming of inventive programs is not really helpful here.

The draft Common Market Patent Convention provides that applicants for a European patent designating any EC member state will have to accept a patent covering all of them. Although infringement questions will then still have to be judged separately in each member state, the question of validity of a Community patent will be decided by an EC revocation board. The Community patent will formally introduce to the EC the doctrine of exhaustion of rights, which the European Commission has been trying to establish for some time: after a product has been placed on the market, the original supplier loses all rights over subsequent sales or uses that might otherwise result from the patent. This rule is particularly awkward in the case of software, which often necessitates continuous servicing by the supplier or consultant. The application of this rule to patents and not to unpatented know-how or copyright will be a positive disincentive to patent under the Community system. The European and EC arrangements will not become fully effective until the mid-80s, but even then they will be of no use to the software industry, except in very special cases.

Unfair Competition

Aside from the formal systems of patent and copyright, all countries that have acceded to the Paris Convention on Industrial Property have an obligation to ensure effective protection against unfair competition. While these national laws do not grant property rights in rem, they may offer protection by way of court injunctions against competitors making use of illicitly obtained ideas.

Unfair competition may be summarized as any act of competition contrary to honest practice. In German law, it means any act in business contrary to commercial ethics. England is, in the EC, the odd country out in not having a specific law on the subject. However, the U.K.'s Younger Committee on Privacy, in its 1972 report,[2] recommended instituting the civil offense of disclosing or otherwise using information that the discloser or user knew, or ought to have known, to have been obtained by illegal means. This would include information obtained through breach of confidence.

Examples of conduct constituting unfair competition throughout the EC include servile imitation, incitement of employees, misappropriation of trade secrets, and divulgence of trade secrets by employees and former em-

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[2] HMSO London Cmnd 5012

ployees. In addition, it may be a specific tort under French law to "steal" ideas. Under Belgian law, an employee can, in theory, be imprisoned for disclosure of secrets of his current or former employer.

Confidential disclosure of software know-how and program details can take place between two companies in various ways, but two situations would be typical: transfer of knowledge through a departing employee and disclosure to a customer, potential licensee, or distributor. For their protection, companies will try to write their own law into standard conditions of business or specific contracts. However, freedom to do this is constrained, mainly by the antitrust laws of the member states and of the EC itself.

Antitrust Rules

Antitrust rules relate to unfair competition laws by working in opposition to them. An example is Section 1 of the German Law against Restraints of Competition (GWB) providing that "agreements made for a common purpose by enterprises or associations of enterprises are of no effect insofar as they are likely to influence, by restraining competition, production or market conditions with respect to trade in goods or commercial services." Article 59 *bis* of the French Price Ordinance prohibits any concerted action with the object or the effect of interfering with full competition. Many countries have rules fettering the freedom of large companies to prevent them from abusing their dominant position. For instance, it is unlawful in most EC countries for a computer manufacturer to refuse to do business on normal terms by not servicing mainframe equipment that is coupled to competitive peripheral equipment. In practice, it is thus not possible to protect software by stipulating that it cannot be adapted for, or used with, hardware other than that produced by the software supplier.

In the context of these national laws, no introduction is needed to the "federal" Articles 85 and 86 of the Treaty of Rome and to the aims of the Commission's competition department in Brussels. Article 85 makes it impossible to protect licensed software by clauses such as exclusive grant-back provisions on improvements or adaptions. Here it is of special interest that the Commission institutionalizes the dual interests outlined earlier, i.e., property protection and free competition.

On Nov. 21, 1973, the Commission sent to the Council of Ministers a statement of Community policy on data processing, arguing strongly for development of a coherent European software industry to encourage and complement the more basic hardware side. Prepared by the Directorate General for Industrial and Scientific Affairs, it expressed concern over the fact that too much software is tied to particular users and machines and that this, in view of IBM's market dominance, increases the cost of introducing new hardware of European origin. According to the statement, in Par. 18: "There is a need to develop a real 'market' in user software in which applications programme packages are easily transferable from one type of machine to another...Further study is also needed to define means of protecting property rights of software products."

The experts in Brussels' Directorate General for Competition must find themselves torn in the face of this proposal. Undoubtedly, they welcome

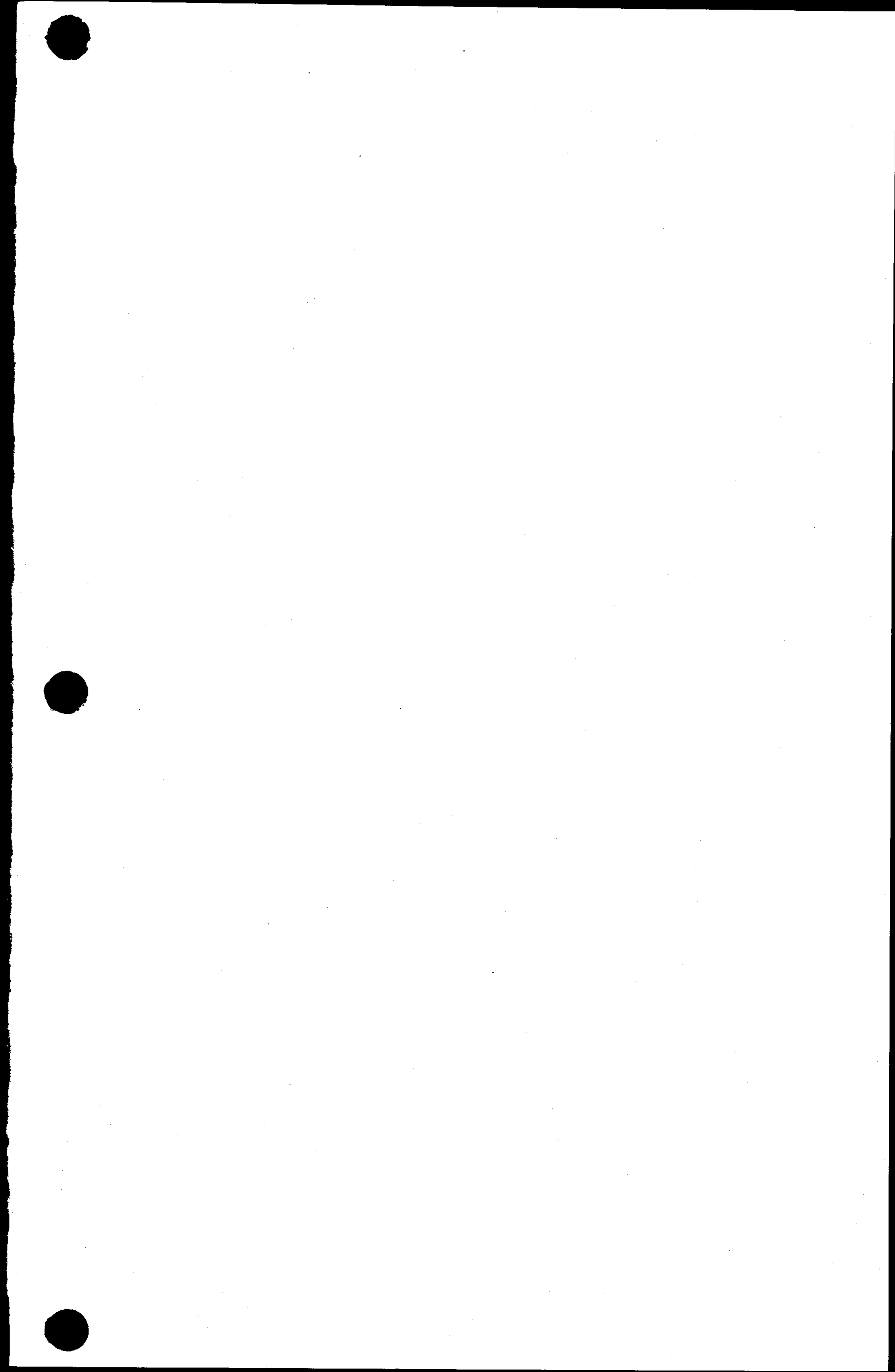
the benefits in building up an effective rival to IBM from Europe's multilingual mélange. On the other hand, they must very much oppose the creation of further intellectual property rights, particularly if these could be used to divide the EC into separate territories. European law probably is no more confused than law anywhere else, but if the EC is to be regarded as a common market, it must be conceded that its confusion has more variety than, say, that in the United States.

A Plea for a Program Bank

In this void, it may therefore be appropriate to repeat a proposal initially made by the author at a recent London conference on this topic. Prof. A.S. Douglas of the London School of Economics has specified the four main requirements for an effective system of software protection: 1) proper safeguard of investment for the inventor and user; 2) avoidance of inadvertant liability; 3) inexpensive and rapid cover, and 4) rapid dissemination of new ideas. The answer to the problem therefore could be a lightweight protection based on a program bank. Tested and stored programs, with a manual where appropriate, could be deposited with the bank. If they showed originality, they would carry monopoly rights for a period of perhaps six years from the date of deposit. Depositors would have to adopt an open-sale or licensing policy under supervision of the bank and pledge to give technical support on reasonable terms. Licensing royalties or sales prices would have to relate to the level of investment and predicted market.

The stored programs would first serve to educate users and other software houses and, secondly, constitute evidence of the originality and existence of the programs in question. Originality in this context would mean a material development from any other program of which there was public knowledge or which was available for use or had been operated commercially. By keeping the period of protection short, it is hoped that extended litigation could be avoided, since it normally would be cheaper to pay than to fight. To meet EC requirements, the bank would be able to insist on compatibility of software with hardware of differing manufacture. Rights to programs would normally belong to employing companies rather than individuals, and the system would operate independent of copyright and confidentiality rights, which would remain unaltered.

This proposal, which seems to satisfy Prof. Douglas' four criteria, could possibly offer a path to giving public benefit while safeguarding investment. The problem is really twofold: deciding the level of innovation required to justify deposit as well as defining infringement. If a program is adapted or developed for a particular application, does it become a new program? Mere recoding would not be enough, but requiring anything beyond that may prove difficult. The extent of testing or retesting required might be the most significant standard to adopt. These are, however, problems to be faced in any system of protection for computer programs.



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EUROMARKET NEWS

Issue No. 286 *July 9, 1974*

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Community: Council Moves to Ease Veto Rule

The Council of Ministers has agreed in principle to relax the rigid unanimity rule that France forced upon the other five original EC members in January 1966, following a seven-month Community stalemate. The so-called "Luxembourg Compromise," a de facto amendment of Treaty Article 148, which enables the Council to take valid action by simple and qualified majorities (*Common Market Reports, Pars. 4416.05 and .07*), has blocked major progress in forging the national economies into a genuine common market ever since. Each of the member states at one time or another has used the tacitly adopted rule to prevent passage of Commission-drafted proposals that they considered to conflict with vital national interests. At their June 25 meeting in Luxembourg, the nine foreign ministers concluded that individual member states should accept being overruled or should abstain from voting in the Council's decision-making process, facilitating passage of Council acts. Nothing was put into writing, however, and observers have termed the agreement simply a declaration of intentions.

Relaxing the present decision-making procedure still would not signify a return to the letter and spirit of the Treaty of Rome, since neither France nor the U.K. has officially renounced the Luxembourg Compromise. It could bring new progress to the Community's often-stalled legislative

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Unanimity Rule *(contd.)*

program, though, and it would also be a triumph for German Foreign Minister Hans-Dietrich Genscher, a newcomer to the EC scene, who had to use all of his persuasive powers to obtain this major concession.

Members to Consult on Foreign Pacts

The Council's tentative decision instituting a consultation procedure for cooperation agreements between EC member states and third countries is far from what Community proponents have been seeking, but it still represents a major step toward a broader common commercial policy. It would bring a unifying element into an area that until now has been jealously guarded as a national domain because it is not expressly covered by the common policy concept outlined in Treaty Article 113 (*Common Market Reports, Par. 3882.21*). The decision would require a member state to inform the European Commission and all other EC members not only of its plans to negotiate a cooperation agreement or to renew an existing one with third countries but also of the individual provisions of such an agreement. Copies of the pact, once initialed, would have to be sent to the Commission and the other member states.

Community leaders put most of their hope for reduced competition between members in the foreign trade area, however, in the new provision for mandatory consultations at the request of any member state or of the Commission. These discussions, to be conducted in a committee made up of EC members and Commission officials, would insure that a new cooperation agreement conformed to common policies, especially the common commercial policy. The committee would also be a permanent forum for the improved exchange of information and views and would also offer an opportunity to coordinate members' actions, perhaps even leading to new Community steps in the international cooperation field.

Italy: Tax Rates for Professions Could Double

The Italian government has agreed on further provisions of its new austerity program. As previously reported, changes in taxation as well as substantial price rises for utilities have been planned in measures that are expected to yield revenue of some 3,000 billion lire next year, offsetting about two-thirds of the current balance-of-payments deficit. Before implementing the package, which has received a parliamentary vote of confidence, Rome was still facing stiff opposition from the labor unions.

Individual taxpayers with annual incomes of below 4 million lire would not feel the pinch as much as those in higher brackets because the amount of tax-exempt income would be doubled from 600,000 to 1.2 million lire. For those earning more than 4 million lire per year the present 1-million-lire exemption would remain the same. Members of the liberal professions and businessmen who now pay no more

Tax Rates *(contd.)*

than 10% on their personal incomes can expect to pay considerably more if the doubling of tax rates is carried out as planned.

As a further step against tax evasion, the Rumor administration intends to make the random tax audits compulsory. Taxpayers would be granted an extension (from December 1974 to December '75) for filing corrections pertaining to their tax returns. The VAT rates for certain luxury items (mostly imported) would go up sharply from the present 18%.

The financial crisis in state-run hospitals has prompted the government to propose a tax on drugs to be paid by all employees covered by the national health insurance system who now receive these medicines free of charge. The employer's contribution to national health insurance funds would be increased by 1.5% for each employee.

Luxembourg: No Plans for Broadening Co-determination

The international financial community has greeted the legislative program revealed by the new coalition government in Luxembourg with relief. The administration, made up of Socialists and Democrats, has promised not to extend existing co-determination legislation to businesses and banks with fewer than 1,000 employees. At present only three companies are covered: Arbed (the domestic coal and steel combine that is still the backbone of the economy) and Goodyear and Monsanto, both of which have greatly contributed to industrial diversification. A lowering of the employment ceiling to 500, for example, as demanded by leftists among the Social Democrats, would have entitled labor in nearly 50 enterprises, including several banks, to one-third of the seats on the company's *conseil d'administration* (board of directors).

Nevertheless, the government plans to extend labor's co-determination rights in a different way. New legislation would provide for employees to elect either one-third of the members of both the supervisory and managing boards or half of the managing board's members. Present company law in Luxembourg is virtually identical to that of Belgium (patterned, in turn, after the French system), which provides for only one board; amendments to the Luxembourg corporate code would introduce the two-board system, practiced in Germany and also featured in several EC proposals, including the Fifth Directive on Company Law Coordination (*Common Market Reports, Par. 1350.36*).

The administration is planning to introduce a bill to increase the minimum 18-day annual vacation to 25 days over the next few years, but a vacation of at least 21 days would become mandatory this fall.

Luxembourg *(contd.)*

The net worth tax of 0.5% payable by individual and corporate taxpayers would be increased, though the government has not said by how much. A new tax would skim off gains and profits from "speculative transactions," but here too government attorneys have not yet specified what would constitute such transactions. The vow to clamp down on tax dodgers is interpreted primarily as the administration's intention to cooperate more closely with foreign governments, particularly with those of other Common Market countries.

Britain: New Bargaining Guidelines Set by TUC Council

The General Council of Britain's Trades Union Congress (TUC) has issued a guideline document, "Collective Bargaining and the Social Contract," that incorporates eight "basic" recommendations for labor union negotiators. The council's proposals, which will not be laid before the TUC until September, are not - as the introduction stresses - to be taken as a "rigid framework": throughout, the emphasis is on the need for "special cases" to be treated on merit.

The "social contract" referred to is, of course, the agreement reached between the labor unions and the Labour Party back in February 1973, before the party assumed office. In essence, the party pledged itself to abandon a statutory incomes policy in favor of a voluntary one. It was clear that the unions would be required to make a contribution and that a considerable measure of trust and good will would be involved. The time is now considered ripe for this quid pro quo, especially since the pay provisions of the Counter-Inflation Act 1973 are shortly to be repealed under the upcoming Prices Act, which is expected to be in force by mid-July.

The council document notes that the central negotiating objective for the period ahead will be to maintain real incomes by virtue of existing threshold agreements or analogous arrangements. The 12-month interval between major increases that is at present in operation should "in general" continue to apply. Priority should be given to negotiating productivity agreements and improvements of living standards, to attaining "reasonable" minimum standards, and to eliminating discrimination against particular groups (especially women). In the council's view, the proposed new Conciliation and Arbitration Service (CAS) should lead to the prompt and effective solution of disputes.

Although the unions generally find the guidelines useful, there will undoubtedly be stiffer opposition in the coming months on two counts at least. First, several major unions are not apt to abdicate their traditional position on collective bargaining for fear of circumscribing their

TUC Guidelines *(contd.)*

negotiating powers in advance. And second, several unions - including those of the miners, local government workers, and construction workers, who are already pressing for major wage increases - are expected to consider themselves "special cases." The situation is exacerbated by the fact that the triggering of threshold agreements under existing legislation has given added impetus to the inflationary spiral (*Doing Business in Europe, Par. 30,674*); this, coupled with the U.K.'s balance-of-payments deficits plus sundry other troubles, may necessitate reconsideration by the government. Any move back toward a statutory incomes policy, however, would be regarded as an immediate breach of the tenuous social contract.

Germany: Cracking Down on Industrial Air Pollution

The German government is stepping up its fight against environmental polluters, this time against atmospheric violation. Detailed regulations based on the Clean Air and Noise Abatement Act 1974 (*Doing Business in Europe, Par. 30,708*), sent to the upper house for approval, would require industrial polluters to substantially lower the levels of more than 120 gases, forms of dust, and other noxious substances emitted into the air. Maximum acceptable levels have been established through extensive medical research, both in Germany and internationally under the auspices of the World Health Organization. Government-sponsored tests were also carried out to prove to industry the technical feasibility of lowering the volume of contaminants.

For example, the government wants industry to reduce the volume of sulfur dioxide emitted from stationary sources over longer periods of time from the presently permissible 0.4 milligrams to 0.14 milligrams per cubic meter. The higher degree of pollution that would be allowed over short periods in order to cope with emergencies would be reduced from 0.75 to 0.4 milligrams per cubic meter.

Bonn's list of businesses subject to licensing would include 40 stationary sources of air pollution (present regulations list only 11). Enforcement agencies could make licensing conditional on a firm's observance of clean air standards.

German officials are aware that immediate compliance with some of the proposed new stipulations would be impractical for industry and would also run counter to Bonn's energy program. Conceived in the aftermath of the oil crisis, this program provides for the construction of 10 coal-fed power stations in the Ruhr area, and strict enforcement of the draft regulations would have barred the issuance of construction permits. Thus, there would be a four-year transitional period for some gases, such as sul-

Air Pollution *(contd.)*

fur dioxide, hydrogen fluoride, and hydrogen sulfide.

Meanwhile, Bonn sources report that the Schmidt administration will soon propose new regulations requiring car makers to equip automobiles with devices that would further reduce carbon monoxide and hydrocarbon exhausts by 20% and 15%, respectively (*Doing Business in Europe, Par. 23,544B*).

Switzerland: An Extension for Emergency Powers Law

Both houses of the Swiss parliament have extended for three years the government and central bank emergency powers to cope with inflation (*Doing Business in Europe, Par. 30,629*). Without this extension, the emergency legislation would have expired on Sept. 1, and Bern would have been deprived of the instruments needed to curb the domestic credit volume by restricting the inflow of foreign funds or by neutralizing their impact. These powers, for example, enable the government to prohibit banks from paying interest on deposits held by nonresidents and to prevent individual and corporate borrowers from seeking credit abroad.

An extension was also necessary because in Switzerland, in contrast to several other European countries, the state lacks the constitutional authorization to control the business cycle effectively. Work on a proposed amendment to correct this deficiency has been delayed (*Doing Busine[illegible] in Europe, Par. 30,635*).

AROUND THE MARKETPLACE

U.S. States Drumming Up European Trade

The growing attractiveness of the United States for direct investment from Europe is persuading more and more U.S. state governments, development associations, and port authorities to establish promotional offices in the Community. Within the last half year or so, there have been several newcomers, so that the latest count comes to 13 state representations and 10 port authorities. The states are (locations in parentheses) Alabama - International Development Consortium (Bern), Arkansas (Geneva), Georgia, Illinois (both Brussels), Maine (Bonn), Maryland, Michigan, New York (all Brussels), North Carolina (Zurich), Pennsylvania - Penn's Southwest Association (Frankfurt), Texas - North Texas Commission (London), Virgina (Brussels), and Wisconsin (Frankfurt).

The port authorities: Chicago (Brussels), Delaware River (St. Job in t'Goor/Belgium), Georgia (Bonn), Maryland, Massachusetts, New Orleans (all Brussels), New York and New Jersey (Zurich), Oakland, South Carolina, and Virginia (all Brussels).

EURO COMPANY SCENE

Voith/ Allis-Chalmers

Within a month of acquiring a majority in Morden Machines Co. of Portland, Ore., Germany's J.M. Voith GmbH mechanical engineering group has set up a U.S. joint (50:50) venture with Allis-Chalmers of Milwaukee, Wis. The new Voith-Allis Inc. in Appleton, Wis., will operate in the paper-machinery construction sector. Voith and Allis-Chalmers have cooperated in the production of water turbines for some time.

ICI Americas

The U.K.'s Imperial Chemical Industries has formed a new company, ICI Americas, to cover all its operations in North, Central, and South America, where the concern's total sales are estimated at over $1 billion. ICI is most active in Canada, where it has 60 plants and annual sales of some $385 million, Argentina, with sales of over $100 million, and in the United States, where it has 14 plants in 11 states, with total sales of over $250 million.

Liquichimica

Italy's Liquichimica SpA, of the Liquigas group, and Soviet authorities have signed a five-year agreement for technical and scientific cooperation in the chemical, petrochemical, and microbiological sectors. The contract is expected to lead to construction of a major petrochemical plant for paraffin production in the USSR.

U.K. Coal Board/ Dept. of Interior

The U.K.'s National Coal Board has signed an agreement with the U.S. Dept. of the Interior whereby Britain will have access to almost all American research on the recovery and use of coal and on synthetic fuels. The agreement was made on a no-cash basis and entails no commitment on commercial collaboration.

Krsko Project

An international financial consortium headed by Citicorp International and including First National Bank of Chicago, Morgan Guaranty Trust, Moscow Narodny Bank, Goldman Sachs International, and Guinness Mahon & Co. is raising a two-stage loan of $216 million to finance the construction of a nuclear power plant in Krsko, Yugoslavia, the largest project ever undertaken in that country. Westinghouse Electric Corp. of Pittsburgh will supply the plant, which will require total investments of $503 million. Most of the balance of the financing is to be provided or guaranteed by the U.S. Export-Import Bank. The plant, Yugoslavia's first nuclear station, is to begin operating in 1979. The transaction represents the first sale of nuclear equipment by an American company to a Socialist state and the first time the Moscow Narodny Bank has co-managed a loan to a non-COMECON country.

Herstatt

The sudden collapse of the major German private bank I.D. Herstatt as a result of foreign exchange speculation,

Herstatt *(contd.)*

though not entirely unexpected, has set off a wave of uncertainty in domestic and international financial circles and may lead to increased governmental intervention in Germany's banking sector. The Federal Supervisory Office for Credit withdrew the Cologne bank's operating permit after it was learned that Herstatt, which had a balance sheet total of some DM 2.1 billion last year, had overextended itself in foreign currency and gold future trading and had falsified its books. Liquidation was ordered when talks between the banking authorities, the Federal Bank, Germany's "Big Three" (Commerzbank, Deutsche Bank, and Dresdner Bank), and Herstatt's main stockholder (81%), Dr. Hans Gerling of the Gerling insurance group, failed to yield a rescue plan. Losses have been provisionally estimated at some DM 480 million, and the Cologne state attorney's office has already instituted proceedings against Herstatt officials on suspicion of breaches of company law and bankruptcy and share rules as well as fraud. Depositors with accounts of up to DM 20,000 are to be compensated largely from the deposit insurance fund of the private Federal Association of German Banks.

Among the foreign creditors reportedly involved in the case are Morgan Guaranty Trust, Girard Trust Bank of Philadelphia, a Zurich subsidiary of Seattle First National Bank, and the U.K.'s Hill Samuel.

The German Bundesbank, meanwhile, has acted to require all banks to supply full information on their foreign exchange forward dealings as of July 1. In addition, Bonn is seeking to tighten provisions of the Federal Banking Law so that foreign exchange speculation would in future be limited by a bank's assets.

Herstatt Luxembourg

Banking authorities in Luxembourg have revoked the license of Banque Herstatt Luxembourg, a joint venture of the defunct Herstatt Bank and the Gerling group's Global Finance Corp. SA, reportedly because of management irregularities and Gerling's refusal to provide added financial support.

Warburg-Paribas/ Becker

S.G. Warburg of London and France's Banque de Paris et des Pays-Bas intend to merge their 15-month-old New York investment bank Warburg-Paribas Inc. with A.G. Becker & Co. of Chicago and New York, an important U.S. financial services company. Plans call for establishment of a new investment banking firm, capitalized at about $50 million, which would be equally owned by Warburg-Paribas and Becker. Since Becker is a member of the N.Y. Stock Exchange, which limits the access of foreigners to trading, final details on the participations in the proposed venture are still being worked out. The link-up is subject to approval by French and U.K. authorities.

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EUROMARKET NEWS

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Community: Court Lifts Barriers in Trademark Suit

The European Court of Justice has set a landmark in its ruling that the owner of a trademark in one EC member state may not prevent the importation of goods lawfully carrying an identical trademark from another member state. Arising from the Luxembourg lawsuit brought by Van Zuylen Frères, Liège, against Hag AG, Bremen (Case No. 192/73), the decision has far-reaching implications for the struggle to protect the Community principle of the free movement of goods against competing property right claims.

Specifically, the judgment enables Hag to sell its caffeine-free coffee - symbolized by a red heart - in Belgium and Luxembourg, where Van Zuylen holds the same trademark, purchased indirectly from the Belgian government following the postwar expropriation of Hag Belgium. Van Zuylen had requested Luxembourg's district court to bar the German imports.

The *Hag* decision is interpreted to mean that a trademark holder in one country may not invoke national rules entitling him to sue anyone importing products that lawfully bear the same mark. Only where his trademark rights are infringed upon in other ways, as through imitation, can he ask the domestic courts for protection. Nor may he invoke Rome Treaty Article 36, which guarantees the protection of national industrial property rights (*Common Market*

This issue is in two parts, consisting of 72 pages. This is Part I.

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Trademark Suit *(contd.)*

Reports, Par. 352.07). The high court emphasized that this protection ends where the exercise of trademark rights would mean a division (breakup) of the Common Market along national frontiers. To the court it makes no difference whether this division results from an agreement between the trademark owner and the holder or, as in *Hag*, from government intervention.

The new ruling is expected to encourage many German trademark owners to export to other EC states where nationals hold identical trademarks as a result of the confiscation of German property after World War II. It cuts across attempts by Common Market countries - and former Allies - to preserve the application of these expropriated trademarks within their territory.

The clear questions put to the European Court by the Luxembourg district court judge forced the tribunal to weigh this case in the light of the conflict between national trademark rights and the free movement of goods. In previous requests for preliminary rulings involving property rights, the national courts had approached the issues under the aspect of Community competition rules, although in *Parke-Davis* (on patents - *Common Market Reports, Par. 8054*), *Deutsche Grammophon* (musical copyrights - *Common Market Reports, Par. 8106*), and *Sirena* (trademarks - *Common Market Reports, Par. 8101*) none of the parties concerned were considered genuine competitors.

Rome Agrees to Limit State Aids

Although the European Commission has made no significant progress in its drive to roll back Italy's recent import restrictions on agricultural products, particularly beef, it has achieved a minor success in another area: the Rumor administration has relented to pressure from Brussels regarding state aids. Last year the Italian government introduced legislation that clearly would have infringed Community rules in this sector. Treaty Article 92 (*Common Market Reports, Par. 2922.13*) prohibits state aid to the extent that it either actually or potentially distorts competition and adversely affects trade between member states. The Italian bill, which would have empowered Rome to extend cheap loans to enterprises that were about to fold or even to revive collapsed businesses, was considered a flagrant violation of Article 92(1). However, Rome has now decided to restrict such loans to companies that would use them for investments to improve their competitive standing. The Commission, of course, did not object in the case of aid to underdeveloped regions, such as the *Mezzogiorno*, in order to stimulate economic growth, because Article 92(3) strictly exempts this type of assistance (*Common Market Reports, Pars. 2922.23 and .26*). In fact, promoting economic development in the EC's backward regions is one of the Treaty's foremost objectives.

Germany: Tax Reform Bill Stalled for Good?

A deadlock between the Bundestag and the Opposition-controlled Bundesrat appears to be seriously endangering the German government's proposed tax reform bill (*Doing Business in Europe, Par. 30,680*). A first compromise version worked out by a conference committee from both houses met some of the Christian Democrat demands, but the parties are still poles apart on many other issues. The bill had originally provided for a complete changeabout in the write-off of special expenses, whereby taxpayers would, for example, be permitted to deduct life insurance premiums from their tax liability rather than deducting them from their taxable income, as under the present system - and that only to a maximal 22%; the compromise subsequently worked out contained a combination of both systems and largely quelled Opposition arguments that upper-income taxpayers would feel penalized for earning more money in order to secure their future.

Still, there are other issues on which the coalition government believes it cannot compromise. A major one is the proposed increase in employee tax-exempt income from DM 240 to DM 480, deductible from tax liability of up to 22%. The Opposition wants DM 600, deductible from the tax base. Concessions here would mean even greater losses in revenue than the nearly DM 12 billion already anticipated.

According to the Christian Democrats, the government bill ignores the fact that inflation would not only erase the benefits that taxpayers would derive from the reform but would also saddle them with even higher tax burdens because of spiraling income increases in the coming years.

Although the German Constitution allows the government to make another attempt for agreement on the proposed reform, Bonn observers hold little hope for a reconciliation. Many think that Parliament instead will remove and adopt the noncontroversial portion of the bill, relieving low and medium incomes and providing all taxpayers with monthly cash payments of DM 70 for each child, and then continue debate on the other issues after the weary legislators have had a chance to take their vacations.

Unemployment Contributions to Go Up

Germany's Federal Employment Office, which administers the national unemployment insurance fund, intends to raise the monthly contribution rate for mandatory unemployment insurance from the present 1.7% to the statutory maximum of 2% of employee salaries. Since both employer and employee share these payments equally, each would have to pay 1% rather than the current 0.85% (*Doing Business in Europe, Par. 23,456*). The increase would boost the agency's annual revenue by DM 1 billion and would largely make up for benefits now being paid to the country's approximately 460,000 unemployed and the 200,000-odd workers on short hours.

Austria: New Rights for Unions, Works Councils

Most Austrian business leaders are confident that the new co-determination law (*Arbeitsverfassungsgesetz*) in force since July 1, with additional rights for works councils and the unions, will not alter the good labor-management climate that has resulted in few disputes in recent years. (Indeed, in terms of days lost due to strikes, Austria has been lowest on the list of European countries.) This optimism is based on the fact that the enacted version is considerably less progressive than the Socialist government's original proposal. Also, there is reason to hope that works councils and employee representatives on supervisory boards of companies will take a conciliatory approach in exercising their newly gained rights.

Under the act, employees are entitled to elect one-third of the supervisory board membership of all stock corporations and limited liability companies with a work force of 300 or more. These employee representatives have essentially the same rights as shareholders' representatives, with two exceptions: they are not entitled to compensation and, in appointing members of the managing board as well as the supervisory board chairman, they may never outvote stockholders, a situation that might arise if they sided with several members representing minority stockholders.

Works councils, to be elected in all companies having more than five employees, may veto planned disciplinary rules, new pay scales for piece-rate work, and the introduction of personnel files that contain information going beyond the employee's personal data and qualifications. But management need not seek the works council's consent for hiring new personnel or for promotions, though it must inform on these matters.

Unions are now guaranteed access to plant and offices if the works council so desires and management is informed beforehand. Union officials may offer advice to works councils on all issues, but representation of employees is a matter for each individual works council.

Switzerland: Insurers Seek Freer Hand for EC Operations

Officials of the Swiss government and the European Commission are negotiating an agreement that would eliminate prejudicial treatment of EC-based insurance companies in Switzerland and Swiss carriers in the Common Market. While discrimination within the Community should end once national insurance rules (except for those covering life insurance) are brought into line with two Council directives adopted in 1973 (*Common Market Reports, Par. 9596*), both directives still allow member states to restrict access of third country-based insurers and, where legal, to subject them, for example, to stricter requirements - especially financial - and tighter scrutiny by authorities. The outcome of the negotiations will be closely followed by inter-

Insurance *(contd.)*

national insurers because it may well serve as a model for bilateral agreements with other third countries, perhaps even with the United States.

Swiss insurers would stand to benefit greatly from any new nondiscrimination pact. The Swiss government in fact had approached Brussels first, since Swiss insurance companies are heavily engaged in underwriting in Common Market countries. Failure to remove restrictions against them could force them to relocate substantial assets from Switzerland to EC member states. But the Community too has an interest in a positive solution as the volume and number of risks increase and sufficient coverage cannot be found either on the national markets or within the Common Market.

AROUND THE MARKETPLACE

Central Banks Prepared to Stop Failures

Following their informal monthly get-together at the headquarters of the Bank for International Settlements (BIS) in Basel, Switzerland, on July 8, the governors of the major central banks announced that they had agreed in principle to come to the aid of national commercial banks threatened with collapse. Precise details on the assistance that would be offered have yet to be revealed, but it is clear that the central banks have in effect declared their readiness to act as lenders of last resort to banks that have been hit by liquidity problems and by the sharp falling-off of new funds in the Euromarkets.

The BIS announcement underscores the widespread concern felt in respect of the stability of the European monetary system above all, especially after the sudden closure of Germany's Herstatt Bank late last month following crippling foreign exchange losses. Herstatt is not alone, however: the governors clearly feel that a number of other institutions have participated, possibly irresponsibly, in unduly large transactions. Accordingly, they will offer to help out only in "genuine" cases. The agreement can also be viewed as a forerunner of a more exigent policy altogether; it is predicted that tighter reporting procedures by banks will be imposed, notably in the forward transactions sector - as they already have been in Germany, and that dealers will be less free to trade "on their own account."

Oil Boom Transforms Face of Norway

Norway is not likely to join the Organization of Petroleum-Exporting Countries, but with this year's estimate of 5 million tons of crude-oil production (as compared to 1973 requirements of 9 million tons) and projected steep rises to 19 million tons for 1975, 28 million for 1976, and 35 million for 1977, the country will not only become self-sustaining next year but will be Western Europe's sole ex-

Oil Boom *(contd.)*

porter of oil. Moreover, next year Norway will produce some 20 billion cubic meters of natural gas, becoming second to the only other West European producer, the Netherlands. The revenue from sales of crude oil and natural gas should turn the chronic Norwegian balance-of-payments deficit into a comfortable surplus.

The new prosperity, of course, and the country's changing economic pattern are the results of successful exploration in the North Sea. Some 17,000 jobs have been created by companies supplying the developing oil industry. Stavanger, the country's fourth-largest town and until recently totally dependent on fishing, has been turned into a supply center for industry. Several shipyards have even retooled to manufacture oil rigs and accessories.

Lack of capital, know-how, and a domestic oil source prompted Oslo years ago to engage multinationals in prospecting and producing, including pipeline construction. The oil crisis and the allegedly dubious behavior of many multinational oil companies has now confirmed the wisdom of this policy in the eyes of most Norwegian observers. As "Den Norske Stats Oljeselskap A/S," the new state-owned oil company, starts drilling early next year, the government will exert more control over the volume and speed of crude output and will grow less dependent on cooperation with the foreign multinationals.

EURO COMPANY SCENE

Alfa Romeo/ Rolls-Royce

Italy's state-owned Alfa Romeo and the U.K.'s Rolls-Royce (1971) have announced they will form a joint venture to manufacture small gas-turbine engines for light aircraft and helicopters. The engines, initially designed by Rolls-Royce, are to be produced at the Alfa automobile plant near Naples. The Italian company reportedly would finance 20-25% of the project through subsidized investments of some 11 billion lire. The British contribution is said to depend upon the participation of other firms - notably Germany's Motoren- und Turbinen-Union (MTU) - in the venture.

Volkswagen/ Opel

German auto makers Volkswagenwerk and Adam Opel, the G.M. subsidiary, have offered special bonus packages to workers who voluntarily leave their jobs. VW was the first to take this step in order to adjust production to the current automobile slump. Almost 3,500 workers have taken advantage of Volkswagen's early retirement incentives, ranging in value from DM 5,000 to 9,000, and the offer has now been extended to an additional 5,000 employees. The company work force currently numbers about 120,000, down some 5,800 from last year's employment level. In similar economy measures, Opel has proposed settlements of DM 5,500-10,000,

VW/Opel *(contd.)*

depending on length of service, to a maximum of 2,500 blue- and white-collar employees for quitting the company. Opel hopes to shrink its staff to 52,500, while Volkswagen is said to be aiming for 113,000-115,000 by the end of the year.

Authi

The offer of a new wage agreement guaranteeing an average pay rise of 20% by the management of Authi, British Leyland Motor Corp.'s Spanish subsidiary, appears to have settled the month-old labor dispute at the company's Pamplona plant. BLMC reportedly had delayed negotiation of a new contract pending Madrid's approval of the proposed sale of Authi to General Motors. The Spanish government has not yet ruled on the transaction.

IHC Holland/ Baker Shipbuilding

IHC Holland NV, the Dutch marine construction and supply group, has announced an agreement to sell off its newly built shipyard at Ingleside, Texas, to Baker Shipbuilding of the United States for an unspecified sum. The deal marks the end of the Dutch company's unsuccessful American engagement, which reportedly resulted in net losses of 65 million guilders for the first year of operations. Although the firm had received three major orders for drilling rigs, worth 100 million guilders in all, delays in construction are said to have driven costs far beyond original estimates.

Court Line/ Tate & Lyle

Agreement has been reached between the U.K. government and Britain's troubled Court Line group on the valuation of the shipbuilding interests of Court, which are slated for nationalization. Following a statement by the Industry Secretary to this effect, however, U.K. sugar group Tate & Lyle announced that it had approached Court Line via Tate's own shipbuilding subsidiary with a view to acquiring one of Court's yards in Devon. The offer made by Richards Shipbuilders would, though, "be made subject to the withdrawal by the Labour government of any nationalization threat in respect of small and profitable shipbuilding companies." In its reelection manifesto, the Labour Party clearly expressed its conviction that the shipbuilding industry would figure high on its list of potential nationalizations.

P&O/ Rheinstahl Nordseewerke

The U.K.'s Peninsular & Orient Steam Navigation Co. (P&O) has awarded its largest single contract to date, a £75-million order for four refrigerated petroleum gas carriers, to Germany's Rheinstahl Nordseewerke shipyard. No British company had participated in the international bidding for the contract, since U.K. yards have little spare capacity and could not hope to match the November 1976 delivery date for the first of the four 53,000 cubic meter carriers offered by Rheinstahl. The rest are to be supplied by October 1978.

Goodrich/
Akzo/
Ciago

B.F. Goodrich of Akron, Ohio, reportedly is acquiring the 40% stake in Chemische Industrie Aku-Goodrich BV (Ciago) of the Netherlands held by Dutch co-owner Akzo for an unnamed price. Ciago, said to be Goodrich's largest foreign chemical holding, was set up in 1958 by Goodrich and Aku (later Akzo) for the production of synthetic rubber and latex.

Forsythe
Lubrication

Forsythe Lubrication Associates of Canada, producer of industrial lubricants, has set up its first European marketing office at The Hague. The firm is said to plan construction of refining facilities either in Belgium or the Netherlands within the next three years.

Electrolux/
National Union

Sweden's Electrolux has announced the acquisition of over 90% of the shares in National Union Electric Corp. of Stamford, Conn. Electrolux had bid $28 a share for all 2,040,342 shares of the U.S. company. The takeover reportedly will double the Swedish firm's output of about 2 million vacuum cleaners yearly, giving it access to National Union's retail network of 36,000 outlets in the United States and Canada and ranking it with Hoover International as one of the world's top producers.

Doulton/
CEC/
Allia

The U.K.'s Doulton & Co. and France's Carbonisation Entreprise et Céramique have announced plans to merge their interests in the sanitary installation sector, thereby creating what the companies claim will be Europe's largest manufacturer of plumbing fixtures. A new company, Allia Doulton, is to be set up, in which the British partner will hold a 26% stake. CEC's 87.5% holding in the German Keramag group will also be brought into Allia. The merger is subject to Bank of England and French Treasury consent.

Hoffmann-
La Roche
Netherlands

The Dutch government reportedly has initiated an investigation into the pricing policies of the Netherlands subsidiary of Swiss drugs manufacturer Hoffmann-La Roche in regard to the tranquilizers Librium and Valium. An independent panel of economic experts - the "Economic Competition Commission" - is to study the prices and make recommendations to the Hague's Minister of Economic Affairs, who will then decide on possible government intervention. Hoffmann-La Roche is said to have already offered to lower its Dutch prices by about 25%.

Remy Martin/
Boelen

Remy Martin, France's No. 4 cognac producer, reportedly has taken a majority stake in leading Dutch wine merchants Jacobus Boelen of Amsterdam for an undisclosed sum. A close cooperation between the two companies is planned.

Common Market Reports

EUROMARKET NEWS

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Community: Accord on Mediterranean Policy?

There is still hope that the EC Permanent Representatives Committee will resolve its differences over the Mediterranean trade policy in time for the Council of Ministers to come to a final agreement before the summer recess. Then the European Commission could resume tariff negotiations that have been stalled for half a year largely because of U.K. opposition. Since its entry into the Common Market, Britain and its trading partners Spain, Israel, Morocco, Algeria, Tunesia, and Malta have wished to continue dealing on a largely duty-free basis or otherwise favored terms. Under Commission proposals, however, the U.K. would have to increase import duties on citrus fruits and canned citrus products from Spain and Israel. London has refused the suggested 6-15% rises because of their anticipated impact on domestic consumer prices and has even balked at a compromise providing for fewer duty increases.

Despite these difficulties, several Council officials still predict agreement, even with the additional problem posed by Italy's demand for compensation should Algerian wines gain access to the EC on favorable terms. Further delay until the fall or later could undermine the new dia-

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Policy Accord *(contd.)*

logue that the Nine are seeking to establish with the Arab countries in the aftermath of the oil crisis.

Labor Gains Ground in Euro-Company Model

The European Parliament has voted overwhelmingly in favor of a co-determination model that would offer employee representatives on the supervisory board of a European Stock Corporation (*Societas Europea - S.E.*) more influence than provided for in the Commission's original draft. As first presented in the draft statute that was submitted to the Council in 1968, the co-determination plan would have entitled employees to elect one-third and shareholders two-thirds of the S.E.'s supervisory board (*Common Market Reports, Par. 9381*). The new amendment calls for one-third of the board's membership to be elected by employees and another third by shareholders. The final third would be made up of independent individuals representing the "general interest" who would be nominated by management, employees, and shareholders. They must be sufficiently qualified for the job and may not have any links whatsoever with either labor or management but would need the backing of at least two-thirds of the employees' and shareholders' representatives in order to be elected. Deadlocks would be resolved through arbitration.

Adoption of the amendment to Article 137 of the S.E. draft statute essentially clears the way for voting on much less controversial portions of the bill, so that the Council may soon resume consideration of the draft, although it is not bound by the European Parliament's recommendations.

In further action, the Parliament voted to delete in Article 108 of the draft law the right of a trade union represented in a S.E. to bring legal action against the management board for breach of obligation. As the Parliament's Legal Committee had pointed out, the S.E. works council could always bring action if there were a serious breach of obligations.

Minimum Base Capital Set by EC Experts

In order to meet objections raised by Italy and the U.K., member state experts editing the various Commission proposals to coordinate national company rules have completely rewritten the original version on minimum stated capital set forth in the second draft directive on company law coordination (*Common Market Reports, Par. 1350.11*). While the Commission had initially suggested a mandatory minimum stated capital of 25,000 units of account for a stock corporation, the final version would leave it up to the individual member countries to establish higher minimum requirements. It was agreed, however, that the minimum stated capital should never be less than 25,000 U.A. The Council is expected to adopt these revisions when the entire proposal is submitted for adoption.

France: Credit Curbs to Trim Inflation, Cut Trade Gap

With France's annual rate of inflation soaring at roughly 15% and a balance-of-payments deficit expected to total FF 25-30 billion this year, the administration of Prime Minister Jacques Chirac is moving swiftly to implement its current austerity program through tax increases and tighter credit controls. Following the first shock treatment for business and industry in the form of an 18% increase in the tax on company profits, the second prescription provides for penalty interest for corporate and noncorporate borrowings that exceed credit guidelines, punitive dismissal of directors of state-owned banks who overstep these recommendations, and close scrutiny of all lending institutions by the central bank and government agencies. Most observers think that Paris is moving in the right direction with these measures, given a basically sound French economy, but they doubt whether the ambitious goals of cutting inflation by two-thirds by mid-1975 and eliminating the foreign trade deficit by the end of next year can be achieved in so short a period.

Although the government is still committed to the concept of full employment, the fight to combat inflation has priority now, as evidenced by enactment of a temporary ban on the admission of alien labor until October of this year. Rather than freezing wages and prices, the government is counting on reduced credit volume to have a dampening effect on both. Shrinking consumer demand through milder wage increases also is an important element in the program, because the administration's long-range plans for economic and social change and the announced pension increases will require pumping additional funds into the already overheated economy.

Another aspect of the anti-inflation program represents a complete turnabout from previous government policy: companies that run into financial difficulties will no longer be able to take state aid for granted. Only where businesses can show that reverses are due to events beyond their control may subsidies be forthcoming. This change is expected to minimize occasional disagreement between Paris and the European Commission over state aids allotted for purposes other than improving a firm's competitive standing.

Britain: 'Soft' Control for State in Oil Ventures

Fears on the part of the major oil companies that the U.K. government would commit itself to a policy of outright nationalization have been allayed to some extent by the presentation to Parliament on July 11 of the long-awaited statement on North Sea oil. Instead of following up on the Labour Party's expressed "determination to ensure not only that the North Sea and Celtic Sea oil and gas resources are in full public ownership, but also that the operation of getting them and distributing them is under full government

'Soft' Control
(contd.)

control with majority public participation," announced in its preelection manifesto, the government has opted for "soft participation," but has still left the oil concerns pretty much in the dark regarding specific measures.

The new plans include establishment of a state-controlled British National Oil Corp. that will be responsible for the negotiation of state participation in North Sea oil operations, which is to take the form of a 51% holding in existing and future licenses. The government's powers to grant or withhold future licenses are central to its participation plans. Existing licenses, on the other hand, will be the object of "voluntary renegotiation"; the Secretary, however, declined to comment on what might happen if companies refused to negotiate. The new oil corporation will also be free to engage in operations on its own account, presumably in cooperation with the gas corporation and with British Petroleum, which is part state-owned. In addition, tighter controls would be applied in respect of exploration and development, and companies would be obliged to disclose more information on their activities than hitherto. Finally, a concession would be made to Scottish and Welsh interests through the establishment of agencies that would derive certain benefits from oil development.

Details of new tax legislation will not be announced until "an early finance bill," although the oil companies are already anticipating an additional tax on profits from the continental shelf as well as the elimination of "certain tax loopholes." In effect, therefore, the most pressing questions still remain open: How much will the government be prepared to earmark for participation? What will be its share in terms of corporation tax, special levies, royalties, etc.? What does the government consider a "suitable return on investment" for the oil concerns, and what will be the compensation for firms required to "voluntarily" relinquish majority holdings in existing licenses?

Italy:
Rome Plans to Loosen Credit Grip

Following a marked decrease in domestic liquidity as a result of the government's drastic austerity measures, Rome has now moved to relax credit restrictions in order to increase employment, boost investments, and avoid yet another crisis among the coalition partners. Liquidity of the domestic banks would be increased by some 500 billion lire, half to be made available for investments in the underdeveloped *Mezzogiorno* and the other half to be used to stimulate exports and support small and medium-sized businesses. The government would require all credit institutions to invest an additional 3% of their assets in convertible bonds.

There are also plans to encourage construction activity by inducing banks to purchase real estate bonds, although the details have not yet been disclosed.

Germany: Bonn Launches Stiffer Drug Control Bill

The German government has now sent to Parliament its long-awaited and often delayed new drug bill. Although Bonn has yielded to strong pressure from lobbyists on some issues, it has not relented on three major ones that are largely related to the thalidomide (Contergan) scandal.

First, aside from having to register prices of prescription drugs with the Federal Health Office in West Berlin, pharmaceutical manufacturers would have to present solid evidence that their products are safe and effective. This obligation would also apply to producers whose drugs are already on the market. Second, the bill would also introduce strict liability that would force manufacturers to pay damages in the event of adverse judgments arising from injury suits, even if it could be proved that all conceivable care was taken in the development, production, control, and testing of a particular drug.

Finally, all pharmaceutical firms would be required to contribute to a central fund, to be built up to DM 200 million, that would be used to settle claims that an individual manufacturer might be unable to meet. The government insists on this measure as a means to avoid recourse to public funds, as in the case of the government-supported foundation for children born with thalidomide-induced defects.

After failing in efforts to make the government adopt several recommended criteria and a limit on maximum claims, the drug industry is now hoping that the legislators will meet at least some of its demands. Company executives believe that the special fund should be tapped only where individuals have suffered "graver injury." They also insist that the fund should never be used to pay punitive damages.

Some German officials admit that industry has a point in condemning the proposed requirement that producers of drugs already marketed for years should still submit evidence on the safety and effectiveness of these items. If a drug has been sold over a long period without any negative reports and doctors continue to prescribe it, producers argue, this should be sufficient proof. Only where a drug has been sold for a short time (to be fixed by law) or where any doubts exist should the Federal Health Office be entitled to use discretion in demanding evidence, they say.

Switzerland: Banks Must Report on Forward Deals

The Swiss National Bank announced July 15 that the country's commercial banks must report details of forward foreign exchange dealings on a monthly basis with a view to providing a clearer picture of the volume of the banks' commitments in this area. The announcement comes some six weeks after the Union Bank of Switzerland posted significant forward trading losses, and the National Bank has em-

Swiss Bank *(contd.)*

phasized that more stringent reporting "will be in the best interests of the banks." The move also comes in the wake of the recent decision by leading central banks to act as lenders of last resort for their respective domestic banking networks following the closure of Germany's Herstatt Bank.

AROUND THE MARKETPLACE

No Changes Expected in Luxembourg's Banking Policy

Luxembourg's rather unexpected switchover from a traditionally Conservative to a Center-Left government has brought up the question of whether this political shift will influence official policy toward the Grand Duchy's liberal "Eurobank" status and the resident foreign banks, which are exploiting it to the fullest. The new Finance Minister Raymond Vouel is, after all, a Socialist and thus represents a party that at one time took a rather dim view of the banking invasion from abroad. Financial observers, however, are convinced that neither Vouel nor Prime Minister Gaston Thorn is about to slam the door in the face of the international banks, if only for the reason that these together rank among Luxembourg's largest taxpayers. According to recent reports, the banks (whose official number reached 70 by the end of last year) already account for more than 10% of state revenues. Their departure, for whatever reason, would either force the government to rai[se] taxes or require some other belt-tightening measures.

As it stands, chances are that the new government will continue to license other foreign banks seeking to establish operations in Luxembourg (some 35 institutions, at present). Nor should there be a short-term erosion of Luxembourg's privileged tax status for foreign holdings, which not too long ago had encountered the fierce opposition of France and Germany when it came to deciding on a permanent administrative seat for the Community's Monetary Cooperation Fund. Today, even the French are happy to have access to a Euromarket, regardless of its operational base, and the leading market-makers in London are equally dependent on the cooperation of their Luxembourg counterparts for the big consortial lending business.

EURO COMPANY SCENE

MF/ Rheinstahl/ Hanomag

Massey-Ferguson Ltd. of Canada has signed a preliminary agreement to take over the assets and production program of the Hanomag Baumaschinen construction machinery division of Germany's Rheinstahl AG (Thyssen group) as of October 1. A final contract for the deal should be completed some time in September. MF plans to set up a new and expanded company to succeed Hanomag, taking over the current management

MF/Rheinstahl *(contd.)*

and staff of 2,600. The Canadian firm also is said to be planning the assembly of diesel motors from its U.K. subsidiary Perkins at the Hannover plant, possibly as part of a rumored supply agreement with Volkswagen. Hanomag anticipates sales of DM 235 million for the current year.

Rheinstahl/ Harnischfeger

In other news, Rheinstahl has announced a cooperation agreement between its division of steel construction and conveyor systems and Harnischfeger Corp., Milwaukee-based producer of cranes and excavators. The two plan to set up a joint subsidiary in which Harnischfeger will hold 51% and its German partner the remainder. Further details have not been disclosed.

Krupp/ Iranian Government

In what is regarded as "sensational" news by most German observers, including legislators and administration officials, the government of Iran and Fried. Krupp GmbH have signed a preliminary contract for the sale of a 25.04% stake in the DM 573-million capital of Fried. Krupp Hüttenwerke AG, largest of the Krupp iron and steel subsidiaries. The deal, marking the first foreign participation in the German industrial group, is considered a harbinger of other similar transactions involving the reinvestment of oil dollars. In addition to the share transfer - consisting mostly of preferred stock - Teheran and Krupp plan a new Swiss holding through which Krupp will finance its foreign investment activities and will provide Iran with its entire technical know-how free of charge. The Swiss firm will also promote German-Iranian joint ventures.

U.K. Reactors

The U.K. government has decided to adopt the British-designed steam-generating heavy-water reactor (SGHWR) for the next phase of the country's program of nuclear power stations. In doing so, it has ignored the preference of the country's Central Electricity Generating Board for U.S.-designed water reactors. General Electric, which had shared the CEGB's preference for Westinghouse designs, has now intimated to the government that it wishes to reduce its present 50% stake in National Nuclear Corp., the agency that will implement the SGHWR program.

Fiat/ KHD

Italy's Fiat SpA and Klöckner-Humboldt-Deutz AG (KHD) of Germany have agreed to merge their interests in the commercial vehicle sector as of Jan. 1, 1975, within the framework of a joint holding company to be established in the Netherlands. With an anticipated yearly turnover of close to $2 billion and 40,000 employees, the new concern will be Europe's second-largest producer of trucks and buses after Daimler-Benz of Germany. Fiat is expected to take a majority interest of 75-80% in the joint venture, which will incorporate national subsidiaries in France, Germany, and Italy. Details of the proposed arrangement are subject to approval by German and EC authorities.

Dolland/ Filotecnica	Dolland International, subsidiary of Gallaher Ltd., which in turn is controlled by American Brands, Inc., has taken over Filotecnica Salmoiraghi of Italy's Finmeccanica group, operator of a chain of 25 optical equipment stores.
Management Systems Italia	MSI-Data Corp. of Costa Mesa, Calif., has set up Management Systems Italia with headquarters in Milan. The company specializes in advanced electronic equipment.
Burmah/ Geon	The U.K.'s Burmah Oil has indicated that it is no longer in the market for U.S. automobile replacement parts company Geon Industries. Burmah's original offer of $36 million for Geon has been revised twice and takeover terms of $24 million were tentatively set in May. The principal reason for Burmah's withdrawal appears to be uncertainty over the outcome of an SEC suit against Geon alleging misuse of inside information.
Thyssen-Bornemisza/ Indian Head	Thyssen-Bornemisza Group NV, the international industrial concern based in the Netherlands, has made a bid for the approximately 5.8 million outstanding shares of Indian Head, Inc., the New York manufacturing company in which it already holds a stake of some 34%. The offer, for $27 a share and $2 each for all outstanding "warrants," reportedly expires August 2.
Ronson/ Liquifin	Ronson Corp. of Woodbridge, N.J., has announced that it h[illegible] successfully prevented Liquifin AG of Liechtenstein, subsidiary of Italy's Liquigas, from gaining control of its board of directors. In a proxy contest, Ronson shareholders voted 55.5% to 44.5% in favor of Ronson's slate of candidates, giving the U.S. group seven seats on the board to Liquifin's two. Liquifin reportedly holds about 36% of Ronson stock.
Ohio/ Pennsylvania	In addition to the European representations reported on two weeks ago, a trade promotion office in Düsseldorf, Germany, has been set up by the U.S. state of Ohio, and Pennsylvania has now opened an official liaison bureau in Brussels.
Cie. Financière/ Bancal	La Compagnie Financière, a French financial group controlled by Baron Edmond de Rothschild, reportedly plans to increase its 19% stake in Bancal Tristate Corp., holding for the Bank of California, to about 22% through the agreed purchase of 100,000 additional shares at $22 each.
First National of Chicago	First National Bank of Chicago has opened a representative office in Madrid.

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Community: Key Judgment Expected in Transocean Case

Although the European Court of Justice is still in summer recess, work is proceeding in a number of legally intricate cases on which the court is expected to render judgment in the upcoming session. The ruling in the *Transocean Paint* case (No. 17/74) in particular will have implications both beyond the competition aspects at issue and outside the Community.

The Transocean Marine Paint Association is an organization involving a global research and sales cooperation agreement among 20 paint manufacturers (each established in a different country, seven of them in the EC), which in 1967 had been granted a five-year exemption from Article 85(1) (*Common Market Reports, Par. 2061.85*). In December 1973 the European Commission granted a further exemption (*Common Market Reports, Par. 9628*) but also stipulated that Transocean Paint report any new financial participations or links resulting from interlocking directorships or other intercompany relationships between Transocean and other paint manufacturers. Transocean's reaction has been to ask the high court to void, on both procedural and substantive grounds, the Commission's decision to the extent of the reporting requirement, although it wants the exemption to stand. Brussels contends that without imposition of the reporting condition the exemption would not have been granted. Should the reporting requirement be illegal, the Commission maintains, the entire decision would be void because that requirement is inseparable from the exemption ruling.

This issue is in two parts, consisting of 216 pages. This is Part I.

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Transocean *(contd.)*

One major issue in the case centers on the question of whether Article 8 of Regulation 17 gives the Commission unlimited power to impose obligations it believes relevant for granting the exemption. Brussels insists that it has this power and that it may even ask for information later on without hearing the parties beforehand. Transocean rejects this claim on the grounds that it has been denied the opportunity to be heard as provided in Article 4 of Regulation 99/63.

A second major issue is Transocean's contention that the Commission failed to distinguish between ties of Transocean members with nonmembers having a real influence on the Common Market and those with nonmembers who do not. Brussels argues that, given the progressive national and international concentration in all industrial sectors, the Commission's antitrust powers must not be limited to the EC or to the paint sector alone. The reporting requirement is essential for Brussels' appraisal of economic facts, Commission attorneys maintain, an approach the court normally does not review.

Italy: Rome Cancels Import Deposit on Farm Goods

The Italian decision on July 21 to drop the import deposit requirement for nearly all farm products has been welcomed by the European Commission and elsewhere in the Community. In taking this step as well as in raising the price guarantees to Italian farmers, the Rome government made good on the pledge that was confidentially given at the last meeting of the EC's agricultural ministers. After having been more or less forced to authorize Italy on May 8 to extend the import deposit rule to farm products, the Commission has now withdrawn this authorization, claiming that "free circulation for most of the agricultural products covered by a Common Market organization" has been reestablished.

Only beef imports will continue to be affected by the deposits - for at least three months, but possibly until the end of the year - although the rate has been halved from 50 to 25%. Still, this reduction may help to bring down the huge surplus of fresh and frozen beef since Community exports to Italy are again bound to expand.

The price break given to Italian farmers stems from an effective 12.5% devaluation of the "green lira," i.e., lira-denominated agricultural prices, in relation to units of account. This will raise the prices of farm product imports from other EC countries and thus afford better protection to domestic farmers and producers.

Rome's latest actions have no bearing on the 50% import deposit requirement for industrial products, which had been imposed in late April and which remains in force.

Germany: Compromise on Income Tax Reform Bill

Motivated by "political responsibility" and the threat of being left with no tax reform at all come next Jan. 1, the German government and Opposition leaders have managed to achieve a compromise on the controversial reform of the income tax bill. The consensus will ensure parliamentary adoption but at the same time gives fiscal authorities little time to prepare for the changes and innovations. The agreement, for which the government had to make more concessions than the Opposition, will mean another loss of DM 1 billion for the Treasury in addition to the DM 12-billion shortfall anticipated in the first version of the bill (*Doing Business in Europe, Par. 30,680*).

The compromise clearly has more implications for individual than for corporate taxpayers. Individuals would benefit from a DM 1,680 to 3,000 increase in the amount of tax-exempt income (built into the tax table). The deduction for taxpayers deriving income from employment would double, from DM 240 to 480. The maximum tax rate, however, would be 56% instead of the present 53%. But, most important, individual taxpayers would be allowed to continue deduction of special expenses (life insurance premiums, for example) from taxable income rather than from tax liability as the administration had proposed.

Important for both corporate and noncorporate taxpayers are the changes in net worth tax rates and deductibility. Individuals would be paying 0.7% on their net worth (presently 0.5%), entities 1% (presently 0.7%). Individuals would no longer be allowed to deduct the paid net worth tax from their taxable income (corporate taxpayers never could).

Only individual taxpayers would benefit from abolishment of the 3% surcharge (*Ergänzungsabgabe*) levied since 1968 on all incomes; corporate taxpayers would still have to pay it. Businesses, whatever their legal form, would be entitled to increased write-offs of costs incurred in the purchase of movable or fixed assets designed for pollution control. This is of great significance in view of enacted and proposed environmental legislation (*Doing Business in Europe, Pars. 30,708 and 30,718*).

Another innovation proposed in the original bill that would have entitled both individual and corporate shareholders to a tax credit for the corporation income tax has been postponed and is now scheduled for enactment on Jan. 1, 1976 (*Doing Business in Europe, Pars. 30,666 and 30,680*).

Britain: Mini-Budget Aimed to Stall Price Rises

U.K. Chancellor of the Exchequer Denis Healey presented his "Mini-Budget" on July 22, describing its aim as "to attack inflation at its source." First reactions to the measures suggested that the Mini-Budget was, as far as its economic

Mini-Budget *(contd.)*

impact is concerned, something of a piecemeal affair. Many observers considered the proposals decidedly "political" in character, inasmuch as the projected brake on the retail price spiral could be a key weapon in the Labour government's arsenal at the next general election, which most believe can be only some two months away.

These are the bare essentials of the Chancellor's measures:

- Value-added tax is being reduced as of July 29 from 10 to 8%, and an order is to be placed before Parliament to reduce the maximum retail price of gasoline (by 1p per imperial gallon).
- A further £50 million will be made available in the form of food subsidies (in line with the £500 million earmarked for subsidies in the March Budget).
- Regional employment premiums will be doubled to £3 per week as of Aug. 5, the aim being to stimulate employment in the regions and, at the same time, assist company liquidity.
- Dividend controls will be relaxed to the extent that companies will be permitted to increase (if this proves possible) dividends by up to 12.5% per year. The current limit, dating from early 1973, is 5%.
- Relief on local real property taxes will be afforded domestic taxpayers whose obligations increase by upward of 20% this year.
- Finally, the U.K. acquired a line of credit of $1.2 billion from Iran, which will be drawn by public sector companies in the course of the next three years. Full details of repayment conditions were not announced.

The Mini-Budget came in for immediate criticism from several quarters, principally on the grounds that it was "trivial" and that the cut in VAT would lead to administrative complications and selective pricing policies that would be difficult to police. The concessions made to the "pound in your pocket" were dismissed as a political sop. Further, although the relaxation of dividend controls was given at least a lukewarm reception in the City, it was quickly pointed out that no encouragement had been given to industry in the form of assurances as regards nationalization. A sore point, particularly in the eyes of the Opposition, was the "abrogation of sovereignty" or "sellout" to Iran, especially since the $2.5-billion loan negotiated before the March Budget is still intact.

Healey, not noted for optimism, also warned that "the prospect further ahead is for recession," a statement that was regarded as an escape hatch for Labour that would be available at a later date.

Netherlands: Government Asks Reappraisal of Merger Code

The Dutch Ministry for Social Affairs has requested a reappraisal of the Merger Code, the present version of which appears unsatisfactory as regards the protection of minority shareholder interests in the face of third-party takeover bids. The code, while not binding in law, sets down "recommendations" for merger negotiations that normally are strictly observed (*Doing Business in Europe, Par. 26,738*). The decision for a reappraisal, to be conducted by the Social Economic Council, is said to be the direct result of highly controversial methods employed in the 1972 takeover of Erdal, a Dutch shoe polish and wax products manufacturer, by Consolidated Foods Corp. of the United States. CFC had then paid Erdal directors and members of the founder family a higher price for their equity than it did for the remaining shares acquired from minority shareholders.

In future, according to ministry proposals, similar practices should be forestalled by a requirement to lay open the financial transactions of takeovers and mergers, specifically the bonuses paid in the acquisition of share packages. This would give minority shareholders the opportunity to seek legal satisfaction in cases of suspected irregularities.

In related action, the government-appointed commission studying the reform of Dutch company law has proposed that the Merger Code be modified to oblige the acquiring company to reveal how many shares of a target company it purchased over a three-year period preceding actual takeover and at what prices. In addition, it should report the name of the share sellers if these were members of the target company's management or supervisory boards.

Portugal: New Moves to Reform Taxes, Lure Investment

Following its latest reshuffle, which put more military men into key positions, the new Portuguese government is expected to make increased efforts to carry out the fiscal, monetary, and financial reforms announced on July 7 by its predecessor, the left-center coalition government that collapsed after the resignation of Premier Adelino da Palma Carlos three weeks ago. Reform plans call for higher income taxes on individuals in the upper brackets, while low-income taxpayers would benefit from a substantial increase in the amount of tax-exempt income. A high excise tax is to be slapped on the purchase of luxury items, most of which are imported, in order to ease the drag on the balance of payments.

Portugal's one-sided, largely agricultural economy and the high inflation rate (30%) inherited from the ousted Caetano regime as well as the lack of capital at home has prompted Lisbon to seek financial assistance from abroad. Foreign investment continues to receive a warm welcome so long as it is not made only because of the cheap labor and

New Moves *(contd.)*

hopes for a quick, high return. A modest move to encourage saving and attract both domestic and foreign capital has been the increase in interest rates on deposits from 6.5 to 7%. Small and medium-size enterprises of up to 150 employees may apply for government guarantees on commercial loans to be used either to rationalize existing product lines or to convert to entirely new ones.

Lisbon has also turned to the EC for financial help. As an EFTA member, however, Portugal is limited to a special relations agreement with the Community providing for tariff cuts, among other things, and reflecting the country's role as an important producer of agricultural commodities, the EC's most sensitive sector (*Common Market Reports, Pars. 9524 and 9541*). While the Commission has responded favorably to the request for aid, it has remained noncommittal about the possibility of full membership. Commission officials point out that prospective members must have attained a degree of economic development corresponding roughly to that of EC countries; they believe that Portugal will need at least another decade to catch up.

EURO COMPANY SCENE

Airbus/ VFW-Fokker

The German government has announced it will underwrite a loan of DM 1.5 billion for the European Airbus, a joint project partnered by France's Aérospatiale (47.9%), Deutsche Airbus of Germany (47.9%), and Spain's Casa (4.2%). In addition, Bonn is providing DM 257 million to the German-Dutch VFW-Fokker group for development of the VFW-614, a short-range, 40-seater commercial jet, with an additional guarantee of DM 53 million to come from the city-state of Bremen.

Nersa/ ESK

Pursuant to their agreement of late last year, France's Electricité de France (EDF), Ente Nazionale per l'Energìa Elettrica (Enel) of Italy, and Germany's Rheinisch-Westfälisches Elektrizitätswerk (RWE) have founded Centrale Européenne à Neutrons Rapides SA (Nersa) to build a fast-breeder nuclear reactor plant at Creys-Malville in the Rhône Valley. EDF will hold 51% of Nersa's FF 50-million capital, Enel 33%, and RWE 16%. The power plant, with a 1,200-Mw capacity, is to be completed within the first half of 1975. Cie. Génerale d'Electricité, a licensee of General Electric of the United States, is reportedly a major contractor for the undertaking.

Parallel to the Nersa project, a German fast-breeder nuclear company - Europäische Schnellbrüter-Kernkraftwerksgesellschaft (ESK) - is to be set up in which RWE will hold 51%, Enel 33%, and EDF 16%. ESK will build and operate a demonstration reactor with a capacity of over 1,000 Mw.

KSB/
CE

KSB-Kernkraftwerkspumpen GmbH, a subsidiary of Germany's Klein, Schanzlin & Becker AG (KSB) and Combustion Engineering, Inc. (CE) of New York reportedly will establish a joint U.S. venture, CE-KSB Pump Co., Inc., to produce pumps for nuclear water reactors and conventional steam boilers. The new company is to begin operations by 1976. Further details have not been released.

Rhône
Poulenc/
PUK

French chemical groups Rhône Poulenc and Péchiney Ugine Kuhlmann (PUK) reportedly are reorganizing their mutual holdings and operations in the interest of rationalization. PUK will completely take over the joint subsidiary Plastimer, with the exception of its phenolic resin production; in exchange, Rhône Poulenc is to get PUK's 25% stake in Sifrance, manufacturer of silicates, as well as PUK's 25% interest in the multinationals Progil-Bayer-Ugine and Distugil (partly owned by British Petroleum). PUK and Rhône Poulenc also plan to intensify their cooperation through equal participation in the joint holdings Progelec and Daufac, producers of intermediate chemicals.

PUK/
CdF Chimie/
Ugilor

In a related development, PUK has agreed to sell its chemical fibers holding Ugilor, reputedly the world's fifth-largest producer of acrylonitrile, to CdF-Chimie, a subsidiary of the state-owned coal mining group Charbonnages de France.

Harland
and Wolff

The U.K. government plans to take a majority holding in the Belfast shipbuilding yard of Harland and Wolff, in which it currently holds a 47.6% stake and into which successive British and Northern Ireland governments have poured nearly £70 million in the form of loans, development grants, and equity participation. The government has not said how much will be injected, but it is suggested that a figure of around £20 million "could not be unrealistic." Full nationalization at a later date has not been ruled out. The newest move was precipitated by the statement of the Minister of State for Northern Ireland in the Commons that Harland and Wolff, Northern Ireland's largest employer, could not continue to function without further support and that the consequences of closure in terms of employment figures would be "disastrous." A "comprehensive review of Harland's management structure and resources" is scheduled, together with a program to pare overheads and implement "realistic manpower policies."

Møller/
Texaco

A.P. Møller, the Danish shipping and shipbuilding group, has announced its sale of three supertankers for a total of about $200 million to Texaco, Inc. of New York. The vessels, with capacities of 285,000 metric tons each, will enter service in 1975 and '76.

Wilkinson/ Swedish Match

Britain's Wilkinson Match and its major shareholder, Swedish Match, have closed a deal whereby each is to acquire a 75% stake in a company controlled by the other. Wilkinson assumes three-fourths of Swedish Match-controlled Genoud-Feudor, best known for its range of "throw-away" cigarette lighters. The consideration is set at £3.75 million. Swedish Match, on the other hand, will pay £4.35 million for a 75% interest in the Wilkinson division Weyroc, which manufactures chipboard products. The Swedish company thereby makes its first large-scale investment in Britain.

Lilly

Eli Lilly GmbH, subsidiary of Eli Lilly pharmaceuticals of Indianapolis, Ind., reportedly is investing some DM 75 million in the first stage of construction of a new production plant at Landsberg near Munich. The facilities are to employ 250 by late next year and, after subsequent expansion, 600.

Nijverdal-ten Cate/ Thiokol

Leading Dutch textile group Koninglijke Textielfabrieken Nijverdal-ten Cate and Thiokol Corp. of the United States reportedly plan to invest 20-30 million guilders in construction of a joint production plant for polypropylene yarns and fibers at Overpelt, Belgium. Manufacture is to begin in mid-1975. The two companies set up a similar facility in the Netherlands four years ago.

Olympia/ Prommasch-import

Germany's Olympia-Werke, a major European producer of typewriters and a wholly-owned subsidiary of AEG-Telefunken, has been awarded a contract by the Soviet trade agency V/O Prommaschimport to build a DM 100-million electric typewriter factory at Kirovograd in the USSR. The plant, to be completed by 1977, will have an annual output of 150,000 units.

Bayerische, Bremer Landesbank/ Leopold Joseph

Bayerische Landesbank Girozentrale, owned by the German state of Bavaria and the Bavarian savings banks, and Bremer Landesbank Girozentrale, owned by the city-state of Bremen and the state of Lower Saxony, will obtain interests of 15% and 10%, respectively, in Leopold Joseph Holdings Ltd., the London merchant banking and investment group. According to the deal, the German banks are to purchase 657,156 new shares in Leopold Joseph at a price of 350p per share, making a total of over £2.3 million. The capital infusion reportedly will be invested in the U.K. group's chief banking subsidiary, Leopold Joseph & Sons Ltd. The German banks will be represented on the board of the British holding company.

Amexco/ Waba

American Express Bank GmbH, German member of the American Express Bank group, has acquired all shares in Germany's Waba Warenkreditbank Utermöhl & Co. The Cologne operation will function as the U.S. bank's sixth German branch.

Common Market Reports

EUROMARKET NEWS

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Community: Brussels Sets Antitrust Priorities

A flood of cases and investigations in combination with a severe staff shortage have compelled the European Commission to set priorities in the prosecution of alleged antitrust violations. One of these priorities, according to Commissioner Albert Borschette, will be the investigation into the conduct of international oil companies in the Community. A seven-month preliminary investigation just completed has produced enough evidence to permit Brussels to move on to the second stage - either to corroborate alleged abuse of market-dominating positions, with subsequent action by Brussels, or to establish the absence of infringement of Treaty competition rules. Charges leveled against the oil companies by various parties include discrimination against independent gasoline and oil products distributors during last year's oil crisis. Here, much of the evidence had come from Germany's Federal Cartel Office. In contrast to that office, the Commission may impose fines even if the oil firms no longer engage in unlawful practices.

Priority would also be given to winding up cases involving selective distribution systems maintained by several French perfume producers and auto manufacturers. Since these systems enable only authorized dealers to sell the products, dealers established in other states who are outside the sales networks normally are excluded from distribution. Borschette indicated that a manufacturer would not be held in violation of EC competition rules and might even obtain an exemption from Article 85(1) if he can prove that

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Antitrust *(contd.)*

selective distribution is in the interest of consumers and not merely based on "snob appeal." Last year Germany's Bayerische Motoren-Werke (BMW) had obtained an exemption from the cartel ban of Treaty Article 85 after the company reformed its distribution system at the Commission's request *(Common Market Reports, Par. 9617).*

In a closely related matter, both Borschette and Commission Director-General Willy Schlieder expressed concern over the Italian government's failure so far to bring state alcohol and tobacco monopolies in line with Treaty Article 90. The solution envisaged by the Commission and accepted by other member states is to grant other producers access to the EC market *(Common Market Reports, Par. 2361.01).*

Official Probe of IBM's Market Conduct

The Commission has launched an official inquiry to determine whether International Business Machines Corp. holds a dominating position in the EC and, if so, whether the U.S. computer giant has been abusing this position in violation of Treaty Article 86 *(Common Market Reports, Par. 2111).* Commissioner Albert Borschette, in announcing the decision on July 25, said that no official communication alleging any misconduct has been sent to IBM *(Common Market Reports, Par. 2637)* nor has the Commission received complaints from third parties. Having studied IBM's overall marketing policies since December '72, the Commission now intends to establish whether the company has been engaging in practices similar to those that Telex Corp. successfully attacked in a U.S. court (IBM's appeal in that case is pending). Borschette said that Commission attorneys have analyzed the U.S. district court ruling, and Brussels has been in touch with the Justice Dept. and the Federal Trade Commission with respect to IBM as well as other companies.

Both Borschette and Director-General Willy Schlieder stressed that despite the opening of the antitrust inquiry, Brussels does not entertain any thought of discriminating against U.S. companies - an assertion that most antitrust lawyers should agree to on the basis of past experience. The Commission has not indicated how long the inquiry might last and whether legal action might be forthcoming. It also was not immediately clear whether the probe would delve into IBM's market conduct involving all or only some of the company's products. However, Borschette indicated that, at any rate, the investigation would be "very difficult and very long," one reason being the shortage of qualified staff.

In a first response to the Commission announcement, European IBM executives have rejected all speculation over a possible breach of EC antitrust rules on the company's part. They even disclaimed a dominant position for IBM - a contention that the computer concern has been maintaining all along. IBM's share of the EC computer market has been put at 61%.

France: Budget Plans; Capital Gains Tax in 1976?

The French Council of Ministers has approved the expenditure portion of the 1975 Budget, which provides for an increase of 13.8% to nearly FF 259 billion as compared to the FF 227 billion (plus 17.5%) allocated for the current budget year. Details on the size of the individual budget items were not revealed. Anticipated, however, are drastic cuts for the public works and housing construction sectors, while more money probably will be spent on retirement incomes and on hospital improvements.

The 13.8% rise in government expenditure allows for an assumed inflation rate of 8.9% next year, so that the Budget would grow by 4.9% in real terms. Yet many observers consider the projected inflation rate far too optimistic: the OECD, for one, earlier had forecast 14% for France in 1975. This figure, however, was challenged by President Giscard d'Estaing. At his first press conference since taking office, Giscard expressed confidence that the rate of price rises will drop from the current 15% to less than 12% by the end of this year, and to 8% next year. (The French retail price index for June went up by 1.1%, which was the lowest rise in six months.) He pointed to the newly strengthened franc as evidence of the effectiveness of his government's most recent austerity measures. Under these circumstances, the President said, there was no need for yet another anti-inflation package this fall.

Giscard disclosed that the administration currently is studying plans aiming at the introduction of a capital gains tax system by Jan. 1, 1976. Draft legislation might be ready in time for the Assembly's spring session. A decision to impose this tax - as part of a general reform of the French income tax - would be in line with his government's pledge to work toward a fairer distribution of wealth, Giscard said.

Netherlands: Draft Budget; No Plans for VAT Increase

Just before its summer recess, the Dutch cabinet managed to work out the details of the 1975 Draft Budget. These will not be made public, though, until Sept. 17, the "third Tuesday" of that month, when the new parliamentary session traditionally gets under way. Agreement among the government coalition partners on the size and composition of the new Budget apparently came relatively easily, since higher prices for natural gas will bolster treasury revenues next year. Prime Minister Joop den Uyl already indicated that an increase in value-added tax rates, contemplated earlier, may not become necessary. On the other hand, he refused to commit himself to any tax reductions, although hinting that The Hague would try to have all taxpayers participate in the higher gas profits.

Despite the lifting of the Arab oil boycott, a slight

Budget *(contd.)*

slowdown of domestic inflation, and a modest upturn in investment activity, the Dutch economy is still beset by a number of problems, of which flagging consumer demand and an unstable employment situation are the most serious. The number of business failures and bankruptcies in May 1974 was some 50% higher than 12 months earlier (in 1973, about 4,000 retail establishments were forced to close down). Auto sales in the first half of this year were 19.4% below those of the comparable 1973 period. Even more critical are conditions in the ailing textile and apparel sector, where at least 50 producers are said to be facing "acute difficulties," prompting a government pledge of financial assistance last month. The cabinet, moreover, has scheduled a special session for August 13 to decide on measures to cut unemployment generally. The Social Affairs Ministry said recently that without any intervention the number of jobless persons could rise from the present 140,000 to 200,000 by fall, a worrisome figure by Dutch standards.

Meanwhile, some encouraging news has come from the inflation front: Finance Minister Willem Duisenberg expressed hope that this year's rise in consumer prices will be held to 10% instead of 10.5-11% as anticipated earlier. (The European Commission, in its latest economic survey on the Netherlands, is projecting a rate of 12%, which would still fall below the 13% inflation average predicted for the Community as a whole.)

Britain: Huge Losses for State Industries

Three of the U.K.'s state-owned industries, in their annual reports released July 30, have announced losses totaling some £391 million. The Electricity Council and the Central Electricity Generating Board reported combined losses in excess of £263 million, and the Post Office showed a loss of some £128 million. Spokesmen for the three jointly condemned the policies pursued by recent governments in imposing price restraint on their industries which severely impaired the economic structure of their organizations and left cash-flow positions woefully inadequate. Periodic "handouts" by the government (most recently £176 million to the electricity industry last month) were no more than an expedient, the spokesmen said, and tantamount to subsidizing the consumer, on the one hand, and penalizing him for the subsidies granted, on the other.

The affected industries have advocated a "realistic price structure" as the only solution to the loss-subsidy-loss circle - in other words, immediate and severe price increases. This could be, of course, politically disastrous for the government just prior to a general election, irrespective of the fact that the losses cannot be attributed solely to mismanagement on the part of the present government.

Losses *(contd.)*

The political impact of the state industries' precarious situation is considerable at yet another level. The Labour government is at present pursuing a "soft participation" or "seminationalization" policy in regard to, notably, the shipbuilding and North Sea oil sectors, and it has made no secret of its plans to establish "a closer relationship between the objectives of private companies and national economic objectives." Much in line with these aims has been the proposal that the Post Office should take over at least part of Plessey's telecommunications business *(see Euro Company Scene, page 7)*. The apparent discrepancies brought about by the state industries' past performance and government efforts toward further nationalization are not being lessened by certain charges and countercharges: the Industry Secretary's claim that, within the last four years, £165.5 million have been "handed out" to 10 of the U.K.'s leading manufacturers and the rebuttal of industry spokesmen that these companies had paid some £712 million in taxes during that time. Although there is no direct relevance, the juxtaposition of these "developments" has given rise to a highly charged political situation which could be troublesome for the incumbent government.

Greece: [illegible] Government [illegible]ries Hopes of Business

The recall of Constantine Karamanlis to head the new government has been quietly cheered by the Greek business community, which believes that the prime minister is exactly the man now needed to steer the crisis-ridden economy on a stabler course. Karamanlis gained his trouble-shooter image in the 1950s when he - first as communications and public works minister and later as premier - undertook a series of economic and monetary measures that laid the groundwork for Greece's speedy recovery from the ravages of the civil war.

Today, decisive action is called for once again: Greece is afflicted with a 32.6% inflation rate, the highest of all OECD member countries, and only recently have there been signals that the worst may be over. This is probably due to the sweeping measures the former military regime had imposed in the spring, including a price freeze for basic consumer items and services, severe credit curbs, and import restrictions covering some 500 product groups. The lack of newer statistics makes it impossible to judge the impact of these actions on the country's payments balance and foreign trade deficit (within the first four months of 1974, the latter had risen from $602 million to $1.002 billion).

With a changed political situation in Greece, most Brussels observers see no major obstacles to a revival of the EC-Greece Association Treaty, in force since November 1962 *(Common Market Reports, Par. 5344)* but suspended after the colonels took over in 1967. The message sent last month to Karamanlis by European Commission President François-Xavier Ortoli could be an indication that Brussels is willing to formal-

Business Hopes *(contd.)*

ly reinstate the association as soon as Greece operates on a democratic basis. Although both sides have continued to reduce tariffs with the goal of achieving a customs union by 1985, the EC intentionally has done little or nothing to contribute to "more rapid development of the Greek economy" (Article 2 of the treaty), and financial assistance has been completely withheld since '67. Under the treaty terms, Greece should have received $116 million in aid, but even the European Investment Bank has refused to grant a total of $56 million in loans that had been requested by Athens and individual enterprises.

EURO COMPANY SCENE

Esso/ Elf-Erap/ CFP

Negotiations concerning joint exploration activities in France are currently in progress between Esso SAF, a subsidiary of Exxon Corp., and the state-owned Elf-Erap group and Cie. Française des Pétroles (CFP). Unofficial reports said that Esso would provide the financing for these exploration ventures, but a spokesman declined to comment and said that an agreement has not yet been reached. According to earlier French press reports, the government apparently is attempting to work up a deal whereby Esso would pay the French companies an "advance," reportedly FF 100 million, over a period of three years. Repayment would be in the form of cash, not crude, in the event that the explorations are successful.

Siemens/ Telefunken Computer

Ending several months of speculation, Germany's Siemens AG has taken over Telefunken Computer GmbH, a joint EDP venture set up in 1972 by AEG-Telefunken and Nixdorf Computer, for an undisclosed sum. To be renamed Computergesellschaft Konstanz, the new Siemens subsidiary reportedly will continue to produce its computer series TR-4 and TR-440, particularly within the framework of the Unidata collaboration involving Siemens, CII of France, and Philips of the Netherlands. Telefunken Computer had losses totaling DM 86 million for the first two years of operations.

Shell/ Gulf Oil/ General Atomic

The high losses incurred by Royal Dutch Shell and the Gulf Oil Corp. in the operation of their joint nuclear venture General Atomic has forced Royal Dutch to allow for a shortfall of £96 million through the second quarter of 1974. This loss is not related to the £200 million that Royal Dutch has agreed to pay Gulf Oil for its share in the nuclear division and which is expected to be absorbed by the end of this year. Cost escalation on current contracts is the prime reason for the losses, which had been expected, though not to that extent. However, projections are still for a profitable situation at General Atomic by the end of the decade, by which time the company reportedly expects to have about 25% of the U.S. reactor market.

Interlake/ Dexion-Comino

Interlake, Inc., Chicago, and Britain's Dexion-Comino International Ltd., a leading company in the materials handling sector, have come to an agreement which will "probably result in Dexion's takeover by Interlake within the year." The agreement concerns conditions for a £10-million offer by Interlake for all Dexion shares. Dexion shareholders would be paid 33p for common stock and 65p for preferred stock. The takeover still requires the approval of U.K. and U.S. authorities as well as the consent of 90% of the holders of Dexion common stock. Interlake, which expects sales of more than $500 million this year, maintains other European holdings in Britain, Belgium and Germany.

Aérospatiale/ Kaman

The French Aérospatiale group and Kaman Aerospace, a leading U.S. manufacturer of military helicopters, reportedly have signed a cooperation agreement. Under its terms, Kaman is to modify and equip Aérospatiale's SA-341 "Gazelle" copter, which also is to be fitted with a U.S.-built engine. The agreement with the French reportedly gives Kaman a good chance to win the contract for the U.S. Army's Advanced Scout Helicopters (ASH) program.

U.K. Post Office/ Plessey

The U.K.'s Industry Secretary Anthony Wedgwood Benn is considering a trade union proposal that the Post Office should take over some, if not all, of Plessey's telecommunications business, which is valued at some £142 million. In the view of the Association of Scientific, Technical and Management Staffs, Plessey is the most suitable candidate for state control, although similar action has been suggested for other firms in the telecommunications sector, namely Standard Telephones and Cables and Pye TMC. No decision will be made until October, by which time the Post Office will have submitted a report on the possibility of stepping up its manufacturing interests.

Reynolds Aluminum

A tentative court order is preventing Reynolds Aluminum Co. from starting up the third and final production phase of its giant aluminum complex at Hamburg pending the outcome of legal action involving charges of environmental damage. The company, which once before had been ordered to temporarily shut down the DM 640-million plant, is said to be preparing for layoffs. Reynolds was named defendant in a suit brought by local farmers and fruit growers, who charge that gaseous emissions from the facility are causing damage to plant life and animals. The case has also become a source of embarrassment to the city administration, which in 1969 had persuaded Reynolds to come to Hamburg and laid out DM 147 million in incentives and improvements. In efforts to speed up the project, a Hamburg administrative court ruled, city development authorities ignored mandatory permit procedures and thus caused Reynolds to put up the plant "illegally." These permit problems eventually were resolved.

Federal Mogul

Federal Mogul Europe SA, subsidiary of Federal Mogul of Southfield, Mich., has announced plans to build a new plant at Durango near Bilbao, Spain, for the production of radial seals, primarily for the automotive industry. The facilities, costing "several million dollars," are to be completed by 1975. Federal Mogul recently opened a similar plant at Namur, Belgium. The U.S. group - by its own estimate the world's No. 1 manufacturer of radial seals and motor bearings - has 12 subsidiaries in seven European countries.

Carter Hawley Hale/ Fraser

The U.S. department store group Carter Hawley Hale is to raise its original bid for a 20% stake in the U.K.'s chain store group House of Fraser. CHH is planning to buy Scottish and Universal Investment's (another Fraser company) remaining 3.1% stake in Fraser. The American group will acquire the shares at well below the 142.5p per share paid for the original 20%, namely at 60p each. Carter Hawley Hale has indicated that it ultimately aims at a 29.9% holding, i.e., immediately below the 30% level at which a bid for the remaining shares would be mandatory under the Takeover Code. Scottish and Universal (SUITS) has pledged not to acquire any Fraser shares for at least 12 months, thereby eliminating any possibility of the Takeover Panel ruling that SUITS and Carter Hawley were acting in concert and requiring an offer to be made for outstanding shares.

Pergamon/ Reliance

After five years of legal wrangling, Robert Maxwell of the U.K.'s Pergamon Press and the Reliance group of the United States have finally settled their differences and dropped various claims and counterclaims. Maxwell, together with British merchant banker Robert Fleming and other parties, has paid $5 million of a $6.25-million settlement reached with Reliance. The confrontation was one of the most controversial to hit British headlines in 1969: Reliance, then named Leasco, made a bid for Pergamon and then put together a 38% stake in the company. Maxwell, who has since won control of Pergamon, held a 28% stake and the balance of power was held by a number of financial institutions in the U.K.

Banco di Roma/ Sindona

The Italian government, through the state-owned Banco di Roma, has taken effective control of most financial holdings and banking activities of Michele Sindona, the financier who owns almost 20% of New York's Franklin National Corp., the holding for the troubled Franklin National Bank. Banco di Roma so far has acquired a 38% equity in Generale Immobiliare, Sindona's large property group, as well as a majority in Banca di Privata, which is to be created through a merger of two Sindona banks, the foundering Banco Unione and Banca Privata Finanziaria.

Common Market Reports

EUROMARKET NEWS

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Community: Uncertainties on Proposed Merger Controls

European Commission attorneys are still confident that Brussels' merger control proposal will pass the Council of Ministers by the end of the year *(Common Market Reports, Par. 9586)*, and they are being encouraged by the positive opinions of the European Parliament and the Economic and Social Committee. The final version probably will be considerably watered down as a result of several amendments recommended by both Parliament and the Committee. Also, substantial editing can be expected from the member state experts. Still, Commission officials believe that outright failure to adopt it would mean "loss of face" for the Council. They refer to the Council's solemn declaration at the Paris Summit of October 1972, when the Commission was urged to prepare "measures to ensure that mergers affecting firms established in the Community are in harmony with the economic and social aims of the Community."

This basic optimism by the Commission attorneys is, however, not entirely shared by several Council observers who are sitting in on the discussions of member state experts. They represent the factions that oppose the merger control proposal on grounds of economic policy (Italy and France) and for reasons of legal policy (United Kingdom). The Italian and French objections primarily involve Article 1 of the draft, which would rule out any form of economic concentration that would expand the economic powers of the enterprises involved and thus hamper competition and impair interstate trade. (Concentration involving less than 200

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Mergers *(contd.)*

million units of account in sales would be exempt if in line with Community objectives of increasing the competitiveness of EC industry vis-à-vis third-country industries. Mergers involving total sales of over one billion UA would have to be reported to the Commission, which would have three months within which to intervene.)

Italy wants to exclude state enterprises from the scope of Article 1 to protect the interests of at least three huge government-owned corporations that are continually swallowing up private companies. The French government is seeking a broader exemption clause for certain forms of concentration and also favors a softer policy toward ad hoc mergers. British experts, finally, are objecting to the idea that the Commission should have the power to block mergers, since this could lead to conflicts with the U.K.'s own Monopolies Commission. For example, Brussels would be able to prevent the merger of a British firm with an enterprise outside the EC if such a merger could impair competition and trade within the Community.

Under these circumstances, the experts have voted for further studies on several aspects of the proposal, and little progress is expected until the results are in. This may take until October or even later.

Antitrust Proceedings against GM Belgium

The European Commission has decided to open antitrust proceedings against General Motors Continental NV, Antwerp, the U.S. firm's Belgian subsidiary, for alleged violation of Treaty Article 86 *(Common Market Reports, Par. 2111.01)*. Specifically, GM Continental (GMC) is said to have charged independent importers of GM cars higher fees for so-called "certificates of conformity" than paid by its own Belgian distributors. The certificates are part of the documentation required to attest to the road worthiness of new vehicles and normally are issued by state agencies; in Belgium, however, the government has authorized General Motors to issue the certificates as well as identification tags for all new cars manufactured by the GM group.

Commission investigators reportedly have proof that GMC has engaged in the practice of charging excessive and differing fees for the same documentation. This practice, Brussels maintains, has an adverse effect on interstate trade because it discriminates against importers who are not members of the GM distribution system. Having earlier succeeded in making auto manufacturers remove export ban clauses from their contracts with sole distributors, the Commission now wants to make certain that such clauses are not being replaced by measures that also distort price competition and hence affect trade between member states to the detriment of consumers.

Commission attorneys are now preparing a statement of objections to be sent to General Motors. Should the pro-

Antitrust *(contd.)*

ceedings confirm that the company's practice has in fact hampered interstate trade and continues to do so, GMC may be enjoined to desist and may draw a fine *(Common Market Reports, Pars. 2422.01-03, 2482.01, 2542.02)*. The attorneys say that the proceedings involving GMC are in no way related to the investigation of IBM, even though the announcement concerning IBM had been made only four days earlier. They pointed out that the case against GMC is limited to the Belgian market and covers one particular aspect. Also, it involves actual proceedings whereas the IBM case represents a formal investigation. In both cases, however, the Commission has acted on its own initiative rather than on the charges of third parties.

Belgium: Tax Increases 'Inevitable' Next Year

The Belgian Budget for 1975 will be about BF 624 billion. This represents an increase of 16.5% over this year's allocations and accounts for an inflation rate of 12.5 to 13%. Finance Minister Willy de Clerq promised that the government will make all efforts to achieve definite savings and rationalization in the public sector, but he also termed the tapping of new revenue sources "inevitable" in order to close a predicted finance gap of about BF 20 billion. Another BF 7 billion is expected to be raised through tightened tax collection procedures and by containing tax evasion.

The administration reportedly has agreed on provisional plans to raise taxes in several areas. According to these reports, corporation tax rates would go up from 42 to 48% for large companies, from 36 to 40% for medium-sized companies, and from 31 to 33% for small companies *(Doing Business in Europe, Par. 21,311)*. Furthermore, a study is to be conducted on the possibility of introducing a registration tax for companies that are not subject to corporation tax under the present system. A 10% increase would be anticipated for persons whose annual taxable income exceeds BF 1.5 million. Higher excise taxes would be imposed on beer and other alcoholic beverages, perfume, and tobacco, and the graduated automobile tax also could be raised by between 50 and 200%. Finally, the government would plan to introduce a new tax on advertising, excepting newspapers and periodicals.

In other developments, the Belgian government has stopped all immigration of workers from non-EC countries, thus following the earlier example of France, Denmark, and Germany. Exceptions are to be granted only in the case of highly skilled workers. At the same time, however, the government has decided to grant residence and work permits to non-EC workers who entered the country illegally prior to April 1, 1974. Employers of such workers have been called upon to apply for work permits for these individuals. Unemployed persons from non-EC states must report to the labor authorities within 14 days.

Italy: New Budget Provides for Lower Deficit

Rigorous "amputations" in nearly every expenditure sector have enabled the Italian cabinet to submit a 1974-75 Budget that will carry a somewhat lower deficit than the previous year's, with total expenditure set at 29.47 billion lire. In dollar terms, the new deficit will amount to $11.5 million as compared to $15.25 million in 1973-74. Despite wide-ranging cuts elsewhere, the cabinet did approve reform plans for a new health care system to be patterned on the U.K. National Health Service. The changeover is expected to raise the cost of public medical care by about 10%; in the long run, however, the costs would drop.

Earlier, Rome lifted a year-long price freeze on basic consumer items which obviously had failed to work, since consumer prices had risen by nearly 17% over a 12-month period. In the future, price controls will be applied only to a very few basic food items (beef, bread, pasta, sugar, vegetable oils, and milk) as well as to soaps and detergents. This step accompanied amendments to the government's July 7 economic package which were forced by pressures from the political left. The amendments provide for longer grace periods for the payment of the one-time special levy on automobiles, new rules on payment of value-added tax by the self-employed, and reduced tax rates for homeowners.

Britain: Government Prepares Paper on Industry

U.K. Prime Minister Harold Wilson has been at pains to co[illegible]ter Conservative opposition claims that recent government action in the field of nationalization - culminating in the takeover of the country's shipbuilding and ship-repairing sector - has been the root cause of an erosion of business confidence and a prelude to the most serious economic crisis in Britain since World War II. In particular, Wilson reassured industry as a whole that the government's plans for industry, to be presented soon in the form of a white paper, would be "designed to deal with our economic problems, some of which have been very grave." It appears that Wilson has now endorsed suggestions that Labour's proposals to extend state participation in industry should be somewhat watered down. On the other hand, some observers believe, this may be little more than a pre-election gambit.

Whatever proposals will be contained in the white paper, however, there is little doubt that business confidence has reached its lowest point in years, and this is borne out by the Confederation of British Industry's latest industrial trends survey, published on Aug. 2. Although the survey was conducted prior to Chancellor of the Exchequer's presentation of the "Mini-Budget," CBI spokesmen contended that the measures he had introduced would result in little or no change in industry's attitude.

The CBI interpretation of the survey results indicates two principal factors as causing the decline in confidence.

White Paper *(contd.)*

The mix of rising costs and tightly controlled prices has jeopardized company cash flow, liquidity, and profitability, and, second, business is intimidated by the possibility of increased government interference. The CBI's director-general was widely quoted as saying: "For God's sake, lay off!"

Two positive factors to emerge from the survey were that companies had "maintained a reasonable level of activity" over the survey period and that the margin of spare manufacturing capacity has not increased by an appreciable amount. And a bit of outside encouragement came with the news that Fortune magazine's latest roster of the 300 largest corporations outside the United States placed U.K. companies on the top of the profitability list.

Stock Exchange Proposal for 'Merger Bureau'

The U.K.'s Stock Exchange Council has announced plans to open a "merger bureau" in an attempt to help brokerage firms that have been hit by the flagging British market. The SE has invited firms to supply details of members' business, number of partners, and indication of shareholders' willingness to merge. The proposal came against the backdrop of tumbling markets (the Financial Times Ordinary Index took a 30-point fall on Aug. 2 to its lowest level since May 1959), low turnover, escalating administrative costs, and squeezed profits. A number of stockbroking firms have gone out of business in the last few months, and there has been a spate of mergers. *(See also Euro Company Scene, page 8.)*

AROUND THE MARKETPLACE

No End to the EC's Farm Crisis

Far from reaping the benefits of a "common market," Europe's farmers these days are campaigning for any market on which to sell their products for a reasonable return. With roadblocks, sales boycotts, the dumping of produce, and other protest actions, farmers in France, Belgium, Holland, and Germany have joined forces to condemn the ineffectiveness of EC farm policy in the face of soaring costs that cut deeply into their incomes. Some governments have seen no choice but to yield to these pressures: France by approving direct subsidies, notably to hog and cattle breeders, and Belgium by announcing a BF 1.6-billion aid program that includes slaughter premiums, regional subsidies, and tax benefits.

Though thoroughly aware of the farmers' predicament, the European Commission obviously cannot tolerate these unilateral "relief" measures which touch on the very foundations of the Community and were taken without any prior consultations. Pierre Lardinois, the commissioner in charge of agricultural policy, has made it very clear that the problem of rapidly rising costs - compounded by exchange rate variations and the inflation "spread" within the EC - cannot be corrected by yet another boost in farm support prices. Such

Farm Crisis *(contd.)*

subsidies would serve only to stimulate over-production of the kind that already has resulted in a mountain of surplus butter one year and beef the next.

The problem of farm prices is, of course, only one aspect of the European agricultural crisis, though certainly the most vital as far as the farmers are concerned. Another is the distortion of competition that can result whenever a national government grants special aids to its farmers, thus upsetting the incomes equilibrium that the Common Agricultural Policy is supposed to guarantee. This is why the Commission was forced to act quickly in denouncing the French move as being in clear violation of Treaty Article 92 *(Common Market Reports, Par. 2922)*. In keeping with the rules of Article 93 *(Common Market Reports, Par. 2932.03)*, Brussels at the same time gave Paris until the end of this month to comment. After that the Commission may be forced to issue a formal demand that the aids be rescinded. (Some of the Belgian measures also are doubtful, but Lardinois conceded that the problem here may be a procedural one.)

At this point, it is not clear whether France and the Commission can soon resolve their differences - perhaps prior to the next meeting of the Community agricultural ministers - or whether the Commission will bring suit in the European Court of Justice. A head-on confrontation of this kind would be seen as another crucial test of the CAP and the Community itself, and the outcome cannot be certain. The French are, after all, not only Europe's No. 1 farmers but presently also occupy the chair of the Council of Ministers, from where they are able to control the action. One suggested "solution" to the standoff could be a request by Paris to gain retroactive Council approval of its aid measures by invoking the "exceptional circumstances" clause of Article 93(2) *(Common Market Reports, Par. 2932.07)*.

EURO COMPANY SCENE

Clorox/ Henkel

A major German chemicals and detergents manufacturer, Henkel GmbH, and Clorox Co. of Oakland, Calif., have signed a long-term cooperation agreement whereby Henkel acquires a minority holding of up to 15% in Clorox, while the U.S. company gains the right to manufacture certain Henkel products and to sell them on the North American markets and in Puerto Rico. The 10-year agreement provides for Clorox's payment of licensing fees of at least $1 million beginning in 1976. Within the last five years, Clorox has doubled its sales to about $400 million; Henkel's turnover in 1973 came to DM 4.2 billion.

B. F. Goodrich/ Ciago

B. F. Goodrich Co., Akron, Ohio, has acquired a 40% holding in Chemische Industrie AKU-Goodrich BV (Ciago), Arnhem, from

Goodrich/Ciago *(contd.)*

the Dutch Akzo group. Thus, Goodrich has taken full ownership of Ciago, which produces synthetic rubber and latex and ranks as Goodrich's largest chemicals subsidiary abroad. Ciago was founded in 1958 by Goodrich (51%) and AKU (49%), which later became part of Akzo. In 1966, Goodrich raised its equity to 60% and now to 100%. Ciago maintains plants in Arnhem and Oevel, Belgium, and distributor companies in Milan, Paris, and Vienna.

Dow Chemical

A new petrochemical complex, including a steamcracker for ethylene production and a plant for low-density polyethylene, is to be built by Dow Chemical Co. at Verdon, near Bordeaux. The French facilities are to go on stream in 1978-79, but no details on the size of the investment and plant capacities have been revealed.

Creusot-Loire

Creusot-Loire, the French steel and engineering group, has signed a FF 1-billion contract with the Soviet Union's Techmashimport agency to build two ammonia plants in the USSR, one in Siberia and the other in the Ukraine. The technology reportedly is to be contributed by M. W. Kellogg Co. of the United States.

Peugeot/ Citroën/ SONEDIA

Peugeot SA and Citroën SA have completed the first step of their merger with the formation of a joint subsidiary, Société Nouvelle pour l'Etude et le Développement de l'Industrie Automobile (SONEDIA) by Peugeot and the Michelin tire concern. Of the joint company's FF 10-million starting capital, 5% is held by Peugeot and 95% by Michelin, the majority shareholder of Citroën. SONEDIA's initial task will be to coordinate the legal conditions of the merger.

Rank Xerox

The German subsidiary of Rank Xerox has announced plans to build its first German production plant at Aachen. The project requires an investment of about DM 62 million in the first three years. Manufacture of copying machines as well as electronic and mechanical components is to begin in 1976. Eventually to employ 800, the plant will be Rank Xerox's sixth in Europe.

Bendix Home

Production of camping trailers and mobile homes has started at the new German plant of Bendix Home Systems Deutschland GmbH, offshoot of the U.S. conglomerate. Located at Neunkirchen/Saar, the plant will turn out some 10,000 units annually at peak capacity.

Imperial Tobacco/ 'New Smoking Material'

The U.K.'s Imperial Tobacco has scored a significant "first" with the announcement that it has been given official approval to test-market its tobacco substitute developed in conjunction with Imperial Chemicals (ICI) and provisionally known as New Smoking Material (NSM). Announcing that the substitute, made from Finnish wood pulp, could be on general

Imperial Tobacco (contd.)

sale by 1976, Imperial expressed satisfaction that it has obtained test-market clearance in advance of the U.S. rival product Cytrel, manufactured by Celanese Corp. Imperial's British competitor Gallaher, which has a supply contract with Celanese, is seeking similar clearance for Cytrel.

Stock Exchange Council/ U.K. Firms

The U.K.'s Stock Exchange Council, in a move which can be viewed as indicative of its determination to curb insider dealing, has announced four investigations into share dealings in companies immediately prior to takeover announcements. More significantly, the Council further has called for information not only from the firms that dealt in the shares involved but also from other firms that might have information "relevant to these inquiries, including information about approaches which did not result in transactions being effected." The deals under scrutiny are George Kent/ Brown Boveri, Coley-Rotolin/ F. H. Lloyd Holdings, Harl Investment/ Guthrie Corp., Dexion-Comino International/ Interlake. The result of the investigations can be expected in under two months.

Van Dien/ Dijker en Belt

Van Dien en Co. and Dijker en Belt, two major chartered accounting firms in the Netherlands, reportedly plan to merge as of Jan. 1, 1976, under the name of Van Dien. Not affected by the fusion are Van Dien's associations with Britain's Deloite & Co. and with Haskins & Sells of the United States.

Continental/ Alte Leipziger

The Continental insurance group of the United States and Germany's Alte Leipziger insurance reportedly have agreed to strengthen their two-year-old cooperation through a share exchange deal. A 10% stake in Alte Leipziger Lebensversicherungs-AG will be ceded to Continental in return for Continental Corp. shares worth over $2 million. In addition to the German group, Continental also works with Phoenix Assurance of the U.K. and has a 10% exchange stake in France's La Préservatrice AIRD, which maintains ties with Alte Leipziger as well.

Bank of America

Bank of America has consolidated its three merchant banks in London, Paris, and Luxembourg into one entity, Bank of America International SA, based in Luxembourg and with paid-in capital of $30 million. The U.S. parent bank will hold a 55% interest in the new venture, and 22.5% each will be owned by Banque de Paris et des Pays-Bas (Paribas) and Kleinwort Benson. Previously Bank of America and Paribas were the joint owners of Banque Ameribas, Paris, while the U.S. bank and Kleinwort Benson held equal stakes in Bank of America Ltd., London.

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Britain: Proposals on Wealth, Capital Transfer Taxes

In keeping with pre-election commitments to "reduce excessive inequalities of wealth," the U.K.'s Chancellor of the Exchequer on Aug. 8 introduced a White Paper on Capital Transfer Tax (HMSO London, Cmnd. 5705) and a Green Paper, i.e., a consultative document, on Wealth Tax (Cmnd. 5704). Both amplify measures presaged in the March 26 Budget *(Doing Business in Europe, Par. 30,701)*.

The white paper is, by definition, of more immediate impact, since it signals legislative intentions for an October Finance Bill - assuming that the Labour Party is then still in office. The document's impact is lessened, however, in that the indications given of the "general nature" of the new tax are not construed as binding and because no precise boundaries of liabilities have been set.

Attacks on the double package came from every conceivable quarter. In the main, it was argued that the proposals would be impractical and expensive to administrate, that the yield was an imponderable, that valuation was far from being an "exact science," that avoidance (or even evasion) would pose few problems for the alert tax adviser, and that the government was "obsessed" with reallocating existing wealth instead of creating more. Above all, it was charged that the proposals would act as a disincentive to investment and private enterprise.

The proposals may be summarized as follows:

Capital Transfer Tax - This would replace estate duty, i.e., estate tax, and would be applicable as of March 26,

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Taxes
(contd.)

1974. Due provision would be made for overlapping with existing estate duty rules. For reasons of administrative convenience, the tax initially would be charged to the donor or his estate rather than to the receiver and would apply to all gratuitous transfers of capital during a person's lifetime and the automatic transfer of capital upon death. Transfers, i.e., gifts, would be treated in cumulative fashion, inasmuch as the final assessment of tax would be on the lifetime total of disbursements, each "slice" of gifts giving rise to a progressive liability, at rates ranging ("for illustrative purposes") from 10 to 75%.

Transfers between husband and wife would not be liable, even on the death of one, except where the recipient was not U.K.-domiciled at the time of death or gift. It is proposed that, provisionally at least, there would be a charge to husband and wife as separate individuals, so that a married couple could "divide and minimize." The introduction of the new tax would see the removal of certain existing (estate duty) benefits accruing from trust arrangements and relating to agricultural land, woodland, and certain business assets.

For purposes of illustration, the white paper indicated that no liability would be incurred on cumulated transfers not exceeding £15,000 and that exemptions would include the first £1,000 of gifts made by one donor in a year, wedding gifts up to £1,000 (or £2,500 if the donor is an "ancestor" of either party), and gifts to charity. The document also proposes exemption in regard to "gifts made out of income which form part of the donor's normal expenditure and leave sufficient income to maintain the donor's usual standard of living."

Wealth Tax - The green paper proposes that a wealth tax would be levied as of 1976 on all realizable assets. In the case of investments yielding an income liable to the investment income surcharge, it is suggested that the taxpayer be liable for the surcharge or the wealth tax, whichever is higher. In illustration, the document postulates as a starting point wealth above £100,000 and gives two possible rate structures: a "slow" schedule ranging in stages from 1 to 2.5% and a "fast" one spreading from 1 to 5%. Liability would be established on the basis of all realizable wealth net of liabilities and would be computed at "market" or "realistic balance-sheet" value.

The proposals also call for the top rate liability on trustees (to check tax avoidance via trust formation), propose that minors be assessed jointly with one of their parents, and invite suggestions as to whether joint or separate assessment should apply to married couples. The tax would be based on "self-assessment," and penalties would be imposed upon discovery of inaccurate returns. Companies and unincorporated associations generally would not be liable,

Taxes *(contd.)*

nor would nonresidents, other than on land and premises held in the U.K. Subject to payment of (compound) interest charges, holders of assets not readily realizable on a piecemeal basis could obtain deferment. In addition, a ceiling on total income tax, investment income surcharge, and wealth tax liability might be imposed. Depending on the rating system employed, the proposed wealth tax could yield between £200 and 500 million annually.

Denmark: Economy Shows Impact of Tax Measures

The Danish economy is now beginning to show the effects of the tax measures imposed by the government in May which drastically raised the price of durable consumer goods, notably automobiles. It had been the principal aim of this program to slow consumer demand and to contain Denmark's rapidly growing payments and trade deficits. Apparently some success was recorded in June, when the foreign trade deficit dropped to 827 million kroner as compared to 1.16 billion for May. For the first half-year period, however, the total trade gap still came to 8.5 billion kroner, whereas in 1973 it had amounted to only 4.8 billion.

Meanwhile, many observers see troubles ahead for the country's economy, and some even predict "a serious recession." The forecasts are for an unemployment rate of from 5 to 9% this fall - percentages that would be unequaled since the 1950s. The latest statistics put the official jobless rate at 3%, which is nearly three times as high as a year ago.

Industrial production and order levels so far have been maintained, but here too some decline is expected. The stability measures have had their most serious impact on the construction industry, where unemployment now has reached 8-10%, although this is normally the height of the season. This sector has been plagued by a series of closures and bankruptcies, including that of Denmark's largest manufacturer of heating radiators, Hollesens AS of Copenhagen, where nearly 700 employees lost their jobs. These failures as well as the difficult employment situation have brought on union appeals for relaxation of the restrictions, but industry spokesmen have urged the government to stand firm. A slowdown in the building industry is needed, they say, and to give in to union demands now would seriously threaten all efforts to stabilize the country's payments and trade situation.

Belgium: Mortgages Included in Credit Curbs

In an addendum to the broad credit restrictions that form part of its latest anti-inflation program, the Belgian government has announced that, effective Aug. 13, mortgages must be limited to 60% of the market value of private property worth less than BF 2.5 million. Second mortgages are to be limited to 55%. The computation of value includes

Mortgages *(contd.)*

transfer costs and taxes. The mortgage ceilings do not apply to commercial property, however.

This latest measure is in keeping with official policy to keep tight clamps on the expansion of credit volume. Early last month the central bank had informed commercial banks that their credit outflow during the July-October period may not exceed by more than 2.5% the volume granted during the same period in 1972. The banks also were told to be more selective in approving loans and to favor export credits and subsidized and guaranteed investment credits over other forms of loans.

Switzerland: Real Estate Ruling Closes Last Loopholes

The Swiss Supreme Court in Lausanne has handed down a decision that is expected to close the last remaining loopholes open to foreigners seeking to purchase real property in Switzerland. Such purchases by nonresidents were outlawed by decree in June 1972; subsequently, as of February 1974, the embargo was replaced by a stringent permit system, which effectively accomplishes the same purpose *(Doing Business in Europe, Par. 30,690)*. Still, a number of foreigners apparently found ways to acquire Swiss properties through small stock corporations, usually operating with a base capital of no more than SF 50,000. In seeking a permit for property purchases, these companies claimed that majority ownership was in Swiss hands, whereas control actually was exercised by foreigners.

In its ruling, the Supreme Court has now held that the appearance of a slight Swiss majority in a corporate entity is not sufficient to legalize property purchases by this company: the ownership situation has to be so clear as to preclude any suspicions over possible shareholder manipulations. Although the law does not require a stock corporation to prove its "Swiss character," the court said, the company still must help to dispel any doubts arising from close-margin ownership situations. The ruling furthermore has shifted the burden of proof in such cases to the property and development companies concerned.

The case at issue involved a small holding company, of which 52% was allegedly owned by two Swiss citizens, and 48% by a foreigner. The authorities became suspicious of an impending real estate deal by the company when the latter called up only a portion of the mortgage loan already approved by the local banks, and it led them to believe that the foreign minority shareholder had financed most of the project.

Spain: New Banks Face Stiffer Rules

The Finance Ministry in Madrid has announced an impending decree that would lay down higher standards for the establishment of new banking institutions, including an increase

Stiffer Rules *(contd.)*

in minimum capitalization and nonpayment of dividends during the first five years of operations. The applicant banks also would be required to reveal their "economic intentions" in regard to the regions for which they would be licensed. This decree would be accompanied by a general reform of the domestic banking sector, with the aim to promote competition and "flexibility" among the banks.

Earlier, the Bank of Spain issued regulations designed to curb operations of Spanish banks in the Eurocurrency markets. Although central banks throughout Europe have expressed concern at various times over the dangers inherent in permitting national commercial banks carte blanche in the Eurocurrency sector, the Bank of Spain is the first to issue specific regulations. Under its ruling, which does not apply to foreign banks in Spain, private banks will be barred from taking Eurocurrency deposits beyond a figure equivalent to double their paid-up capital and reserves. Further, these banks will be restricted in their "risk-lending" policies in that a maximum of 5% of their own total deposits (or 20% of the foreign borrower's capital) will be permitted as Eurocurrency loans.

In other news, the Spanish government has moved to tighten credit and to raise interest rates (the discount rate went up from 6 to 7%) as it looks for ways to slow down the pace of domestic inflation, which is among the worst in Europe. Even in administration circles the cost of living is predicted to go up by at least 20% this year, and it is feared that this could lead to widespread demonstrations and strikes this fall, when new wage talks are scheduled. Against this background, the cabinet apparently felt compelled to lift the decree that put a tentative freeze on wages and incomes. Also planned is a series of measures to ease the financing of corporate investments, providing for greater availability of medium- and long-term loans.

Greece: Athens Eases Export Curbs

The export ban imposed on July 20 by the new Greek government in connection with the Cyprus mobilization has been virtually lifted, and the few remaining curbs were expected to fall shortly. However, as the crisis continues, other economic and monetary restrictions are still being kept in force, at least tentatively, including a price freeze at the July 19 level, some limits on withdrawals from private savings accounts, and curbs on foreign money transfers by businesses. The Finance Ministry has consented, though, to prolong tax payment deadlines for enterprises to compensate for damage suffered because of the Cyprus conflict. Special assistance has been asked by the tourism industry, which has been severely affected by the hostilities between Greece and Turkey, with many hotels reportedly in financial difficulty. Industrial production in Greece generally continues to slip:

Export Curbs *(contd.)*

in April and May - the last two months for which figures are available - it had fallen off by 2.7 and 4.4%, respectively, compared to the same periods last year. It is here where the government's credit restrictions have been showing the greatest impact; the recent relaxation of these curbs still limits the growth of credit volume to 10% above the level of Dec. 31, 1973.

EURO COMPANY SCENE

Dow Chemical/ Iran Petroleum

Agreement in principle on a joint $500-million petrochemical complex in Iran has been reached by Dow Chemical Europe and the National Petroleum Co. of Iran. Both partners reportedly have established a working group to study the feasibility of a 50:50 venture for the production of base chemicals and plastics. The agreement comes on the heels of a similar tentative contract with Saudi Arabia concerning a $400-million project in that country.

Goodrich/ Tigar

B. F. Goodrich Co., Akron, Ohio, has signed an agreement with Yugoslavia's Industrija Gumenih Proizvoda Tigar to provide know-how and technical assistance in the construction of a plant for the production of passenger car and truck tires. Aside from manufacturing tires, Tigar also turns [illegible] products for the shoe industry as well as rubber goods f[illegible] a variety of industrial and other applications.

Stihl

Andreas Stihl Maschinenfabrik, a leading German producer of power chain saws, will begin assembly operations in Virginia Beach, Va., this October. Over the next five years the company plans to invest $10 million in construction of plant facilities for the subsidiary. Stihl is already represented in the United States through its 40% participation in Stihl American, Inc., a sales venture based in Oakland, N.J.

Domestic Appliances/ Schreiber

British Domestic Appliances, a subsidiary of General Electric, has merged with the privately-owned U.K. furniture group Schreiber Industries. Through the deal Schreiber will acquire a 37.5% share in a new company to be known as GEC Schreiber.

Cartel Office/ Oil Majors

Its tenuous legal position as well as changed conditions on the domestic fuel market are said to have been instrumental in the decision of Germany's Federal Cartel Office to withdraw its charges against five oil companies (British Petroleum, Shell, Exxon, Texaco, and Aral). Last April, the office had indicted the five for alleged abuse of market-dominating positions, accusing them of having kept prices artificially high. A month later the cartel authorities suffered a setback in the case when a court of appeals sustained BP Germany's complaint against an order blocking a gasoline price increase and questioned the order's legality.

Cartel Office/ Hoffmann-La Roche

In other action, the Cartel Office set an Aug. 22 public hearing in West Berlin to permit Switzerland's Hoffmann-La Roche to present arguments against charges that it is exploiting a dominating position on the German drug market. Indicating that it will hand down a decision following the hearing, the Cartel Office said that its investigation into the company's pricing policies has shown that Hoffmann-La Roche does in fact hold a dominating position in regard to its tranquilizers Valium and Librium and that the retail prices for these products are higher than those that could be asked in a competitive situation. In the U.K., Hoffmann-La Roche is involved in a similar action.

GE Spain/ Thomson

General Electric Espanola SA, the Spanish offshoot of the U.S. company, has agreed to a minority participation in a new Spanish venture that is to manufacture black-and-white and color television sets for the domestic and foreign markets. The majority stake in the 3 million-peseta share capital of the new company, Thomson Espanola SA, will be held by the Spanish subsidiary of Britain's Thomson-Brandt.

GE Italy

NATO contracts valued at more than $65 million to modify the electronics systems of the Hawk surface-to-air missile reportedly have been won by General Electric's Italian affiliate, Compagnia Generale di Eletricita (CGE). Prime contractor for the Hawk program, which is to extend into 1978, is Raytheon, of the United States.

General Mills/ Eubisfa

General Mills Europe, through its Dutch-based Smiths Food Group, has taken over the snack division of BV Europese Biscuit Fabriek (Eubisfa), also of Holland, in a move aimed at the expansion of General Mills' production and warehousing operations in the Benelux area. The acquisition also consolidates the U.S. concern's position as the No. 1 snack foods producer in Europe. Earlier this year, General Mills had purchased a 50% stake of Austria's Dr. Zach GmbH, another snack foods company.

Whitbread/ Heineken/ Birra Dreher

The ties between the U.K.'s third-largest brewer, Whitbread, and Holland's top brewer, Heineken, have been further strengthened by their decision to acquire a joint majority holding in Birra Dreher, the second-largest brewery group in Italy. Financial details were not revealed. Whitbread and Heineken have had trading links for many years, and the British company recently reached an agreement with Heineken to brew and market under license the latter's lager range in the U.K. Both companies have indicated, however, that the cooperation will be maintained at a trading level and that no cross-shareholding or other financial arrangements are contemplated for the present.

Maple Leaf/ General Foods

Maple Leaf GmbH, Hamburg, originally founded by two Dutch partners and today No. 2 on the German chewing gum market,

Maple Leaf/
General Foods
(contd.)

has been taken over by General Foods Corp. The U.S. concern thus is tackling the German chewing gum sector for the first time, after having become the market leader in France with its "Hollywood" brand.

Commercial
Union/
St. Martins

The U.K.'s Commercial Union Assurance has made a surprise and controversial bid for St. Martins Property Corp., in which it already has a holding of 9.7%. The 115p-per-share offer valued St. Martins at £74 million, but the offer was given little chance of success. Apart from a possible reference to the Monopolies Commission, the bid has little appeal to St. Martins inasmuch as (a) the company does not appear to have cash problems, (b) the offer is in "all paper" form (six CU shares for every five of St. Martins), and (c) the net asset figure for St. Martins was recently given as 235p per share.

Bass & Herz

Following the spectacular crash of Cologne's Herstatt bank in June, German banking authorities are being confronted with the failure of another private bank, Bass & Herz of Frankfurt. The small family institute was primarily engaged in industrial financing and had a balance-sheet total of DM 120 million. The bank went into liquidation on Aug. 12, when it returned its license to the Federal Banking Supervisory Office. The liquidation was directly linked to the insolvency of the bank's principal owner, Count Schaffgotsch and the latter's mining holdings. Unlike the Herstatt affair, with its severe impact on world financial markets, the Bass & Herz failure was not expected to have serious consequences. An estimated DM 30 million in outside deposits was said to be fully covered by guarantees.

Slavenburg/
Banque
Financière
Bruxelloise

Holland's Slavenburg Bank, in which First National Bank of Chicago holds a 20% stake, has increased its participation in the Belgian Banque de la Société Financière Bruxelloise from 8 to more than 90%. The Brussels bank operates with a share capital of BF 25 million. Slavenburg reportedly will make a public bid for the outstanding 10,000 shares next month.

Bankers Trust

Bankers Trust has announced plans to open a full banking branch in Milan late next month. A representative office in Rome has been operating for several years. Bankers Trust also has formed a U.K. division, which will be responsible for branches, representative offices, and commercial banking business in Great Britain and Ireland.

Continental

Having established a branch office in Milan last year, Continental Bank has now also opened a representative office in Rome, primarily to coordinate business with Italian state enterprises.

Common Market Reports

EUROMARKET NEWS

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Italy: Parliament OKs Emergency Fiscal Package

Against the background of an unprecedented inflation rate of 19.3% for the 12 months through July, the Italian parliament finally has passed the Rumor government's latest fiscal package with some alterations and has thus put into effect a number of decrees designed to lighten the country's payments burden, keep public sector deficits from expanding infinitely, and dampen explosive price rises. On the basis of the emergency measures promulgated on July 6 and enacted on Aug. 14, the Treasury is expected to take in some 3,000 billion lire in extra revenue over the next 12 months. The money is to come from a variety of sources, including higher value-added tax rates for certain items (luxury goods, meat), a surtax on personal incomes exceeding 10 million lire annually, and raised automobile taxes.

Partly because of insistent pressures from left-wing factions, the government will spare low-income groups as much as possible: the tax-exempt portion of personal income was boosted to 1.2 million lire, and owners of small and old (over 10 years) cars were exempted from the special automobile levy. Also, Rome's attempt to gain authorization for recruitment of 6,000 additional agents to combat tax evasion failed to get through parliament.

The most outspoken critic of the fiscal package was Guido Carli, governor of the central bank, who described it as being totally inadequate. Revenue to be gained from it would be only 900 billion lire by the end of the year,

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Fiscal Package *(contd.)*

which would leave the Treasury with a shortfall of 800 billion and require it to "print more money," Carli said in an interview. He charged that most of the central bank's stability efforts were being defeated by the enormous expansion of government spending that has caused the public debt to rise to more than 4,700 billion lire so far this year, from 3,000 billion in the first six months of 1973. Carli's vehement statements again were interpreted in some quarters as a signal of his imminent resignation as the head of the Bank of Italy, although nearly all political factions want him to stay on.

Meanwhile, Treasury Minister Emilio Colombo revealed that Italy once more will have to seek new credits abroad, notwithstanding the slight improvement of the balance of payments deficit in June and July. Also, International Monetary Fund authorities have been notified by Rome that import restrictions for a number of industrial goods are to be lifted gradually - a move obviously necessary to assure Italy of further foreign assistance and not based on any turnaround in the country's precarious trade position. Last May the government had slapped a 50% cash deposit requirement on all imports; in late June and early August it yielded to the pressures of the EC trade partners with partial abolishment and relaxation of the restrictions, primarily for agricultural products.

Britain: Government Unwraps Plans for Industry

The White Paper on "The Regeneration of British Industry" (HMSO London, Cmnd. 5710) released on Aug. 15 has drawn scathing criticism from business leaders in the U.K., although the Labour government's proposals obviously were muted by the imminence of a general election. The Confederation of British Industry in particular condemned the proposed measures as being certain to create further damage to industry, principally by further eroding investment prospects and destroying business confidence. Individual commentators criticized the "covert" language of the paper and even objected to the "arrogance" of the title: there was little evidence, they contended, that the proposals for increased government participation in industry would lead to a "regeneration."

In the paper's preamble, the government confirmed its intention to secure public ownership of development land, to establish a British National Oil Corp., to nationalize the shipbuilding and aircraft industries, to extend public ownership in the road haulage and construction industries, and to introduce programs bringing commercial ports and handling facilities under public ownership and control. The principal force of the white paper, however, is to create two new instruments: a system of planning agreements with major firms in key sectors of industry, and a National

White Paper *(contd.)*

Enterprise Board (NEB) to provide the means for direct public initiatives in vital industrial sectors.

The planning agreements would relate to strategic issues such as investment intentions, pricing policies, productivity, employment, product development, consumer interests, and labor relations. The agreements would be voluntary, although certain reserve powers would exist to obtain information from companies declining to participate in voluntary discussions. They would not be agreements in the sense of a civil contract enforceable by law but would be in the form of "flexible" three-year pacts reflecting the outcome of discussions between a company, the unions, and the government in regard to the company's plans and their "relationship to the government's economic objectives." The agreements would be reviewed and rolled forward annually. In the event of a company's requiring financial support above what it itself could secure, aid could be granted under the provisions of the Industry Act 1972. Initially, the system would apply to "major and strategic firms," but no names were given. (Multinational companies would be covered only in regard to their British interests.) Many U.K. businessmen expressed agreement with such a system, provided it were truly voluntary. They did not anticipate a viable partnership with government if they were effectively forced to adopt strategies decreed to be "in the national interest."

The role of the National Enterprise Board is not immediately clear from the white paper, although its aims are spelled out in detail: to act as a new source of investment capital for manufacturing industry, to promote industrial efficiency and profitability, to act as a holding for state-owned companies, to serve as a channel for short-term public assistance, to function as an instrument to create employment, to provide financial and managerial advice, to acquire "individual firms," and to start new ventures and participate in joint ventures with private companies. However, if the NEB were to apply itself to all these tasks, critics have noted, it would emerge not as a useful and flexible instrument of intervention but rather as the dominant force in industry, a means whereby the government could acquire and invest in an unlimited (and hitherto unspecified) number of companies in any given sector.

France: Investments; Trade Deficit; Postal Rates

The French government, in the Aug. 17 official gazette, has announced that certain currency controls and permit procedures applying to investments by domestic enterprises abroad and by foreign companies in France are to be relaxed. In future, no official approval will be necessary for foreign investments of up to FF 1 million by resident companies or individuals. In fact, several foreign pro-

Investments *(contd.)*

jects may be undertaken within a year as long as each one does not exceed the FF 1-million limit. By the same token, foreign-held companies in France will be free to make investments of up to FF 2 million without prior government consent; this amount will be reduced to FF 1 million if the takeover of a small French company is involved.

In other news, the temporary recovery of the French trade balance in June - with a seasonally adjusted deficit of only FF 392 million - has been followed by a massive shortfall of 3.013 billion in July. The huge difference resulted from the fact that, due to the temporary shutdown of some refineries, French oil imports in June had dropped off sharply. The June/July deficit average of FF 1.7 billion was, however, in line with previous monthly averages, and so official estimates are still for a total trade gap of FF 20 billion this year. Some consolation has come from accelerating exports, which went up by 35% within the past 12 months.

Among the inevitable price rises to be encountered by the French as they return from their annual August vacation will be some postal rate increases. Effective Sept. 16, the standard letter rate will go up by 60%, from 50 to 80 centimes. The so-called "slow tariff" for letters will even be doubled to 60 centimes. The increases are expect[ed] to yield an additional FF 3 billion for the Post Office, which has not changed these rates since January 1971. Telephone rates will remain unchanged.

Germany: Draft Rule on Merger Controls in Publishing

The German cabinet has approved a government-drafted amendment to the Cartel Law designed to expand merger control provisions applying to publishers of newspapers and periodicals. According to the draft amendment, which is to have its first parliamentary hearings in October, the Federal Cartel Office would have to be informed prior to any merger involving partners with combined sales of DM 25 million and also could impose conditions. The acquisition of a 25% interest or more in a publishing enterprise would be treated as a merger and would also require notification. A publishing business with annual sales of DM 12.5 million (roughly corresponding to a newspaper circulation of 60,000 to 70,000 copies) would be considered to have a market-dominating position and thus would become subject to stricter surveillance by the cartel authorities. Although the Cartel Office would retain its existing powers to prohibit any merger violating the public interest, the new amendment would not permit it to block mergers per se, certainly not the takeover of an ailing publishing house if such a transaction ensured continuation and consequently a greater variety of publications.

Merger Controls *(contd.)*

Publishing enterprises presently are included under Cartel Law merger controls, but financial criteria are rather high so that few mergers are covered in practice. (*Doing Business in Europe, Par. 23,510A.*) To take account of the special conditions in the publishing sector, the amendment therefore would lower main criteria to one-twentieth of both the DM 500-million combined sales minimum of the merging parties and the DM 250-million annual sales minimum of either party now applicable for enterprises generally. Publishers would not benefit, of course, from existing exemptions on local or regional mergers, types that are particularly prevalent in this sector.

Government officials believe that the proposed amendments would cover virtually all relevant mergers in the publishing sector, which has displayed an alarming rate of concentration in recent years. In 1973 alone, some 120 publishing businesses closed down or were absorbed by others, and more than 50 newspapers were phased out. Spokesmen for the Opposition and the publishers' associations contend that the proposed amendment in the long run will not prevent the demise of small and ailing publications or their absorption by others. Instead, they favor forms of indirect assistance such as exemption from turnover taxes granted by most EC member states to newspapers and periodicals.

Yugoslavia: Import Curbs; OECD on Foreign Investment

Saddled with a growing foreign trade deficit of nearly $2 billion for the first seven months of this year, Yugoslavia has now introduced a cash deposit rule on imports that is to stay in effect for six months. The rate of the interest-free deposits varies according to product: for instance, it is 50% on such goods as detergents, leather apparel, radios, and beer, and 30% on cameras and projectors. Exempted are components used in products assembled for export. Special import permits are required for 55 product classifications.

The cash deposit requirement is expected to result in a 15% cut in the foreign exchange Belgrade had allocated for consumer goods imports for the remainder of this year, and in a 10% reduction for raw materials and products required in manufacture (the latter account for almost 68% of Yugoslav imports).

Earlier this month, an OECD survey on "Foreign Investment in Yugoslavia" said that there are still too many factors discouraging such investment on a larger scale. The OECD urged Yugoslavia, an associate member, to revise its rules in this area, notably those concerning profit transfers, the 49% limit on foreign participation in joint ventures, and compensation for foreign-owned assets seized in

Import Curbs *(contd.)*

the national interest. Liberalization of this legislation, which dates back to 1967, would certainly help to attract more direct investment from abroad, according to the OECD.

Since 1967, the study noted, 97 joint venture agreements have been signed with foreign partners, for total investments of $854 million. Of this total, only 17% came from abroad. Leading foreign investors were Italy with an equity of $40 million in 22 joint ventures, Germany with $35 million in 20, and the United States with $15 million in 11. However, American involvement is on the upswing - through 1973 and January 1974 alone, U.S. companies entered into seven joint venture contracts, some of them relating to substantial investments in synthetic fiber and oil exploration projects. Additional agreements during the first few months of the current year should have raised U.S. commitments in Yugoslavia to nearly $25 million.

AROUND THE MARKETPLACE

Britain Plans Takeover of Oil Platform Sites

The British government has announced that sites in Scotland for the construction of production platforms for North Sea oil are to be taken into public ownership. The move will be effected this fall when a Scottish bill is to be introduced by the Secretary of State for Energy. The aim of the bill will be to enable U.K.-based companies to secure a commensurate share of North Sea oil contracts (estimated at over £4 billion over the next six years) while at the same time ensuring a proper measure of control over construction developments.

The last (Conservative) government formulated plans for the North Sea oil industry at the beginning of 1974 and, with the exception of Labour's "public ownership of sites" approach, the two major British parties appear to be in agreement that certain objectives command top priority: optimal availability and use of sites, proper checks on undue proliferation, strict control of development and return of land to former uses after development ends, and provision of an adequate but not excessive infrastructure. It is standard Opposition procedure to cry foul when the term "nationalization" is used in the House. In this case, the protests are considered by many to be justified, inasmuch as the objectives listed can be obtained via existing planning laws.

EC 'Bureau de Mariage' Reports on Its First Year

During its first year of activity, the Community's Business Cooperation Center in Brussels has received inquiries from 1,867 companies seeking advice on doing business in other member states or interested in cooperation agreements or joint ventures with other firms there. According to a European Commission report covering the 12-month period that

EC Bureau *(contd.)*

ended in May 1974, Germany headed the list with 545 inquiries, followed by the U.K. with 427, France (181), Italy (153), Belgium (115), Holland (84), Ireland (71), Denmark (70), and Luxembourg (5). Companies established in non-EC countries submitted 216 inquiries.

During the reporting period, according to the survey, the "bureau de mariage" processed and circulated 159 applications by firms looking for partners in other Community countries. Actual contacts materialized in 49 cases, and "it is expected that some of these contacts will lead to concrete results in the near future."

The Business Cooperation Center was primarily established as a matchmaker for small and medium-sized enterprises looking for business partners beyond the national borders. But the agency also provides information on EC and national laws and regulations pertaining to taxation, financing, general business procedures, etc.

EURO COMPANY SCENE

Court Line

The collapse of the U.K.'s Court Line travel group has emerged as an increasingly embarrassing political issue for the British Labour government, currently gearing up for a general election. The failure has not only led to public uncertainty about the travel business as a whole but has given rise to condemnation of the government's handling of the affair.

In order to secure the interests of the 9,000-plus employees in Court's shipyards and, indirectly, of customers who had booked holidays with the company, the Secretary of State for Industry had announced late in June that the government was prepared to acquire the entire shipbuilding and ship repairing interests of Court Shipbuilders, which it did as of July 1 for £16 million plus other cash subsidies. Then, on the advice of independent auditors who recommended that the company cease trading if it could not obtain an added £5-10 million needed to keep it afloat, Court Line went into liquidation on Aug. 15, leaving holidaymakers stranded, possibly without compensation. Meanwhile, however, retail travel agents had continued to accept bookings. The Secretary for Trade claims that it was the "considered judgment of the company" that the money the government was prepared to inject at the end of June was sufficient to guarantee completion of Court's summer vacation programs; the company has denied this.

Schneider/ Marine-Firminy

The Paris Tribunal of Commerce has confirmed an earlier arbitration court ruling that the Franco-Belgian Empain-Schneider group must divest itself of its 34% participation in Marine-Firminy, the industrial holding. The court ruled

Schneider/
Firminy
(contd.)

that Schneider's purchase of about 20% in Marine-Firminy last November violated a 1970 agreement between the two companies obligating them not to alter their 50:50 ownership of the Marine-Schneider subsidiary that controls 51% of Creusot-Loire, France's leading nuclear group. Empain-Schneider, which is said to have paid about FF 170 million for its Marine-Firminy stake, is expected to appeal the decision. Meanwhile, a battle for acquisition of the 34% share package is shaping up between leading French steel concerns Usinor and CLIF (de Wendel).

MRCA/
Panavia

Messerschmitt-Bölkow-Blohm (MBB) of Germany has announced the successful completion of the maiden flight of the two-seater MRCA (multi-role combat aircraft) fighter jet being developed for the British, German, and Italian governments by the trination Panavia Aircraft consortium. Series assembly of the plane, which is designed primarily for defense, is to begin in the early 1980s. The project has caused much controversy because of soaring production costs. The official selling price for the MRCA is DM 25 million, but unofficial estimates go as high as DM 48 million. Germany reportedly plans to purchase 322 of the aircraft, Italy 100, and the U.K. some 400.

Hawker
Siddeley

The next names on the U.K. Labour government's "nationalization list" are expected almost certainly to include Hawker Siddeley Aviation. According to a report issued jointly by the Labour Party, the Trades Union Congress, and the Confederation of Shipbuilding and Engineering Unions ("Nationalisation of the Aircraft Industry," Transport House), Hawker would form part of a new British National Aerospace Corp., which would also include British Aircraft Corp. (jointly owned by Vickers and GEC) and, possibly, Northern Ireland's Short Bros. and Harland. The joint statement, which does not directly reflect government policy, deals in some detail with the problems of compensation and discusses at length the questions of increased "unionization" and worker participation within the aerospace industry.

Danlon-Hin/
Jansen de Wit

The government of the Netherlands has agreed to provide subsidies of 15-20 million guilders to Danlon-Hin NV on condition that the company eventually merge with Jansen de Wit, the other leading Dutch hosiery producer. The industry is reported to be suffering from general overcapacities caused by cheaper competition from abroad. With liabilities currently amounting to some 50 million guilders, Danlon-Hin is said to have stockpiles representing nine months' worth of production, while Jansen de Wit has a six-month surplus. Officials of both firms and the unions have now agreed on a social plan for employees who would be affected by the projected merger.

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Community: Italy Hopes for Major Aids from Partners

The chances for massive Community assistance to Italy have improved considerably since Rome has relaxed restrictions on EC imports and since Germany, the major potential contributor, has somewhat relented in its opposition to such financial aids. In fact, Bonn itself may offer direct assistance in addition to, and in advance of, Community help. While EC funds would be largely used to upgrade the competitiveness of Italian products on foreign markets, direct German assistance would be confined to helping finance Italy's balance of payments deficit, estimated to reach nearly $7 billion in 1974.

Bonn's shift of position on this issue has come in the wake of several conferences between central bank officials and finance ministers of the two countries and a subsequent meeting of Prime Minister Rumor and Chancellor Schmidt. (This does not mean, however, that the Schmidt administration would find it easy to gain legislative passage of the aid proposal.)

Italian parliament approval of the government-decreed measures to restore fiscal stability also helped ease the way for Community assistance because it fulfilled a major condition Germany and other member states had insisted upon during the discussions earlier this year on the European Commission's "solidarity fund" proposal. The Council of Ministers is expected to consider this proposal and other formulas, including a credit of up to $5 billion for Italy, at its Sept. 16 meeting.

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Aids for Italy *(contd.)*

Italy has been borrowing heavily during the past two years, primarily on the Eurodollar market, but also from an existing EC facility, the Monetary Cooperation Fund (*Common Market Reports, Par. 9650*). This fund offers short-term monetary support to member states experiencing balance of payments difficulties, and assistance is granted without major strings attached. A $800-million loan was to be paid back on Sept. 18, but Rome counts on extension of this credit, also to be taken up by the Council on Sept. 16.

Whatever the extent of Community aid to Italy, the EC partners would want assurances that the money will be spent where it is needed most: first on postal and telecommunications services, public transportation, the energy sector, and public housing, and after that on investments in the *Mezzogiorno*, the underdeveloped southern regions. Accepting conditions along these lines would run counter to past practices in Italy, where regional governments (which wield considerable power under the constitutional setup) often are guided more by political than by economic considerations in their spending policies. Yet, conditions of this kind are regarded as absolutely necessary by Commission economists if efforts to turn around Italy's deplorable payments situation are to be given any chance of success.

Britain: Fair Trade Act Powers to Cover Services

The U.K. Dept. of Prices and Consumer Protection on Aug. issued a draft order listing some 100 service industries that would be affected by a significant extension of present restrictive practices legislation. The Restrictive Trade Practices Act 1956 applies to the manufacturing industry only (*Doing Business in Europe, Par. 24,011*). Now, under the Fair Trading Act 1973 (*Doing Business in Europe, Par. 30,659*) and subject to parliamentary approval, the government on Oct. 6 intends to issue an Order featuring parallel provisions for the service industries generally.

Under the proposed legislation, companies that have concluded certain types of trading agreements will be obliged to register these with the Office of Fair Trading (OFT) and, if necessary, justify them. Such agreements would include those relating to price and commission rate fixing, exclusion clauses limiting companies' liability, agreements between competitors to accept only orders of a certain size, and arrangements whereby certain market sectors are carved up. The director general of the OFT would have powers to approve such agreements. If, however, he considered them to be against the public interest, he would refer them to the Restrictive Practices Court.

Companies would be able to defend "restrictive" agreements on three principal grounds (known as "gateways"): 1) that a restriction is "reasonably necessary" in order to protect the public against injury; 2) that the removal of a

Fair Trade Act *(contd.)*

restriction would deny users "other specific and substantial benefits," or 3) that the restriction is reasonably necessary to make possible the negotiation of fair terms from a dominant supplier or buyer.

The draft list is not exhaustive. Banks are excluded in terms of their monetary and credit policies, and the Order would not apply to certain professional services, including attorneys. On the other hand, its impact would be considerable in such areas as unit and investment trusts, advertising, road haulage, and stock dealings. Experience with the manufacturing sector has shown that few registered agreements in regard to price fixing have been allowed: less than 1% received official sanction, while some 10% were rejected outright. The remainder were either dropped by the manufacturers themselves or allowed to lapse on recognition of the fact that approval was unlikely.

The decision to treat the supply of services on a par with supply of goods has been generally acknowledged as logical and long overdue. Effective implementation of the Order will be difficult, however, since it is not known how many agreements are currently in force in the service sector. Further, it can be argued that the overall economic importance of many such agreements is negligible and that their investigation might be "counter-productive" in terms of administrative costs alone.

Germany: Unions Adopt Tough Stand on Strike Rules

The hard-line position now assumed by the German unions in regard to their own strike policies is considered to be "out of touch with reality" by business and industry, even with the specter of increasing unemployment for the coming fall and winter. Particularly deplored is the emphasis on confrontation rather than the spirit of cooperation that has generally marked the labor-management climate in Germany in the past.

The unions' changed attitude is being reflected in the amended version of the Guidelines for the Conduct of Labor Conflicts ("Richtlinien zur Führung von Arbeitskämpfen") recently adopted by the DGB, the national union federation. As modified, these guidelines no longer require a mandatory ballot by the rank and file prior to any strike. Also, the amended version of Section 3 of the guidelines could be interpreted to mean that strikes may be called not only to improve pay and working conditions but also to attain political objectives such as more favorable legislation. Wildcat strikes, a cause for dismissal without notice, are no longer considered in flagrant violation of the law but merely as being contrary to union charter rules. Moreover, they could be sanctioned afterward. Finally, it will be entirely up to the discretion of the unions' leadership

Strike Rules *(contd.)*

whether members engaged in lawful strike action would be allowed to carry out emergency work to prevent major damage to production facilities.

The original guidelines were conceived in 1949, during a period of serious unemployment, and the need for modification is generally acknowledged. However, most experts are convinced that the new version tends to ignore the public interest, since it leaves it up to the union leadership to decide whether a solution of a labor conflict should be sought at the bargaining table or not.

Government leaders have so far refrained from taking a position on the new guidelines. This is understandable, since half of the present cabinet members at one time have either held high union posts or have played an active role in labor affairs. But none of the previous administrations has ever attempted to introduce legislation with the object of establishing general strike rules - a fact that prompted the Supreme Labor Court to generate a vast body of case law with admitted equity for all sides. The Court has held that a strike aimed at anything but improving working and economic conditions of the union rank and file was unconstitutional (*Doing Business in Europe, Par. 23,421*). German labor law experts think that the Court would adhere to that ruling should the unions attempt to launch political strikes in the future.

Finland: OECD Predicts Inflation Rate of 15 Percent

Despite a number of stability measures adopted earlier this year, Finland is likely to experience an inflation rate of about 15% this year, up from 11.7% in 1973. According to the OECD's latest economic survey on Finland, the continued price pressures must be blamed primarily on the higher cost of imports, a factor that also will contribute to the doubling of the country's payments deficit (current accounts) to about 3 billion finmarks in 1974.

The OECD forecast is more or less in line with the government's own projections and the current anti-inflation efforts. Announced in early July as a 20-point program, the latter include the extension of price controls and establishment of an import price control agency, housing subsidies, and incentives for private savings. The most significant part of the package, however, was the imposition of an export levy on the forestry sector. Having taken effect on Aug. 16, this levy is to draw off some 300 million finmarks in export income over a six-month period, with the money to be accumulated in a special reserve fund and to be used to influence the course of the domestic economy. At least half of the total is to be returned to the forestry industry within four years.

Earlier, both government and independent economic forecasts put the probable growth rate of Finland's Gross

Prognosis *(contd.)*

National Product this year at 3% as compared to 5% in 1973. This would be a better performance than initially feared and would reflect the relatively healthy conditions for both industrial production and employment. Production slowdowns experienced by some sectors are nearly always due to strained capacities and a shortage of labor.

Greece: Special Tax on High Incomes; Budget Cuts

As expected, the Greek government has announced that most of the economic restrictions imposed by previous administrations will de dropped shortly and has introduced a new program raising taxes on higher incomes, cutting the Budget, and stimulating investments in certain key sectors.

Among the measures made public on Aug. 17 by the new Minister of Economic Coordination and Planning, Prof. Xenophon Zolotas, were the abolishment of the price freeze instituted on July 20 in reaction to the Cyprus crisis and cancellation of extremely harsh penal sanctions for tax violations. The government reduced the current Budget by about 3% and set aside 2.5 billion drachmas for public sector investments. In the fiscal area, Athens imposed a special levy ranging from 10 to 20% on personal and corporate incomes starting at 500,000 drachmas annually. Furthermore, Zolotas said, there are plans to stimulate housing construction by removing a special levy, to raise tax exemptions on small personal incomes, and to improve minimum wage levels as well as civil service salaries.

A large portion of the new economic package is devoted to efforts to boost lagging investment activity in the industrial, agricultural, and export sectors by reinstating a liberalized credit policy. Other branches of the economy will still have to contend with some credit curbs, because the government must continue to keep a tight rein on inflation, which is now expected to average 18-20% this year.

Meanwhile, there have been reports that the new Greek administration and the European Community are close to agreement on the revival of the 1962 Association Treaty (*Common Market Reports, Par. 5344*), which Brussels had unilaterally suspended following the 1967 military coup in Greece. Speedy reinstatement of the treaty is, however, regarded by the Caramanlis government as a mere prerequisite to full EC membership. In this, Athens is assured of the wholehearted support of France, which also is in favor of providing Greece now with the EC credits that have been kept "on ice."

EURO COMPANY SCENE

Creusot-Loire/ Alan Wood

Creusot-Loire of France, the special steel and nuclear group co-owned by Marine-Firminy and - pending further le-

Creusot-Loire/ Alan Wood *(contd.)*

gal action - Empain-Schneider, is moving to acquire almost 10% in Alan Wood Steel of Pennsylvania. According to preliminary agreements between the firms, Creusot-Loire will also have an option on a further package of 44,400 shares until next Jan. 31. The French company denied it was seeking to take over the U.S. steel maker.

Rheinstahl/ Thyssen

At their respective general meetings shareholders of Germany's Rheinstahl AG and of August-Thyssen-Hütte AG (ATH) have given their blessing to the pending "elefant marriage" between Thyssen, Germany's leading steel producer (with an output of 14 million tons last year), and the Rheinstahl engineering and shipbuilding group. The ATH settlement proposal involves an exchange-plus-cash offer worth DM 112.75 for each Rheinstahl share or payments amounting to 60% of the current Thyssen dividend to Rheinstahl stockholders who do not opt for the share exchange.

GM Denmark

The current slump in automobile sales in Denmark and throughout Europe has led General Motors to schedule the closure of its Copenhagen assembly plant by mid-October. The shutdown will affect 750-800 workers, although the company will continue to employ about 400 for its import and distribution operations. Last year the plant produced 17,236 vehicles (Opel sedans and Vauxhall-Bedford trucks).

DAF/ Volvo

Van Doorne's Personenautofabriek (DAF) of the Netherlands and Sweden's Volvo, which holds a one-third stake in the Dutch auto maker, are planning to strengthen their cooperation in the sales area. The two reportedly will link efforts particularly in the overseas export sector, where DAF has not yet been active. Eventually they propose to collaborate in the production area as well, probably to develop a new line of medium-sized cars to fill the gap between DAF's economy range and Volvo's larger, more powerful models. Volvo would also be interested in increasing its participation in DAF.

Massey-Ferguson/ Ursus

Massey-Ferguson Ltd., U.K. subsidiary of the Canadian manufacturer of agricultural and construction equipment, has landed what is reportedly the biggest single contract ever awarded British industry in Eastern Europe. Worth £155 million, the deal involves reconstruction and modernization of the Polish tractor and diesel engine industries to produce M-F and Perkins equipment. The contract was concluded with Poland's foreign trade unit Agromet Motoimport, acting for the Ursus tractor group, and must still be ratified.

Armstrong Cork

Armstrong Cork Co. of Lancaster, Pa., has announced it will invest over $25 million in construction of a new floor-coverings plant at Teesside, northeastern England, for its British subsidiary. Production for the U.K. and all other

Armstrong *(contd.)*

European countries as well as the Near East and Africa is expected to begin by early 1977. The plant will initially employ 120 and later, over 200.

Degremont/ Infilco/ Westinghouse

Degremont, the U.S. subsidiary of France's Degremont SA, specialists in water purification and sewage treatment, reportedly has acquired the Infilco division of Westinghouse Electric Corp. along with Infilco patents, trademarks, and know-how for an undisclosed price.

Suez

France's powerful Cie. Financière de Suez banking and financial group is facing a series of legal actions brought by small shareholders protesting the procedures that led to the merger of Saint-Gobain and Pont-à-Mousson in 1969-70 and Suez' takeover of the Indochine banking group in 1972. Encouraged by recent French press exposès, shareholder groups are said to be seeking damages of some FF 1 billion and have charged officials of Suez, Saint-Gobain, and Banque de l'Indochine with serious irregularities and misrepresentations. Spokesmen for Suez have denied all charges and are accusing the stockholders of trying to ruin the reputations of the concerns involved. A prolonged court battle - involving the French stock exchange supervisory commission and even the Treasury - is anticipated.

Giuseppe Petrilli, president of Italy's Istituto per la Ricostruzione Industriale (IRI), the state industrial holding, has informed the government that the group will have to curtail its investments and operations unless it quickly receives substantial capital infusions. IRI has requested permission to charge higher rates to cover the deficit of its Alitalia airline as well as costs for the Italian telephone service, which until now has been one of the cheapest in Europe and largely self-supporting; the group also is seeking higher tolls to pay for the country's highway system. IRI holdings in the processing sector (including Alfa Romeo) reportedly accumulated losses of 25 billion lire last year as compared to 270 million in 1972. The group's shipping interests are expected to end the year 140 billion lire in the red because of high fuel expenses.

Hoffmann-La Roche

Charging the German subsidiary of Switzerland's Hoffmann-La Roche AG pharmaceuticals with abuse of a market-dominating position, the German Federal Cartel Office has demanded that the company lower its prices for the tranquilizer Valium by 40% and for Librium by 35%. At the start of public hearings the office argued that the results of parallel investigations in the Netherlands, Sweden, and the U.K. bear out its contention that the Swiss drug producer is overcharging, especially since prices in Germany are even higher than elsewhere. In addition, the German authorities say that although Valium and Librium represent 25% of Hoffmann-

Hoffmann-La Roche *(contd.)*

La Roche's sales turnover, they account for 50% of group profits. Spokesmen for the company have categorically rejected the charges, asserting that price competition in the German drug sector is intense, and dispute the Cartel Office figures, claiming only 10.5% of the market for Valium and 2.4% for Librium. Swiss Roche officials have declared that the company will appeal the case to the highest German courts if necessary.

Meanwhile, the Cartel Office reportedly is moving against three other leading German manufacturers of tranquilizers - Dr. Karl Thomae, Wyeth-Pharma (wholly-owned by American Home Products Corp., New York), and Heinrich Mack.

Le Régent

Under regulations that went into effect last Feb. 1, the Swiss Justice Ministry has filed a first major complaint, with the Canton of Valais for its issue of a special exemption to Sté. Résidence Hôtel Le Régent SA, a real estate developer, allowing the sale of 210 new condominium apartments in a Valais vacation center to foreign buyers. Bern is arguing insufficient economic justification for the permit. The complaint, regarded as an indirect warning to all cantons to step carefully in this area, effectively blocks further sale of the apartments to non-Swiss until a final decision is reached - a process that could be long-drawn if the case goes to the Supreme Court.

Bankhaus Wolff/ Frankfurter Handelsbank

Less than two weeks after the collapse of the Frankfurt Bass & Herz bank, two more small German private banks have been forced to close: Bankhaus Wolff KG of Hamburg and Frankfurter Handelsbank AG of Frankfurt. Hans G. Wolff, personally liable partner in the Hamburg banking house, reportedly decided to terminate operations because of a decline in business and the dwindling of capital assets, both of which he ascribed to customers' loss of confidence following the Herstatt failure and the problems facing the Sindona group of Italy, which had acquired 50% of Bankhaus Wolff's DM 13-million capital last October. Private clients of the bank, representing deposits of DM 15 million, are to be fully compensated by the Federation of German Banks. Bankhaus Wolff had a pre-liquidation balance sheet total of DM 55 million.

In the case of Frankfurter Handelsbank, a "mini-bank" with a balance sheet total of only about DM 14 million, federal banking authorities withdrew the bank's license because of insufficient liquidity. Clients - largely medium-sized livestock and meat product firms - had been steadily withdrawing their deposits.

Common Market Reports

EUROMARKET NEWS

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Community: Third-Country Status for East Germany

Diplomatic recognition of the German Democratic Republic (East Germany) by all nine EC member states will not, at least for the time being, bring about a change in duty-free trade between the two Germanys, as provided for in a protocol to the Treaty of Rome. It will, however, have consequences for West Germany's other Community partners: a Commission-proposed regulation would in effect accord East Germany full third-country status in the principal areas of the common commercial and agricultural policies. Its adoption would mean that none of the eight could continue negotiating individual trade agreements with the GDR after 1974. (Actually, the Community has had exclusive treaty-making powers since the beginning of 1973, but the Council of Ministers extended the grace period so that the member states could wind up long-term agreements with East Bloc countries.) German government lawyers see no difficulties in the EC's negotiating a commercial agreement on behalf of the other eight. The Community itself set a precedent when it acted for only eight members in connection with the Nuclear Nonproliferation Treaty - France was not included since it did not wish to be a signatory.

Approval of the draft regulation would put East German industrial products under the rules of the common import system, and this would require amendment of the common liberalization list of products that may enter the Community free of duty. The granting of export aids (credits) would become subject to the consultation and information procedures established by the Council last December.

This issue is in two parts, consisting of 184 pages. This is Part I.

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Third Country *(contd.)*

In the sector of agricultural commodities, the regulation would repeal a 1966 Council decision withholding from East Germany a third-country status with respect to financing the Common Agricultural Policy. This would imply the requirement to impose levies on agricultural imports from East Germany as are applicable to all third-country imports. Revenue thus derived would flow into the EC budget funds, which in turn would finance export refunds to exporters selling farm products to East Germany. Commission officials believe that there would be a modest gain for the European Agricultural Fund, which is part of the budget (*Common Market Reports, Par. 905*).

Although the other EC partners are still counting on a concession by Bonn with respect to its credit practices in GDR trade, they have relented in their earlier criticism of West Germany's duty-free trade with the other Germany. Bonn apparently has succeeded in convincing them, particularly France, that a change could be brought about only through renegotiation of the Treaty (the Protocol Concerning Internal German Trade and Connected Problems - *Common Market Reports, Par. 361*). The West Germans are also arguing that any benefits they may draw from this duty-free trade fall far short of what the other states derive from Bonn's generous support for many EC programs.

Brussels Agrees to Reinstate Greece Treaty

At its first meeting following the abbreviated summer recess, the European Commission has agreed to reinstate the EC-Greece Association Treaty (*Common Market Reports, Par. 5344*), a move that would automatically free some $55.7 million in blocked Community credits for Athens. The decision in Brussels, which came within a week after Greece's Aug. 28 petition for reinstatement, was expected to be approved by the Council of Ministers at its Sept. 17 meeting. Prior to that meeting, Commission officials were to receive the Greek foreign minister, George Mavros, for preliminary talks on possible Community financial assistance for investment projects in Greece and a protocol to the 1962 Association Treaty that would reflect last year's enlargement of the EC.

The Commission also has proposed to resume negotiations on a protocol providing for full EC membership by Greece. These negotiations were broken off after the colonels' takeover in 1967, the year when the Community suspended the Association Treaty.

Italy: German Loan Considered a 'Door Opener'

The news that Germany will step forward with a $2-billion credit has been greeted in Italy with an audible sigh of relief, in particular since German government spokesmen earlier had firmly rejected all speculations on unilateral assistance. Bonn's move was regarded in Rome as essential

Credit
(contd.)

to additional forms of financial assistance within the framework of the European Community. Further encouragement was taken from assurances that Bonn would back Italy's application for the extension of existing EC credits. Observers have noted, however, that the injection of German capital in itself will not automatically mark a turning point for Italy's desperate payments situation - that will hinge on the effectiveness of the sweeping fiscal measures the Rumor administration decreed last month.

According to the credit terms agreed upon by Rome and Bonn, the German Bundesbank will lend the $2 billion over six-month periods for up to two years out of its foreign exchange reserves of DM 90 billion. The Banca d'Italia in turn will offer one-fifth of its gold reserves as collateral, although no physical transfer of bullion is involved. The interest will be variable, to be determined by the rate the Bundesbank gets for its equity in six-month U.S. Treasury bonds.

Germany:
Bonn Proposes
Stiff Controls
on Banks

The German government intends to move to reduce the economic consequences of bank failures in the future by seeking better protection of creditors and by toughening banking controls generally. A study group also is to be set up within the Finance Ministry to investigate organizational aspects of the German banking system and to consider curbs on the banks' economic powers.

To improve creditor protection in connection with bank crashes, Finance Minister Hans Apel is favoring joint liability of all commercial and savings banks for any net losses resulting from insolvencies. This type of deposit guarantee would be unprecedented anywhere. The stricter banking controls would be in the form of an amendment to the Federal Banking Law (*Kreditwesengesetz*) that would 1) tighten regulations on bank licensing and license withdrawal, 2) authorize the Federal Banking Supervisory Office to conduct "routine examinations" of any bank at any time, and 3) put a ceiling on the risks attached to major credits. Within the framework of the tightened controls, no new licenses would be issued to banks organized as sole proprietorships or "silent partnerships." License withdrawal would be automatic once losses amounted to one-half of a bank's share capital. The mandatory time period within which banks would have to complete their annual statements would be reduced to three months.

In order to speed parliamentary passage of the proposed amendment, the government will not take the time to draw up its own draft but will attach a rider to a similar, even more restrictive bill sponsored by the Hesse state government. This bill is to get an Upper House hearing on Oct. 18.

Bank Controls *(contd.)*

Earlier, the Banking Supervisory Office issued new "precautionary" regulations restricting domestic banks' risk margins in foreign currency dealings. The new curbs, which apply as of Oct. 1, were imposed in the wake of speculative currency deals that had resulted in considerable losses for Westdeutsche Landesbank, among others, and caused the spectacular crash of Herstatt Bank. In the future, banks will have to confine the volume of their "open positions" in spot foreign exchange trading to 30% of their share capital and reserves. This margin may go up to 40% for monthly or six-month transactions. (The 30% limit constituted a compromise between the Supervisory Office, which would have preferred 20%, and the banks, which had asked for 40%.) The curbs also include foreign securities, but not notes and coins.

Finally, the Schmidt cabinet at its Sept. 11 session was expected to lift the decree that still requires a 20% cash deposit on foreign credits by residents. The removal of the cash deposit rule would not affect the requirement for prior approval of certain securities purchases by nonresidents and of interest payments on nonresident deposits.

France: Retail Price Reductions; Minimum Wage

Economics Minister Jean-Pierre Fourcade and the French retail associations have agreed on a voluntary anti-inflation program of temporary price reductions in September, October, and November. The 5% price cuts apply primarily to daily-use items, clothing, and some foods. This month, for instance, many retailers are granting reductions on school items as the new school year gets under way. Next month's drive will mainly involve household goods, and in November it will be the turn of clothing. More than 200,000 out of 800,000 retail establishments have volunteered to join in the campaign, although large stores and supermarkets are far more heavily represented than small shopkeepers.

"Operation Price Brake" coincides with yet another raising of the legal minimum wage (SMIC): effective Sept. 1, the hourly minimum went up from FF 6.40 to FF 6.55 and thus has increased by nearly 26% within a 12-month period. The SMIC goes up automatically whenever the consumer price index rises by two points within a certain period of reference. According to the latest reports, inflation in France currently is running at a rate of 16%, and the government is aiming to bring it down to an annual rate of 6% by the end of 1975.

Austria: Stricter Rules for Detergent Labeling

Following earlier measures for the consumer's benefit in the food sector, the Austrian government has proposed broader labeling requirements for detergents sold at the retail level. Detergents in large containers destined for

Detergents *(contd.)*

commercial and industrial users would be exempt from these rules.

The draft regulation would require detergent manufacturers not only to state the ingredients but also to furnish information about the water temperature at which the detergent would have the maximum cleansing effect. All this information could be printed only on the two narrow sides of boxes and on the back half of round containers. These spaces would be preempted for this purpose and could not be used for promotion.

Oct. 1, 1974, is the target for enactment, but industry would be given until July 1, 1975, to prepare for the changeover. Still, manufacturers would have until the end of 1975 to sell stock not meeting the requirements. A similar grace period for retailers would end on June 30, 1976.

EURO COMPANY SCENE

Reynolds Germany

For the third time in what is becoming a protracted legal battle between environmentalists and proponents of industrial development, a Hamburg tribunal has ordered the shutdown of the DM 640-million production facilities of Reynolds Aluminium Hamburg GmbH, German subsidiary of the Reynolds metals group, Richmond, Va. The Hamburg Administrative Court upheld a complaint brought by a group of local farmers against the city-state's office for building permits for allegedly granting Reynolds a construction license before the company had obtained the required operating permit. At basic issue, however, is the plaintiffs' fear that excessive fluorine emissions from Reynolds' aluminum production will endanger plant and animal life near the factory. The company has appealed the latest decision.

Thyssen/ Witten

Germany's August-Thyssen-Hütte AG has acquired the 34.7% interest held by Munich banking house Merck, Finck & Co. in the special steels firm Edelstahlwerk Witten for an undisclosed price, giving Thyssen a total stake of 97.5%. Thyssen-Rheinstahl now plans to integrate its special steel holdings into one division, which will be the German leader in this sector.

Krupp/ Südwestfalen

In related developments, Fried. Krupp Hüttenwerke AG, steelmaking subsidiary of Germany's Krupp group, has concluded a deal to take over the DM 80-million capital of Stahlwerke Südwestfalen AG, a major producer of special steel, from present owners Merck, Finck & Co. (37%), Allianz insurance (31%), the Dutch-German Estel steel group (26%), and the remaining small shareholders. The transaction requires approval by the European Commission and the German Federal Cartel Office. It will give Krupp a com-

Krupp *(contd.)*	bined output of over 25% of the country's special steel production, making it No. 2 after the Thyssen group.
'Brent System'	Seventeen international oil companies have linked up to form one of the largest cooperative ventures to date in the North Sea oil sector, a £200-million pipeline program to bring oil ashore from five North Sea fields. Shell and Esso will be the major shareholders (34.19% each) in the new "Brent System," with others holding 5% (Texaco) or less. The system involves construction of a combined oil production, pumping, and storage platform; a 36-inch diameter, 96-mile pipeline to a Shetland Islands terminal; and a storage, treatment, and shipping terminal. The £80-million contract for the pipeline has gone to Germany's Mannesmann; no U.K. manufacturer was able to supply pipe to the required specifications. The system is scheduled to be operative by 1976.
Du Pont/ Polyacryl Iran	E.I. du Pont de Nemours & Co. of Wilmington, Del., and a group of Iranian industrialists and banks have established Polyacryl Iran Corp. in Teheran to produce polyester and acrylic textile fibers. The $250-million project includes construction of a plant, to be completed by 1977, that will eventually employ 1,600. Du Pont controls 40% of the joint venture.
Philips/ Magnavox	North American Philips Corp. of New York, 61% subsidiary of the Dutch Philips concern via its U.S. Philips Trust holding, is bidding to take over Magnavox Co. of Fort Wayne, Ind., the electronics and electrical engineering firm. However, the offer - for $8 a share for all 17.8 million outstanding shares - has been termed "inequitable" by Magnavox officials, since it is considerably less than the nominal value of the shares.
National Components	In another move, North American Philips reportedly has completed acquisition of National Components Industries, Inc., a U.S. electronics firm, for an undisclosed sum.
Titan-Coder	The government of France is striving for a "French solution" to the liquidity problems of Sté. de Construction de Remorques Titan-Coder SA, the domestic trailer manufacturing group. In spite of state subsidies amounting to FF 26 million over the past four years, the company was forced to file for bankruptcy on July 31, but the Paris Tribunal of Commerce has postponed its decision in the case until mid-month, pending the outcome of rescue attempts. With some 2,700 jobs at stake, the Ministry of Industry has now promised short-term financial assistance of up to FF 20 million, the sum Titan-Coder claims is necessary to continue operation for the time being, while a specially appointed study group investigates the possibility of takeover by a French concern - most likely Renault. Paris is under pres-

Titan-Coder *(contd.)*

sure to act quickly, since U.S. trailer groups Fruehauf and Trailor have been interested in buying into Titan-Coder for some time.

Volkswagen

Following a supervisory board meeting last week, spokesmen for Germany's Volkswagenwerk AG have indicated that a decision on the establishment of VW production facilities in the United States has been postponed until next spring, at the earliest, and perhaps indefinitely. The company management apparently bowed to pressures from the State of Lower Saxony, a major stockholder in the auto maker, and the German metalworkers' union, both of which are concerned about the effect of massive investment overseas on Volkswagen's domestic production and employment level. Meanwhile, company officials plan to keep a sharp eye on the sales trends in key markets - including the U.S. - before proposing any further moves.

Volvo

The government of Sweden reportedly plans to acquire a new issue of 585,000 shares in the Volvo automotive concern for about 100 million kronor, becoming the company's largest single shareholder. Volvo is said to have sought added capital for its current expansion program.

Bayernwerk

Economic considerations have led to the shutdown of one of Germany's experimental nuclear power stations - the heavy-water reactor plant at Niederaichbach, Bavaria, which was completed in late 1971 for Bayernwerk AG at a cost of DM 230 million, underwritten by the German federal government. The station had been functioning at 40% of its planned thermal capacity and had yielded only 30% of its projected electrical output, apparently because of technical miscalculations. The plant proved more expensive to operate than more recently developed light-water pressure reactors or the type of heavy-water reactor selected by the U.K. government for its new nuclear program.

Philip Morris/ Reemtsma

Philip Morris GmbH, German subsidiary of Philip Morris New York, reportedly has agreed to take over the Munich cigarette factory, complete with staff of 320, of Germany's Reemtsma tobacco group, which has long been plagued by overcapacity. Although the transfer does not take effect until Jan. 1, 1975, Philip Morris will begin partial production in Munich next month. Price of the transaction has not been disclosed.

Tabacalera

In other news, Tabacalera of Spain, which manages the state tobacco monopoly, has acquired unspecified stakes in Philip Morris Espana and Philip Morris Iberica, two cigarette-making subsidiaries of the U.S. firm. According to press reports, the companies will continue to produce under contract to Tabacalera and will contribute know-how for the development of new brands for the Spanish market.

Lloyds
Switzerland

Lloyds Bank, Ltd., one of the U.K.'s "Big Four," has confirmed that "irregularities" at the Lugano branch of its subsidiary Lloyds Bank International have resulted in a loss of some £33 million on unauthorized foreign exchange dealings in Switzerland. However, tax relief and insurance cover could well halve this figure. The bank's branch manager and chief dealer have been suspended and an investigation has been ordered by the Swiss Federal Banking Commission in conjunction with Lloyds' auditors, Price Waterhouse. Lloyds Bank International moved immediately to transfer funds and emphasized that,although the sums were large, they should be viewed in the context of group profits, approaching £78 million in the first six months of the year. The loss neither brings Lloyds remotely close to insolvency nor is it expected to damage its standing to any significant degree, but the bank will now, of course, tighten its grip on foreign dealings. At the same time, the Swiss authorities are expected to introduce measures to supervise even more strictly banking operations in general and those of foreign banks in particular.

Marine Midland/
Interunion-
Banque

Marine Midland Bank of New York reportedly has been granted Federal Reserve approval to increase its 19.4% holding in the FF 38-million capital of Interunion-Banque of Paris to 45%. Royal Bank of Canada and Japan's Tokai Bank are also planning to raise their stakes to 15% each from the present 10 and 9%, respectively. In addition, Germany's Bayerische Vereinsbank will increase its share to 10% from the current 9.7%. Sellers are said to include Banque de l'Union Européenne, which will reduce its holding from 19.52 to 15%, Hambros Investment Co. of the U.K., Banque de Bruxelles, and others.

Trizec/
German Banks

Trizec Corp., the Montreal-based real estate group 66%-owned by the U.K.'s English Property Corp. (EPC), reportedly plans to embark on a number of North American commercial property ventures together with four major German financial institutions - Deutsche Bank, Commerzbank, Bayerische Vereinsbank, and Wüstenrot building society. In addition, Warburg-Paribas New York, joint subsidiary of France's Paribas group and S.G. Warburg of the U.K., and UBS-DB Corp. of New York, offshoot of the Union Bank of Switzerland and Deutsche Bank, are expected to link up with the consortium for its U.S. projects. Spokesmen for Trizec, reputed to be Canada's leading property concern, have indicated that the group will concentrate on investment in "top quality" commercial ventures in large cities and on projects in smaller urban areas with good growth potential.

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Community: Final Draft on Banking Rules Expected Soon

European Commission attorneys expect that the first draft directive on the coordination of national banking rules can be sent to the Council of Ministers late this year. This is on the presumption that Brussels will soon receive still outstanding comments by member state governments and national banking associations on a preliminary draft, enabling the Commission to work out a final version.

The draft follows up last year's breakthrough in this sector when the Council adopted a directive that, as of Jan. 2, 1975, requires each member state to accord to credit institutions of other EC states the same treatment that is enjoyed by national institutions with respect to the establishment of bank subsidiaries, branches, and agencies (Official Journal L 194, July 16, 1973, page 1).

The directive aims at the coordination of banking laws to assure real banking competition within the Community, but not at total freedom. Thus, it does not do away with the legislative and administrative discrepancies existing in national licensing, solvency margins, liquidity requirements, and banking controls, among other areas. Nor does the freedom to provide services in another state without establishing a subsidiary or branch there imply that existing controls should be abolished.

The preliminary draft of the coordination directive, with its 41 articles, would make it compulsory for all member states to subject credit activities to licensing. A license could be granted only if the financial institution had sufficient funds and presented proof that its manage-

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Banking Rules *(contd.)*

ment was experienced and reliable. Licenses would be entered in a Community register. In what constitutes a sort of "most-favored-nation" approach, a member state could not grant a third country-based bank a license to establish a subsidiary in its territory under conditions more favorable than those applicable to banks incorporated in member states.

Mindful of the problems inherent in the coordination of banking legislation, Commission attorneys do anticipate difficulties in achieving uniformity in interstate banking controls. But rather than bringing action in the European Court of Justice against a member state for failure to follow the directive, the Commission would turn to a so-called Contact Committee, made up of officials representing national banking control authorities and Commission representatives. This committee would oversee national licensing and control procedures and in this way help overcome disparities in national administrative practices. Another major function would be to advise the Commission on further coordination steps and on questions of competition generally. This advice is needed even before the Commission presents additional draft directives aimed at coordinating rules for areas not covered by the present draft (brokers' activities, investment funds, for example).

Belgium: Modification of Tax Plans; Mortgage Curbs

At its first meeting following the summer recess, the Belgian cabinet has somewhat modified earlier proposals in fiscal and other areas. It has agreed to alter the tax progression applying to low and medium incomes so that any pay increases would actually help raise net incomes and not be eaten up by higher taxes and inflation. This reduction in the income tax burden by some BF 2.6 billion would reportedly benefit 75% of Belgian employees and 56% of the self-employed. Furthermore, the government will not raise automobile taxes to the extent originally planned and has postponed its proposals to raise tram and bus fares in the urban centers. The list of products for which retail price ceilings apply may be expanded. As of Sept. 10, gasoline prices were cut by about half a franc per liter, the first such reduction since the advent of the international oil crisis last winter. Also contemplated is a state bond issue with an attractive interest rate to draw off purchasing power and stimulate the inclination to save.

Most of these plans reflect the government's efforts to restrain domestic inflation and particularly the retail price index, which acts as a pacesetter for employee incomes and rents. Still, the Leo Tindemans administration finds itself pressured by the unions and some political factions for more decisive anti-inflation action. A spokesman for the Christian Labor Federation suggested that

Tax Plans
(contd.)

the country needs the "shock" of a temporary price stop and urged that the government seek a legislative basis for imposing such a freeze, perhaps for three months. The Belgian industry association countered by pointing out that the government already has the necessary legal means for a price stop, but that a freeze would be ineffective anyway. According to the association, business already is deeply concerned about the proposed corporate tax increases and the higher social contributions.

On another subject, further details have become available and some corrections are in order of last month's report concerning the Belgian mortgage curbs (*Euromarket News, Aug. 22, 1974*). The 60% mortgage limit on private residential property valued up to BF 2.5 million does not apply only to first mortgages as reported but to all mortgages regardless of priority. In addition, the new legislation sets a 55% limit if the property value is between BF 2.5 and 3.5 million, and a 50% limit if the value exceeds 3.5 million. While the restrictions generally cover residential and noncommercial property, they also concern borrowers whose business is the purchase or construction of real property for sale. In their case, mortgages may not exceed 50% of the value. Finally, the computation of property value does not include taxes and transfer costs.

Britain:
White Paper on 'Equality for Women'

The U.K. government has released a white paper ("Equality for Women," Cmnd. 5724, HMSO London, Sept. 6, 1974) outlining legislative proposals to end discrimination on grounds of sex or marital status. The government takes the view that sex discrimination and inequality are "too pervasive and entrenched" to be tackled in any way other than by statute. Accordingly, a bill will be introduced in November, for enactment in the current parliamentary year, that would make unlawful discrimination in employment, training, education, housing (granting of mortgages, etc.), in the provision of goods, facilities, and services to the public, and in related advertising. The white paper clearly states, however, that it is the government's aim to create equality of opportunity based on a person's individual merit regardless of sex or marital status, and not "to require change in activities and situations that arise out of common sense."

The legislation initially would apply only to employers of 10 or more persons, but there will be provision for reducing this figure at the recommendation of an Equal Opportunities Commission (see below). The law would not apply to private clubs or "to personal and intimate relationships," nor would it apply to differences of treatment "based on objective differences between the sexes or where considerations of propriety or privacy obtain." Above all,

Equality *(contd.)*

however, discrimination - defined in the white paper as "giving a person less favorable treatment than was or would be accorded to other persons on the ground of sex or the related ground of marriage" - would not be deemed to exist in the case of differences of treatment made for reasons of a lack of qualifications.

Enforcement of the proposed legislation would be the task, among others, of the 15-member Equal Opportunities Commission, to be appointed by the Home Secretary. The commission's main function would thus be to identify and eliminate discriminatory practices and to conduct investigations in this sector. It would be able to require information and to summon witnesses. Where an unlawful discriminatory practice is established, the commission would be empowered to issue nondiscriminatory notices. If breached, these would be enforceable through civil courts. Individuals would be able to approach the commission in certain cases or could, in matters pertaining to employment, take complaints to industrial tribunals. Before an employment case reaches a tribunal, however, it would be considered by officials from the new Conciliation and Arbitration Service; if no settlement is reached, the tribunal would be empowered to award compensation and recommend appropriate action. It would, however, be the sole right of the commission to take to the courts complaints in regard to discriminatory advertisements or pressure to discriminate unlawfully. (In one sense the commission would have more teeth than the Race Relations Board, inasmuch as it would have powers to investigate without having a prior complaint or suspicion that discrimination was being practiced, a power the RRB originally sought but has not yet been granted.)

Germany: Bonn Moves on Environmental Controls

Under Germany's Clean Air and Noise Abatement Act, which took effect five months ago (*Doing Business in Europe, Par. 30,708*), five new regulations and administrative directives have come into force, while six have been sent by the government to the Bundesrat, where approval is expected.

Among the measures important for industry are the Technical Directive on Clean Air (in force since Sept. 4 - *Doing Business in Europe, Par. 30,724*) and the Regulation Limiting Emissions from Household and Industrial Heating Units (effective Oct. 1). The technical directive contains instructions for the states' administrative agencies in regard to issuing licenses to new businesses and requiring existing businesses to reduce emissions. The regulation sets directly applicable standards for the engineering, installation, and operation of burners using solid and liquid fuels.

Environment *(contd.)*

Of the six proposed measures, two are of specific concern to industry. One draft regulation would substantially lower the presently permissible sulfur content in heating oil and diesel fuel. The second would essentially reinforce the principle of prevention by subjecting to licensing some 30 types of plants now exempt from the license requirement (for instance, breweries and candy factories).

Another proposed draft regulation, not yet sent to Parliament, sets forth industrial categories and activities for which appointment of environmental safety engineers would be mandatory (Section 53 of the Clean Air and Noise Abatement Act did not specify these categories and activities). A further proposal would set high standards for the qualification and screening of these engineers, who would also be the chief environmental enforcement officers in their plants.

Sweden: Reduced VAT Expires as Scheduled

The temporary value-added tax reductions, which had been in effect since April 1 as a means to stimulate Sweden's domestic demand, expired on Sept. 15 as originally planned. In the face of a possible economic slowdown this fall, many factions have been favoring an extension of the VAT reductions. But, even if it wanted to, the government could not unilaterally decide on such an extension before gaining the necessary parliamentary authorization. The new Riksdag session does not begin until mid-October.

The standard VAT rate thus reverts from 12 to 15%, and the reduced rate thus ends. The government did act, however, to prevent the prices of basic foodstuffs from rising along with the other prices by lowering correspondingly the price ceilings prevailing on meat and milk. Farmers affected will receive compensation, which will come on top of the 2.1 billion kronor in total agricultural price supports allocated for this year. The price stop on basic foodstuffs has been in force since December 1972 and reportedly covers about 40% of the food consumption in Swedish households.

EURO COMPANY SCENE

St. Martins

The U.K. stock market reacted with enthusiasm to the news that the Bank of England had given the appropriate exchange control consents for one of the most spectacular and most unexpected bids in many months, a £107-million cash offer by the Ministry of Finance and Oil of Kuwait for one of Britain's major property development and investment groups, St. Martins Property Corp. If the bid succeeds, it will be the largest single investment to date by Middle East oil interests in the U.K. property market, eclipsing the Abu

St. Martins *(contd.)*

Dhabi Investment Board's recent purchase of a £36-million stake in Commercial Union's headquarters in the City of London. The offer is conditional on 90% acceptance by St. Martins' shareholders and on its not being referred to the U.K.'s Monopolies and Mergers Commission. City financial observers hoped the move might be the first of further Middle East bids that could provide support for the teetering U.K. property market and, by extension, for the banking sector, which is heavily involved in real estate holdings.

The U.K. government appears not to be averse to the investment of long-term Arab funds in the domestic property market, and it is even conceivable that the Monopolies and Mergers Commission may overlook the bid in view of Britain's precarious balance of payments situation; on the other hand, many believe that the government's "rights of intervention" in the property sector might be jeopardized if Arab holdings were allowed to reach significant proportions. The bid has not as yet been accepted - although an earlier rival bid by Commercial Union of £86 million seems considerably less attractive to St. Martins' shareholders.

European Aircraft Consortium

Six major European aircraft manufacturers have signed an agreement that is expected to pave the way for a new generation of European airliners for the next two decades. The participants - Aérospatiale of France, Dornier and Messerschmitt-Bölkow-Blohm of Germany, the German-Dutch VFW-Fokker, and the U.K.'s British Aircraft Corp. and Hawker Siddeley - announced they are "planning a joint response to the future requirements of their national airlines," although they gave no indication of the types of projects contemplated. The cooperation may be extended to include other European aircraft manufacturers and airlines.

Dassault-Breguet

France's air force has placed an order for 40 Mirage F-1 M-53 fighter jets with Dassault-Breguet, the domestic aircraft manufacturer, in efforts to induce NATO partners Belgium, Denmark, the Netherlands, and Norway to follow suit, instead of opting for foreign models to replace their obsolescent F-104G Starfighter fleets. For several months Northrop and General Dynamics of the United States as well as Dassault-Breguet, Sweden's Saab-Scania, and BAC and Hawker Siddeley of the U.K. have been battling for the defense contracts, billed collectively as "the arms sale of the century" and worth a total of $3.5 billion for 350 aircraft. The choice now appears to have narrowed down to the Mirage, Northrop's Cobra YF-17 (which the Dutch favor), the Saab Viggen, and General Dynamics' YF-16. A decision is not anticipated before January, however.

Aeroamerica/ Modern Air

Aeroamerica, Inc., charter air carrier of Seattle, Wash., has taken over the name and licenses of the West Berlin-based charter line Modern Air from its U.S. parent General

Modern Air *(contd.)*

Acceptance Corp. By replacing Modern Air's old fleet of Coronado jets with more economical Boeings, Aeroamerica intends to completely refurbish the airline at the new, DM 400-million Berlin-Tegel airport. The conclusion of a major contract for summer 1975 with Berliner Flug-Ring, one of the city's leading tour operators, has given Modern Air new impetus and is expected to pave the way for additional bookings.

Singer Netherlands

The Singer Co., New York, reportedly is planning to close its office machinery plant at Nijmegen in the Netherlands unless a suitable buyer can be found. In order to safeguard the jobs of the factory's approximately 800 employees, the Dutch government has offered interim subsidies to keep the factory going until Nov. 1. Technological advances and rationalization measures at Singer are said to have made the Dutch operation increasingly unprofitable.

Volvo

In a drive to improve its liquidity, Volvo of Sweden has obtained central bank permission to offer 500,000 domestically owned shares - 8.333% of the total - to foreign buyers. This is reportedly the first time since 1945 that Swedish stock is being made available to foreign purchasers on the open market.

[illegible]ntsply/ [illegible]I

U.S. denture producer Dentsply has made a £14-million takeover bid for the U.K.'s A.D. International (ADI), the company that is best known for its development of the high-speed drill and of special bone cement. The bid is problematical in that British Oxygen has had a 17.6% share in ADI since last January and may be contemplating a counter bid. Such an offer would add considerable confusion, since a licensing agreement with Dentsply provides some 30% of ADI's after-tax profits. It stipulates, however, that if any company acquires a stake in the U.K. firm in excess of 20%, the agreement is automatically terminated.

IBM Germany

IBM Deutschland GmbH, subsidiary of the U.S. computer leader, has now confirmed the conclusion of a contract with the German city of Hannover to purchase a site there for construction of an EDP component assembly and testing plant. To be completed in its initial stage by 1976, the proposed new factory will employ about 1,000. Investment costs for the project have not been disclosed.

Cosmos Bank

Cosmos Bank of Switzerland, with a balance sheet total of SF 171.2 million, has temporarily halted operations and applied to a Zurich court for a moratorium until it can sort out and meet its obligations to various bank creditors. Capital exchange problems on the Euromarket involving mismatched maturities on short-, medium-, and long-term loans

Cosmos Bank *(contd.)*

(but not forward dealings) are said to have precipitated the crisis. Cosmos maintains two overseas subsidiaries, Cosmos American Corp. and Cosmos Bank Ltd., of the Bahamas.

AWB

Allgemeine Wirtschaftsbank AG (AWB) of Vienna, a small private bank that was once the deposit bank for the IOS investment group in Austria, has been forced to close because of insufficient funds. The collapse reportedly did not result from foreign exchange speculation but from a steady drain on deposits following the Herstatt fiasco in Germany. AWB has a balance sheet total of just over 1 billion schillings. A government commission has been appointed to investigate the bank's finances prior to a final decision on whether or not to liquidate.

Merrill Lynch/ Paluel-Marmont

U.S. brokerage house Merrill Lynch and France's Paluel-Marmont investment group are reportedly in the process of forming a joint financial consulting firm in Paris, Paluel Marmont Edie. The French partners will hold 55% of the new company's capital, as yet undetermined, while Merrill Lynch's European subsidiary Lionel D. Edie will hold the remainder.

Hedderwick Grumbar Stirling

Hedderwick Borthwick Grumbar & Co., the U.K. stockbroking firm formed in May by a merger between Hedderwick Borthwick and Grumbar & Co., has announced plans to merge, with effect from Oct. 28, with yet another U.K. stockbroker, Stirling & Co. The new firm, to be known as Hedderwick Grumbar Stirling & Co., is not the product of a rescue operation by either partner since both companies are still trading profitably.

Capel Cure/ Norris Oakley

A day after the Hedderwick announcement, still another major stockbroking merger hit U.K. front pages when Capel Cure Carden (which recently absorbed Myers & Co. and Morell Johnston-Lamb of Edinburgh) revealed plans to link up with Norris Oakley Richardson & Glover. Capel Cure spokesmen described the link as being part of current plans for expansion and rationalization.

Weidenfeld/ Encyclopedia Britannica

The chairman of the U.K.'s Weidenfeld group of publishing companies (best remembered perhaps for the Vladimir Nabokov bestseller "Lolita"), has bought back, for an undisclosed sum, the 39% of Weidenfeld equity purchased by Chicago's Encyclopedia Britannica group in 1969. Sir George Weidenfeld thus acquires upward of 90% of the group's equity. Weidenfeld has been going through a profitable phase recently and has obviously accumulated sufficient cash to make possible a "restoration" of the company. The U.S. group, on the other hand, is said to be pulling up stakes in certain general publishing ventures in order to concentrate on promotion of the 15th Britannica (Encyclopedia Three), which came on the market in early 1974.

Common Market Reports

EUROMARKET NEWS

Issue No. 297 Report No. 248, September 25, 1974

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...unity: ...m, Energy Topics to Head Council Agenda

Agriculture, energy, and the renegotiation of U.K. membership terms (should Labour win the Oct. 10 elections) are certain to dominate the agenda of the European Council of Ministers in the coming months regardless of whether the planned EC summit toward the end of the year produces new, ambitious aspirations or merely confirms earlier intentions. It is anyone's guess as to the extent to which the remnants of the Common Agricultural Policy will be sacrificed to national farm policies, as demonstrated by the French and Belgians and proposed by the Dutch. Nor does there seem to be an easy way out of the impasse in the energy policy after the Council last July had failed to agree on a Commission-proposed resolution that could have heralded a truly "common" energy policy (Britain objected on the grounds that details had not been fully examined).

This bleak picture, though, does not spell a stop to the groundwork on several proposed measures. Council officials do expect further progress in harmonizing national drug legislation, with the breakthrough originally hoped for prior to the summer recess now expected to materialize in late fall or early winter. Discussion on the Commission's merger control proposal also will continue, although observers predict that the final results will fall considerably short of the objectives set out in the draft proposal (*Common Market Reports, Par. 9586*).

This issue is in two parts, consisting of 40 pages. This is Part I.

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Council Agenda *(contd.)*

No major development is foreseen for any of the five proposed company law coordination directives, but the Commission plans to send its revised European company draft statute to the Council at the end of the year after incorporating the recommendations made by the Economic and Social Committee and the European Parliament.

Work will also continue on the three environmental proposals: water purification requirements, and reduction of lead content in gasoline and of sulfur in heating oil. In a related area, the negotiations on noise abatement are proceeding in conjunction with the United Nations' Economic Commission for Europe, in Geneva. The main issue here is whether future noise abatement standards should also apply to aircraft.

Finally, as a direct result of the *Reyners* ruling (*Common Market Reports, Par. 9675*), the Commission shortly will present a memo offering a first assessment of the European Court of Justice judgment in that case. However, it is not planned to submit new or heavily revised proposals on the right of establishment by members of the liberal professions until after a Council discussion of this subject.

Commission Drops Plan for Equal Pay Suit against Dutch

The Commission has reportedly dropped its plan to take the Netherlands to the European Court of Justice for failure to live up to the principle of equal pay for equal work. All of the original six member states have been very slow in implementing this principle, set forth in Treaty Article 119 (*Common Market Reports, Pars. 3942 and 9599*), but the Dutch government was considered the worst offender, followed by that of Luxembourg. The Commission gave up the idea of bringing suit when both governments affirmed that legislation has been or is about to be proposed.

This development was greeted with some relief, because there had been considerable discussion among legal experts about the basis for Commission action: many felt that Article 119 is not specific enough to support the suit, construing it as a mere instruction to the governments to harmonize their laws - and these have interpreted it that way.

In the meantime, a directive has been drafted that would be quite specific in terms of forcing the member states to pass equal pay laws. The Commission would even insist that those states that already have equal pay legislation (or may have it by the time the directive deadline expires) would once again have to pass an equal pay law conforming to the directive in substance if not in word. This would mean that even Denmark, with the best record in this field not only among the three newcomers but among all nine EC members, would have to enact new legislation.

France: Reform Plans for Social Security System

The French government, at a cabinet meeting on Sept. 11 in Lyons, proposed to extend existing social security and health care systems so that all insured persons - regardless of their membership in regional or occupational funds - would be assured of the same minimum benefits. These reform plans are to be instituted step by step up to Jan. 1, 1978, and would concentrate mainly on the state health care system to also cover the nearly 2% of the French (about one million) so far excluded from protection.

Labor union spokesmen immediately opposed the government's proposal that the wage earners' funds, which generally operate in the black, should make up the deficits incurred by other funds. According to administration plans, this additional burden would be offset by revenues resulting from an increase in the state alcohol tax, which reportedly is to go up from 14 to 17%. Altogether, the costs of the reform have been estimated at FF 2 billion initially and 4 billion eventually. The employer associations are equally hesitant about endorsing the reform plans because they are not convinced that the extra alcohol tax revenues would guarantee the financing of the system over the long run.

Luxembourg: Draft Budget; [illegible]cal Relief [illegible]sures

The 1975 Draft Budget recently submitted to the Luxembourg Parliament by Finance Minister Raymond Vouel projects a 24.4% increase in expenditures over this year's current Budget. Of the total budgetary outlays of LF 25.3 billion, the Ordinary Budget is to account for 21.8 billion, which would be a 19.5% rise over this year's. The massive boost in expenditure was explained with the impact of inflation, which alone accounts for 11.1% in the Finance Ministry's projections and which was only partially reflected in the current-year Budget.

Revenues, especially from substantial increases in income and corporation tax, are expected to go up by 27% to a total LF 25.7 billion. No further tax increases are foreseen; in fact, the administration is planning certain fiscal relief measures such as the refund of value-added tax paid as part of the construction or purchase of a taxpayer's first home, reduction of VAT rates for certain basic consumer products, and the increase of the tax-free exemption on incomes to LF 120,000. In the social sector, pensioners in the lowest brackets are to benefit from an inflation bonus, basic survivor's benefits are to be raised, and social housing is to be stimulated via interest subsidies.

Liechtenstein: Proposal for Higher Tax on Holdings

The Conservative coalition government of Liechtenstein has proposed to the Landtag (parliament) an amendment to the tax law that would raise from SF 600 to 1,000 the annual minimum tax levied on holdings and "mailbox" companies registered in

Holdings Tax *(contd.)*

the tiny principality. Although this would represent a massive increase of 67%, it is not expected that the action will influence the number of such holdings, reportedly over 20,000.

AROUND THE MARKETPLACE

IRS Ruling: Limited Impact on Euromarket Borrowings?

The U.S. Internal Revenue Service decision to revoke four revenue rulings in regard to certain interest equalization tax and federal income tax consequences arising from the issuance of debt obligations by foreign financing subsidiaries of domestic corporations prompted an immediate reaction in Europe: most commentators were pessimistic as to the effect of the decision on new Eurodollar borrowings by these subsidiaries. Once the dust had settled, however, this anxiety appeared to be exaggerated. It is now thought that the revocation of the longstanding exemption from the withholding tax granted to foreign investors will have only limited impact, at least for the time being, especially since U.S. corporate borrowings via foreign subsidiaries have been relatively small in the past few months.

Nevertheless, the fact that a U.S. corporate subsidiary abroad attempting to borrow money in that foreign market will now be required to deduct - in the absence of a reciprocal tax agreement with the United States - no less than 30% from the return paid to a foreign investor should not be without influence on the Eurodollar market. (Countries with reciprocal arrangements make smaller withholdings, e.g., 15% on dividends in the U.K., Germany, and Switzerland, zero on interest in the first two and 5% on interest in Switzerland.) The impact on the Eurodollar market of the abolition of interest equalization tax and other capital controls has, as the IRS has pointed out, also made it possible for U.S. corporations to raise funds previously sought overseas on domestic capital markets: this in itself would suggest a drop in Eurodollar activity.

According to the IRS technical information release (No. 1306, Aug. 27, 1974) the effective date of revocation of the revenue rulings (Rev. Rul. 69-377, 69-501, 70-645, and 73-110) is June 30, 1974, the expiration date of the interest equalization tax. The new ruling (74-464) is designed to "reconsider" the above rulings in the light of expiration of IET. It has been assumed by most experts, however, that the 5:1 debt-to-equity ratio postulated in 69-377 and accepted in 69-501 ("foreign subsidiary") will still apply. This would suggest that major U.S. corporations with substantial foreign income will continue to borrow on the Eurodollar market: in other words, although the IRS announcement will have an effect, the worst fears voiced immediately after the decision may not be well-founded.

Germany's Export Boom - Two Sides of a Coin

Government officials in Bonn have noted with relief the latest foreign trade figures, which show a further decline in the country's still-enormous surplus. According to preliminary data, the August surplus amounted "only" to less than DM 2 billion, as compared to 2.3 billion in July and 2.5 billion in June. A continuation of this trend would reconfirm Bonn's intention to avoid export controls, whatever their form, at least so long as domestic demand maintains its sluggish pace.

For the first half of 1974, Germany's trade surplus once again ran ahead of all previous records, at DM 25 billion nearly doubling the 12.8-billion overhang recorded for the same period last year. (The balance-of-payments surplus at the same time rose from DM 5 to 13.4 billion.) This kind of performance almost ridicules the fundamental economic law that any revaluation tends to slow exports to a corresponding degree: actually, the German export boom has accelerated despite the fact that three revaluations since 1969 have boosted the D-mark's value by 26%, causing the price of German products on the world markets to rise by a comparable rate. This apparent paradox might be explained by a "pay now, take delivery later" strategy on the part of Germany's foreign customers, who in this way hope to sidestep the effects of still greater inflation.

The phenomenal export success is, of course, of constant concern to Germany's major trade partners, who stand by to renew their pressure on Bonn should the surplus return to its earlier levels. Particularly those with high trade deficits of their own would like to see the Schmidt administration come up with yet another revaluation or impose export taxes - suggestions that Bonn so far has shrugged off on the advice of its own experts and that of neutral organizations like the OECD.

Besides, there is general agreement among the experts that this boom is not likely to go on forever. Currently, Germany exports some 25% of its production as compared to 16% in 1960, and this still ensures GNP expansion by a real 2% this year. For 1975, however, the forecasts are for an overall economic recession, which would automatically reduce exports if the government were not to intervene. Exports already are spelling the difference between slow growth and recession: the slump now gripping the construction, automobile, and textile sectors would have spread to the other major industries some time ago if it were not for their solid export situation. Thus, the German machinery producers export no less than 57% of their output, followed by electronics (50%), and chemicals (44%).

The DM 900-million aid program to depressed industries and regions announced by the government earlier this month is designed to offer selective help, but it will not solve

Export Boom *(contd.)*

the real problem. If inflation is to be kept below 7% without major unemployment, then domestic demand must be stimulated so as to utilize industrial capacity idled by the expected drop in exports.

EURO COMPANY SCENE

Ferranti

Ferranti Ltd., the family-owned U.K. defense and electronics company, has been informed by its principal bankers, National Westminster, that its present £18-million overdraft will not be continued without further security. Should no rescue plan be devised for the company, which ranks as a leading European military contractor, the bank may put Ferranti into receivership - an echo of the Rolls-Royce situation back in 1971.

The crisis is of major concern to the British government, particularly because of Ferranti's many links with foreign companies such as AEG-Telefunken, Dassault, Aeritalia, and Engins Matra. Thus, pressure is on the government to devise some solution, perhaps in the form of a) outright nationalization, b) extensive public aid with commensurate participation in the company's affairs, or c) promoting a merger with one of the U.K.'s other major defense contractors, presumably GEC or Plessey. (The latter already is considering an offer for Ferranti's semiconductor interests.) In the interim, and following a recommendation of the Industrial Development Advisory Board, the government will provide a measure of "temporary" financial support: some £5 million have been earmarked as a guarantee to NatWest to allow Ferranti to continue tentative operations. On the basis of similar interventions with other firms earlier this year, it can be assumed that the government will acquire a stake in the company, introduce outside management expertise (the lack of which reportedly caused Ferranti's collapse) and give an option on the purchase of a stake to the company that comes in "to help out."

Volvo/ DAF

Sweden's Volvo AB will be taking over Van Doorne's Personenautofabriek DAF BV of the Netherlands as of Jan. 1, 1975, when it acquires, for an agreed price of 43.5 million guilders, a stake of 42% in addition to its present 33% holding. The remaining shares will be retained by DAF's parent company and the state's NV Nederlandse Staatsmijnen (DSM). The Swedish auto maker reportedly plans to inject some 5 billion kronor into an expanded five-year program for its Dutch subsidiary, with 2 million kronor allocated for projects outside Sweden and 3 million for domestic investment. Within this time span Volvo plans to create 14,000 new jobs, half of them in Sweden. The DAF takeover is said to have the backing of the Dutch government, DAF employees, and the country's labor unions.

Titan-Coder

With the refusal of France's state-owned Régie Renault to attempt a rescue of Sté. de Construction de Remorques Titan-Coder SA, the financially troubled trailer producer, at this time, the Paris Commerce Tribunal has ordered the company's liquidation. Renault indicated it would need several months to study Titan-Coder's books and work out a reorganization plan before agreeing to a takeover. However, most observers seem to think the main reason for the automotive group's reluctance is the dim market outlook. The unions are expected to react sharply to the closure, since some 2,700 workers will be affected.

BP Germany

The changing situation on the petroleum and oil products market has led Germany's Federal Cartel Office to drop all remaining charges against British Petroleum's German offshoot for alleged abuse of a dominant position regarding pricing. The Cartel Office has ended its investigation of the other oil majors in Germany as well.

Reynolds Germany

The Hamburg Superior Administrative Court has now granted Reynolds Aluminium Hamburg GmbH a stay of an earlier court ruling ordering it to cease production. Permission to continue operating at two-thirds capacity was given pending a final decision on Reynolds' appeal of the closure injunction, now expected some time next month. Settlement of the entire case, which involves the pollution issue, reportedly could take years, however.

Philips/ Thorn

The U.K.'s only two manufacturers of black-and-white television tubes will close down their production around the end of this year. Philips Industries and Thorn Industries announced within a day of each other that, due to the dramatic slump in demand for black-and-white sets, it would be totally uneconomic to continue. Only 700,000 sets are expected to be sold in Britain in 1974, compared with 991,000 in 1973 and over 1.5 million in 1971 and '72. The industry's organized labor has expressed shock at the prospect of mass layoffs and indicated that it would press for a Dept. of Industry inquiry.

Danlon-Hin/ Jansen de Wit

The takeover of Danlon-Hin NV by its former competitor Jansen de Wit NV is now set to complete the merger of Holland's two leading hosiery manufacturers. The fusion involves state subsidies reportedly amounting to 18 million guilders for the reorganization of Danlon-Hin, the shutdown of two Danlon-Hin branch plants, and the dismissal of a total of about 300 employees from both companies to reduce the combined work force to 2,500.

Liquiditäts-bank

Germany's Bundesbank has announced formation of Liquiditäts-Konsortialbank AG, a special "crisis bank" that will offer emergency funds to essentially healthy banks facing sudden

Liquiditätsbank *(contd.)*

solvency problems. The new facility has a basic capital of DM 250 million, plus another DM 750 million to be provided by the shareholders in proportion to their stakes. Founding partners are the central bank (30%), the private commercial banks (30%), the savings associations (26.5%), the cooperative banks (11%), the labor union-controlled Bank für Gemeinwirtschaft (1.5%), and a trust fund of the consumer credit banks (1%). The establishment of the Liquidity Bank is regarded largely as a measure to restore public confidence, which has waned considerably since the Herstatt failure and the collapse of three other German banks over the summer months.

Banca Privata Italiana

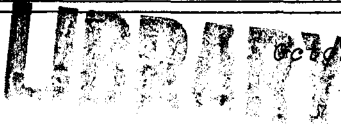
The Bank of Italy has formed a rescue consortium composed of the state-owned (via IRI) Banca Commerciale (20%), Banco di Roma (40%), and Credito Italiano (20%), and the national industrial holding Istituto Mobiliare Italiano (20%) to guarantee the deposits and obligations of Banca Privata Italiana SpA of Milan, the bank formed last month through the merger of two of Michele Sindona's banks, and has declared its readiness to cover the bank's losses. According to Italian press reports, preparations are under way for the bank's compulsory liquidation. Banca Privata is now controlled by Banco di Roma, which gained a 51% holding as well as 230 million shares of Sindona's Generale Immobiliare as collateral for a $100-million credit. The bank has deposits totaling some 1,000 billion lire, while its losses from foreign exchange transactions have been estimated at 200-300 billion lire. The Bank of Italy has concurrently launched an official investigation - one of several now in progress - into financier Sindona's activities.

Sud Ameris/ Banca Della Svizzera/ Lehman Bros.

Banque Française et Italienne pour l'Amérique du Sud (Sud Ameris) of France and Switzerland's Banca Della Svizzera-Italiana reportedly will invest a total of $7 million in the securities of Lehman Holding Co., holding for Lehman Bros., the New York investment bankers. According to Lehman Bros., each European bank will gain $2.25 million of 7% nonvoting preferred stock, $1 million of common shares, and $250,000 of 8% debentures, giving them a combined interest of about 7.5% in the holding's common stock. The U.S. group, which will continue to be privately managed by its current owner-partners, is hoping to extend its activities to key areas - such as Latin America - covered by its new European associates.

Common Market Reports

EUROMARKET NEWS



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Community: Establishing Trade Policy with the East

Following the Council of Ministers' decision on Sept. 17 to move forward on trade with Eastern Europe, the European Commission's trade experts immediately started to define the basic principles of EC commercial policy applying to this sector. The Council mandate did not find the Commission entirely unprepared, yet it is unlikely that the experts will be able to complete their job by Nov. 1, when the Council is scheduled to start internal discussions on EC-COMECON trade policy. But speedy progress is dictated anyway by the additional fact that, as of 1975, the Community holds exclusive powers to negotiate East bloc trade agreements on behalf of its nine members.

Any Community initiative depends, of course, on the degree of independence or discretion the individual socialist states may demonstrate within their alliance with the Soviets and as COMECON members (*Common Market Reports, Par. 111.06*). Except for Rumania, none of these countries has so far responded to the Community's offer to negotiate individual agreements, although the COMECON secretariat last month invited Commission president François-Xavier Ortoli to come to Moscow for direct contacts.

To remain flexible, the Commission intends to present the Council with two alternate outlines for its November meeting: a) offers for trade negotiations and b) proposals for the harmonization of national import rules, particularly quota systems, in case the offers are not accepted by the individual socialist governments.

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Eastern Trade *(contd.)*

In any case, it seems impossible to expect any progress in trade policies harmonization by the end of this year, although alignment for the most part could be brought about by government decrees rather than time-consuming parliamentary action.

Under the overall aspect of favoring more trade with the East, the proposed trade offers would not go into too much detail but would list only the main product categories the Community is particularly interested in as well as the "sensitive products" classifications that should remain subject to restrictions. The Commission would, as it has in the past, suggest incorporation of clauses in any trade agreement to protect Community interests in the event of "economic upheavals." A strong case would be made for the establishment of "mixed commissions," made up of officials from the EC and the respective East bloc government. Past experience within the framework of EC-EFTA state trade agreements indicates that such commissions are valuable in settling ad hoc disputes.

France: Draft Budget; Surtax on Profit Margins

The French cabinet on Sept. 18 approved the 1975 Budget, which is keyed to combating inflation while safeguarding employment and economic growth. The rise in government spending is to be held to 13.8%, i.e., below the projected 14.3% expansion of the nominal Gross National Product. With public expenditure thus to be kept to FF 258.862 billion, certain sectors still will benefit from above-average increases: public transport, 39%; postal services, 26%; telecommunications, 24%; and public health services, 20%. No major income tax changes are planned for the Budget's revenue portion, which is based on a total income of FF 259.407 billion. The budgetary gross surplus of FF 545 million actually is reduced by FF 225 million for "operations of temporary character," so that the net surplus would amount to only FF 320 million.

As far as business is concerned, the most important part of Finance Minister Jean-Pierre Fourcade's budget message was the proposal of a progressive surtax on corporate profit margins that should affect up to 30,000 of the largest French companies. The new levy is designed to check industrial prices without endangering exports, capital investment, and employment.

For the purpose of the surtax, the profit margin would be defined as the "added value" generated by a company, i.e., the span between costs and turnover. Any increase in taxable added value up to 14.3% (the projected rise of GNP) would be exempt from the levy. After that, profit margins would be liable to progressive surtax rates ranging from 25 to 75%, with the tax being partially or fully deductible in certain brackets. For instance, profit margin increases of

Profit Surtax *(contd.)*

10-20% above the 14.3% exemption would be taxed at a 50% rate, half of which would be deductible from the 1976 corporate tax debt.

The surtax would affect companies with annual turnover in excess of FF 8 million and with more than 50 employees or any company with annual sales of more than FF 24 million. It would not be levied on exports, and the government would allow for reduced rates to benefit companies that increase their work force, the number of work hours, or capital investments. Quickly labeled "Serisette," after Jean Serisé, a top government advisor who reportedly originated it, the surtax would take effect with the beginning of the new year and remain in force until the monthly increase in the consumer price index does not move beyond 0.5% for three consecutive months.

Netherlands: The Hague Details Aims for 1975

The fight against inflation and unemployment as well as efforts toward "greater social justice" and a better quality of life will again set the priorities for the Dutch government next year. The administration spelled out its policy in the Queen's Speech that traditionally marks the opening of the new parliamentary session in Holland. Among the more significant budgetary measures will be a slight reduction of the average fiscal burden - at least for incomes up to 50,000 guilders - and a slower rise in social contributions. However, public spending still is to expand by 23% to 62.8 billion guilders, and the government has purposely allowed for a budgeted deficit of 4.6 billion guilders in anticipation of additional revenues from natural gas deliveries and of a 4 billion-guilder payments surplus this year. Much of the higher expenditure provided for in the "stimulative and expansive" Budget will go into education and welfare, urban renewal, subsidized housing, public transport, and development aid abroad. Some 750 million guilders has been set aside for unemployment relief, and a program has been announced to provide 45,000 new jobs eventually.

In its drive for more stability, Prime Minister Joop den Uyl's administration will continue to lean heavily on price controls in attempts to hold the 1975 average price rise to 8.5%. This "harsh price regime" has again incurred strong protests by industry spokesmen, particularly on behalf of the export sector, which is being prevented from passing on cost increases. The government made one concession, however, to small business and the farmers by agreeing to exempt assets valued at up to 50,000 guilders from net worth tax in the future. The Hague also announced its determination to get labor unions and employers to agree on a contract limiting 1975 wage increases to 13%.

Aims for 1975 *(contd.)*

Meanwhile, the Economics Ministry was reported to have completed drafting the implementing rules of the Law on Selective Investment Regulations, which will subject new commercial and industrial investments in the congested western areas of the country to a stringent permit system. Although not officially publicized, the draft rules have been condemned by the VNO industry association as being too vague on permit criteria and not conducive to an improved investment climate in Holland, which would be the only way to overcome the unemployment problem.

Denmark: Government Safe on Passage of Tax Reform

The ability of Denmark's Liberal coalition government to survive a string of "no confidence" motions and to steer a compromise tax reform bill through Parliament has precluded the need for new elections and restored a measure of calm to the domestic political scene. However, the minority administration of Prime Minister Poul Hartling - which rests on merely 22 out of 179 seats in the Folketing - was saved only by the fact that the major opposition parties, notably the Social Democrats and the anti-tax Progress Party, were plagued by dissension in their own ranks.

The fiscal reform legislation provides for income tax reductions totaling 7 billion kroner next year, which translates to individual cuts of between 10 and 17%, depending on annual income. The reform is to be financed by slashing government spending in fiscal 1975 (April 1) by nearly 10%. Originally, the administration had planned to reduce the income tax burden by as much as 10 billion kroner and to offset this by curtailing public expenditure as well as by raising the value-added tax rate from 15 to 20%. The latter proposal had to be dropped, however, as the government bargained with the other parties.

The Hartling administration regards the tax reform as only one part of a long-term program to straighten out the domestic economy, which currently is afflicted by a 16% inflation rate, unemployment in excess of 4%, and a foreign trade deficit of 9.7 billion kroner for the first seven months of 1974. Additional measures are now expected in the credit sector, where the central bank already raised ceilings on credit volume in August, following up this month by relaxing controls on loans raised abroad. But the government also places some faith in the upcoming collective bargaining talks, hoping that the unions will tone down their demands now that lower incomes will be benefiting from the tax reductions. Labor spokesmen, however, were quick to downgrade these benefits and warned of serious conflicts ahead.

Britain: Inflation - No. 1 Campaign Theme

The U.K.'s major political parties are in the midst of their campaigns prior to the general election on Oct. 10, and early national opinion polls suggested a convincing lead of some 14.5% for the Labour Party over the Conservatives. From the start, inflation emerged as the campaign's central theme. While conceding that inflation is Britain's "public enemy No. 1" (as it is elsewhere), Labour nonetheless attacked claims made by both the Conservative and Liberal parties regarding the present rate of inflation as being not merely erroneous but "unpatriotic lies." The Conservatives and Liberals contend that the present rate is running at over 20%. Labour admits to only an 8.4% rate in the three months to August and 14.7% in the three months to July - a divergence some commentators believe to be due to politically motivated "adjustment" of the available statistics.

A second and directly related campaign issue is the "social contract" that the outgoing Labour administration claimed to have negotiated with Britain's labor unions. A key feature of the contract is the unions' agreement not to press for more than one major pay increase within a 12-month period. However, union action at the Ford Motor Co.'s U.K. plants calling for an immediate basic rate increase, a simplified pay structure, and improved shift pay has persuaded the company to reopen pay negotiations for its 50,000 blue-collar workers. This has led to allegations by the Conservatives and Liberals that the contract - a vital factor in the Labour platform - has been breached. Although incumbent Employment Secretary Michael Foot has tried to give reassurances that the demands are within the terms of the social contract, the complexity of the case and, above all, the timing can hardly be to Labour's advantage. Any further claims of this kind would indicate that the contract is unenforceable and even meaningless.

One piece of encouragement for U.K. business came in the remarks by Labour's Chancellor of the Exchequer, Denis Healey, in regard to price controls under the Price Code. Healey implied - or it was inferred - that a review of the Code would be required in areas "where control was bearing too heavily on industry." Whether this is Labour's genuine intention or simply electioneering remains to be seen.

Germany: Business Gets a Taste of Unions' Power

Even before the Oct. 16 start of the parliamentary hearings on the German government's controversial co-determination bill, the corporate cause in the issue has already suffered a setback: some 20 managing board members of major corporations have declined to testify before the Bundestag's Labor Committee on grounds that this might jeopardize their careers. The reluctant witnesses were afraid that their names would be added to the labor unions' blacklists of

Union Power
(contd.)

executives who will not be able to count on the union support they might need to retain their jobs should the law be enacted.

This development aptly illustrates the impact of the bill, which would give labor even more power in the management of companies with more than 2,000 employees than it already holds on the basis of existing co-determination legislation. Section 24 of the bill, according labor the right to equal representation on supervisory boards, provides that election of the supervisory board chairman requires a two-thirds' majority. In other words, shareholder backing alone would not suffice; in order to become chairman of a 20-member board, a candidate would need the support of at least four labor representatives (*Doing Business in Europe, Par. 30,700*). Also, it is frequent corporate practice to elect a supervisory board chairman from the ranks of the managing board; usually this job goes to the managing board's former chairman, since the company wants to retain his expertise. Thus, a top executive testifying in Bonn in opposition to the proposed co-determination law might spoil his chances of being elected to the supervisory board because the labor representatives could withhold their support.

Union leaders do not deny the existence of the blacklists, despite the fact that these tend to reflect unfavorably on labor's use of power. A recent poll conducted by the independent Allensbach Institute has revealed that the German public is becoming increasingly apprehensive about the growing influence of the unions: 44% of those polled believe that they are far too influential; in February 1973 only 26% were of this opinion. The view that the unions are out for more power in Germany's political and economic life is held by 65% of the public.

As for the hearings in Bonn, the views of the German business community are now to be presented by the National Industry Association and members of middle management.

EURO COMPANY SCENE

McDonnell
Douglas/
Krauss-Maffei

McDonnell Douglas Corp. of St. Louis, Mo., has announced its conclusion of a preliminary agreement with Germany's Krauss-Maffei AG for the acquisition of exclusive U.S. rights to an advanced urban transportation system being developed by the German company. A prototype of the "transurban system," which consists of small, automatically controlled vehicles suspended and operated electromagnetically, is to be built and tested in Toronto, Canada. The two companies will cooperate in the further development of this system for North America.

MDATS Germany

In other news, McDonnell Douglas is forming a wholly-owned German subsidiary, McDonnell Douglas Astronautics Technical Services GmbH (MDATS), in Bremen. The new offshoot will provide technical and management support to EC companies involved in the European Spacelab program - particularly VFW-Fokker/ERNO, also based in Bremen.

St.-Gobain/ Certain-Teed

France's Saint-Gobain-Pont-à-Mousson reportedly is planning to increase its 32% holding in Certain-Teed Products Corp. (CTP) of the United States to 43.44% at a cost of some $24 million. In addition, CTP is arranging for a 20-year loan of $85 million from a group of U.S. insurance companies in order to finance its investment program.

Elizabeth Arden

In line with general rationalization measures, Elizabeth Arden, the New York-based cosmetics firm, has announced plans to end production in Zurich, Switzerland, by the end of January 1975. The company's present facilities there are to be converted into a storage and supply depot for the Swiss and Austrian markets.

Purolator/ Mahle

Purolator Inc., of Rahway, N.J., has terminated its German production by selling off its manufacturing offshoot Purolator Filter GmbH to a subsidiary of Germany's Mahle GmbH for a reported $7 million cash. A 10-year license agreement gives Mahle exclusive European rights for the production and sale of automotive and industrial filters using Purolator technology, however.

Esso Chemicals

The international chemical division of Exxon, New York, has announced two new European plant projects for completion by the end of 1976. According to the plans, Esso Chemie GmbH, the group's German subsidiary, will invest DM 400 million in the modernization and expansion of its olefin facilities at Cologne, increasing the annual steam-cracking capacity to 450,000 tons of ethylene from the present 120,000. In connection with this project, Esso Belgium is to build a production plant for low-density polyethylene, with a yearly output of 220,000 tons, at Meerhout-Vorst near Antwerp.

Aston Martin

Workers at U.K. automobile manufacturer Aston Martin have approved proposals to invest in the company and to waive a 5% pay boost originally slated for this month. In addition, they have agreed to a freeze of all wage levels for one year. In exchange for these concessions they will receive direct representation at board level. The joint authors of the plan were the local chapter of the Engineering Workers Union and Labour Party election candidate Robert Maxwell, the well-known publisher. The company has also lodged an application with the Dept. of Industry for state funds needed to finance stringent antipollution tests before the company can meet a £2-million order from the United States.

Citibank/ Trinkaus

First National City Bank, New York, has increased its holding in C.G. Trinkaus & Burkhardt, Germany's largest private bank, from the 15% it acquired in July 1973 for an estimated $25 million to a majority 51% for an undisclosed price. According to the banks, the takeover will preserve Trinkaus' character as a private bank while giving it the advantages of Citibank's worldwide banking network. The other main shareholder in Trinkaus, France's Suez banking group (20%), has indicated its approval of the move. Citibank and Trinkaus are also joint owners of KKB Kundenkreditbank Deutsche Haushaltsbank, a German consumer banking subsidiary.

Morgan Grenfell/ Suez

Leading U.K. merchant bank Morgan Grenfell, in which Morgan Guaranty Trust Co. of New York has an indirect stake of over 30%, and Cie. Financière de Suez, the major French financial group, have announced they will cooperate in the international banking sector and plan to exchange shareholdings some time in 1976. The banks will be represented on each other's boards, and a joint steering committee is to supervise the partnership. As a first team venture, the two propose to establish, in conjunction with the Development Bank of Singapore, a merchant bank in Singapore. They also intend to set up a merchant banking company in Hong Kong. The British government holds a 7% interest in Suez as a result of the Suez Canal project in the 19th century.

Commercial Union

The City was stunned on Sept. 24 by the announcement by Commercial Union Assurance Co. of a £62.4-million "rights" issue, one of the biggest ever made by a U.K. company. The insurance group timed the announcement to coincide with the withdrawal of its offer for the St. Martins property group in the face of the rival bid by the Kuwait Investment Office. CU's bid for St. Martins had represented an attempt to strengthen the capital base of the company. The rights issue, whereby one new share is offered to shareholders for each two held, is merely another means of securing extra funds in case the U.K.'s general financial climate deteriorates further. With inflation thus apparently cutting deeply into insurance company solvency margins, shares of other leading insurers plummeted following the CU announcement. The possibility of further such issues by other insurance groups is considerable.

Nordic Bank/ Europartners Securities

Nordic Bank Ltd., joint U.K. subsidiary of Sweden's Svenska Handelsbanken, Den Norske Credit Bank of Norway, and Finland's Kansallis-Osake-Pankki, is acquiring a stake of over 8% in the $5.6-million capital of Europartners Securities Corp., New York. The U.S. firm, an investment bank partnered by Banco di Roma, Commerzbank, and Crédit Lyonnais, is active in American and international stock dealings and securities issues as well as financial consulting and management.

Common Market Reports

EUROMARKET NEWS

Issue No. 299 *Report No. 249, October 11, 1974*

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France: Price Controls; Credit Curbs; Oil Imports

A week after unveiling the surtax on corporate profit margins, the French cabinet announced further economic stability measures stiffening the "price contracts" between manufacturing industry and the government, clamping down on credit expansion, and limiting expenditure on oil imports. Many observers interpreted these actions as a response to criticism that the Giscard d'Estaing administration has not been moving decisively enough in its fight against inflation.

Price Controls: Here the government has proposed maximum limits on price increases for each industrial sector, to remain in force for one year through September 1975. Previously, manufacturers were essentially free to pass on rising raw material costs in their sales prices. The newly proposed restrictions apparently followed evidence that the upward trend of French industrial prices is continuing unabated (presently at an annual rate of 17%), while prices for imported commodities actually have declined somewhat. In calculating the ceilings of price increases for the individual sectors, the authorities will consider such factors as raw material and production costs and productivity. Companies have been admonished that they will have to observe the new rules closely or face the risk of severe penalties (in case of violations, they could be ordered to submit all their price lists for prior approval).

Credits: The Finance Ministry has informed the domestic banks that expansion of long-term credit volume in Oc-

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Controls *(contd.)*

tober and November must be kept within 13% and in December within 12% as compared to the same months in 1973. The 13% rate actually has been in effect for some time but falls far short of current credit demand as business and industry struggle to keep up with cost and price inflation. The credit limitations do not pertain to foreign loans raised by domestic companies, nor do they apply to credits used to finance production for export. Also, short-term lending by banks will be permitted to rise by 3% to 22% during the final quarter of the year.

Oil Imports: The National Assembly shortly will receive a government-sponsored bill seeking to limit to FF 51 billion the value of oil and oil products imported by France next year. The aim is to hold down the volume of oil imports to 10% below 1973 levels. Even at the reduced level, France expects to pay some FF 6 billion more in 1975 than the FF 45 billion projected for this year's imports. As concerns consumption of heavy fuel oils and naphthas, the government intends to enter into contracts with industry that provide for some rationing, preferably on a voluntary basis. No rationing of gasoline is presently considered, although it is planned to lower maximum speed limits. The administration also will reexamine the national coal mining program, with the object of expanding production by 46 million tons by 1983, as well as the rate structure now applying to gas and electric power.

Belgium: Auto, Cigarette Taxes; Appeals for Austerity

The Belgian ministerial council has now definitely decided on an increase in automobile taxes, to take effect in 1975, and has also decreed a 10% raise in cigarette taxes, which will bring up the retail price of a pack from BF 22 to 25. Furthermore, an order has gone out to turn off the lights installed on the country's freeways and highways in order to conserve electric energy.

These latest actions reflect official determination to seek new revenue and cut costs wherever possible in efforts to keep the economy running smoothly. Prime Minister Leo Tindemans went on television calling on all Belgians to help fight inflation and avoid excess consumption and spending. Tindemans' austerity appeal found a wide echo around the country, and among the first respondents was the national industry association, which urged its members to refrain from raising prices at this time and even to make sacrifices in lowering them so as to keep Belgium's vital exports competitive. The oil industry thereupon announced that it would not go through with the price increases for heating fuel that had been scheduled for Oct. 1; gasoline prices already had been reduced on Sept. 10. Other sectors indicated their readiness to enter into agreements on price calculation and price ceilings with the government.

Austerity *(contd.)*

The Belgian retail price index in August went up by 1.64 to 129.9 points (1971 = 100), which was 14.5% higher than a year earlier and represented an 11% average for the first eight months of this year. Still, economic performance by and large continued to be satisfactory, with both industrial production and exports at high levels and unemployment no major factor. Finance Minister Willy de Clercq welcomed the broad public acceptance of a BF 33-billion state bond issue (featuring a 10% coupon and a 7.5-year term) as a positive contribution to economic stability. De Clercq said that a portion of the proceeds would be neutralized, while another portion would be used to finance the budget deficit expected for this year.

Germany: First Draft of 'Fine Print' Legislation

The German government has drawn up a preliminary draft of legislation that would extend consumer protection by curbing businesses' freedom to impose sales conditions and draw up standardized contract forms. It is generally conceded, even by the critics of the "fine print" bill (*Referentenentwurf eines Gesetzes zur Regelung der Allgemeinen Geschäftsbedingungen und zur Änderung des Bürgerlichen Gesetzbuchs*), that the new legislation would make the buyer-seller relationship more equitable by setting forth the requirements for incorporating sales terms into contracts as well as by defining the permissible content of these terms.

A seller would be required to provide the buyer with a copy of the pertinent provisions presented in "understandable language," and the buyer would have to acknowledge them in writing. This written consent on the buyer's part would not be necessary where the seller refers to the conditions in his written contract offer and the buyer accepts them without reservation. Sales conditions would not become part of a contract if they are so unusual that, under the given circumstances, a buyer could not normally expect them. Ambiguous passages in the sales conditions would be interpreted to the detriment of the seller. Still, the law would make a concession to the freedom of contract by allowing the parties to negotiate terms different from those contained in the sales conditions or on standardized contract forms.

As far as content goes, sales conditions or standardized contract forms would be valid only if they reflected a "fair balance" of the parties' interests. Accordingly, a restriction of rights or an extension of obligations would be invalid if attainment of the contract's objective were jeopardized. The authors of the draft were quite specific and extensive about what could not enter the terms of sale - Section 8, which enumerates in 19 paragraphs the "may nots," takes up more than half of the entire draft.

'Fine Print' *(contd.)*

Some of the clauses that would be prohibited: a stipulation providing for a higher price for a product or service to be delivered or rendered four months after conclusion of the contract; a clause restricting or precluding the customer's statutory right to withhold payment under specific conditions; a buyer's promise to pay a fine; a clause to forego claims in case of faulty products. Paragraph 19 is of particular importance for sellers outside Germany, since it would invalidate any clause applying the rules of the seller's home country to a contract with a German buyer.

Some jurists have criticized Bonn's draft as being "unrealistic and impractical" because it ignores certain aspects of day-to-day business life; others have underscored the need for a new law in this area. The government maintains that the time is ripe for the legislation, not only because the courts lack the statutory means to invalidate abuses of Germany's 75-year-old Civil Code but also because most dissatisfied buyers, for whatever reason, never bother to seek a remedy.

Britain: Healey Favors Reflationary Budget Stance

U.K. Chancellor of the Exchequer Denis Healey seems to have made scarce impact on the International Monetary Fund's annual meeting in Washington with his insistence on reflation. Nevertheless, his remarks and general approach make it possible to predict some of the contents of the Budget he will present in mid-November - assuming, of course, that the Labour Party is returned to office. Above all, Healey faces the problem of giving Britain's economy a shot in the arm, with the twin aims of taking financial pressure off the country's employers and of forestalling any rise in unemployment. If anything, the latter goal is the more important, since a pronounced rise in unemployment incommensurate with seasonal trends would lead to political conflicts: the labor unions would regard this as symptomatic of a breakdown in the much-vaunted "social contract" with the government.

Healey already is committed to certain tax reform measures, notably the new capital transfer tax. It is probable that he will also consider some reduction in the corporation tax rate and, equally important for the country's employers, a revision of the payment provisions of advanced corporation tax. In this context, a further reduction in value-added tax would also have some reflationary effect.

Other measures that the chancellor must be contemplating at present include a relaxation of price controls to the effect that the obligation to deduct productivity gains before passing on cost increases might be lifted. Some reflationary effect in addition would be felt in the wake of increased government expenditure, particularly if

Reflection *(contd.)*

state funds were filtered through the U.K.'s banks and lending institutions specifically for the purpose of propping up crisis-ridden industries.

Luxembourg: Banks Agree to Liquidity Aid System

A solidarity program to safeguard the commercial banks active in Luxembourg's Euromarket against liquidity problems has been worked out in principle between the Grand Duchy's Banking Commission and representatives of the local banking community. Although technical details are still to be settled, the banks have agreed to set up in the near future and on a temporary basis a multilateral system of assistance. Under this system, each bank would open a line of credit to any other bank confronted by a cash squeeze, provided this did not result from speculative operations or mismanagement. Authorization to accept such credits most likely would have to be granted by the Luxembourg banking commissioner, Albert Dondelinger, who originally suggested that such systems be set up to maintain confidence in the Grand Duchy's Euromarket status in the wake of the collapse of Germany's Herstatt Bank and related events.

Over the longer term, the Luxembourg-based Eurobanks are to cooperate closely with the Finance Ministry and the Banking Commission, with the eventual goal of establishing a Luxembourg liquidity bank - "Comptoir de Re-escompte et de Garantie" - as a quasi-central bank that would function as lender of last resort. (Within the framework of the Belgian-Luxembourg monetary union, Luxembourg banks are associated with the Belgian National Bank.)

According to a communiqué released by Dondelinger following the provisional agreement for an assistance program, the parent banks of the banking subsidiaries and branches have renewed their pledge to guarantee all necessary assistance to their Luxembourg offshoots, ensuring their safe operations. Joint "fire fighting" missions would become necessary only when the parent banks themselves could no longer meet their own commitments and when national support actions were unlikely or impossible (as, for instance, in the case of multinational institutions).

AROUND THE MARKETPLACE

Britain's Stock Market: The Palmy Days Are Gone

In any current analysis of the U.K. stock market, the word "crisis" inevitably figures prominently. Virtually each trading day brings news that depresses the market further, down to levels that have been unknown in the past 20 years: National Westminster Bank's decision not to extend without additional security the £18-million overdraft of defense and electronics manufacturer Ferranti or Commercial Union's decision to float a £62.4-million "rights" issue, which im-

Stock Market *(contd.)*

mediately sent plummeting the shares of the country's other leading insurers.

Yet even on days when nothing spectacular occurs, those who are active in Britain's security markets are constantly aware that their business is being eroded. They also are being forced to recognize that the palmy days are gone when they could straddle the market and skim profits from the daily money flow. Nor have they been offered any great consolation from the Bank of England's recent warning that the generation of "internal funds" by industry may no longer be sufficient to sustain industrial investment: banks and other lending institutions, says the BoE, may have to clamp down on lending in coming months for "prudential considerations."

Contraction of activity and opportunity has led directly to closures, "hammerings" (i.e., recognition of default), and a spate of stockbroking mergers designed to "prune overheads." The Stock Exchange has lost some 60 members since the beginning of the current financial year in March. There are about 30 fewer brokerage firms and it has been estimated that the number of those earning their living on the stock market has dropped by 20% in the last two years. In each case of "rationalization," there have been layoffs, not only at the office staff level. The merger scheduled for October 28 involving Capel Cure Carden, Myers & Co., Norris Oakley Richardson & Glover, and Morell Johnston & Lamb will mean up to 100 layoffs and a number of "early retirements." Another major merger (Hedderwick Borthwick Grumbar and Stirling & Co.) will lead to a further 60 or so dismissals. A dozen other mergers have been noted in the last six months.

The root cause of the crisis lies, obviously, in falling share prices and falling trading volume, which are reflected in reduced commissions. In addition, however, many brokers have been hurt by their diversification into what are now costly ancillary activities: fund and unit trust management, tax planning, underwriting, arbitrage, etc. In this precarious situation, leading observers believe, it is evident that only the fittest companies will survive, the "fittest" in this case tending to mean the largest.

EURO COMPANY SCENE

MRCA

The German government has approved the release of a DM 1.2-billion appropriation for the final development stage of the British-Italian-German MRCA (multi-role combat aircraft) project. Up to now the three partner countries have invested the equivalent of DM 3 billion for design and assembly of the jet, which is to sell for about DM 25 million per unit.

Volvo

The board of directors of Sweden's Volvo AB has approved a proposal that the state's national pension fund acquire a 100-million-kronor stake in the company through a new issue of 585,000 shares. The government will thus become Volvo's largest single shareholder, with an interest of 4.47%.

Massey-Ferguson/ Hanomag

Strikes and the generally unstable economic situation in the U.K. have led Canada's Massey-Ferguson Ltd. (M-F) to announce that it will invest some DM 44-50 million in production of a new line of Perkins diesel engines at its recently acquired Hanomag construction machinery plant in Germany, rather than in England as originally planned. According to final contract terms with Rheinstahl AG (Thyssen group), M-F will pay about DM 120 million for Hanomag, which it is renaming Massey-Ferguson-Hanomag Inc. & Co. Despite the decision to manufacture the new Perkins line in Hannover, M-F spokesmen assured that the firm would not pull out of Britain but intended to proceed with capital outlays of some $45 million during 1974-75, primarily for its tractor production at Coventry.

Alcan/ ASV

The government of Norway reportedly plans to spend 345 million kroner to repurchase half the shares held by Canada's Alcan group in Ardal og Sundal Verk (ASV), the leading Norwegian aluminum producer. In 1966 Norway had sold Alcan a 50% holding in the state-owned company. Oslo will now have 75% of ASV capital, while Alcan will retain 25%.

VAW/ Kaiser/ Kapal

Germany's state-owned VAW Vereinigte Aluminium-Werke AG, the country's largest aluminum producer, is negotiating with Kaiser Aluminum & Chemical Corp. of Oakland, Calif., to replace Preussag AG as co-owner of Kaiser-Preussag Aluminium GmbH (Kapal). Set up as a 50:50 joint venture five years ago, Kapal has proven to be a steady drain on Preussag capital resources. A tie with VAW, however, could facilitate the major investment and expansion that are said to be needed to make Kapal profitable. The size of VAW's proposed participation and other details are not yet known, but any eventual agreement between VAW and Kaiser would require approval by the German Federal Cartel Office.

Dow Chemical

Dow Chemical and the government of Rumania are negotiating for a new joint chemical venture there. According to the U.S. company, preliminary discussions in Bucharest have led to an agreement for Dow Chemical to "develop a project subject to approval by both parties." No further details have been announced.

DSM

Holland's state-owned DSM - Nederlands Staatsmijnen NV is planning construction of a major new chemical complex for the production of polymers in the "development area" of Groningen province, at Eemshaven. To cost an estimated 1 billion guilders, the facilities - including a large naph-

DSM *(contd.)*

tha and gasoil cracking plant with an annual capacity of 450,000 tons - are to be completed by 1982. The move by DSM is expected to influence a decision by the Dutch Akzo chemicals group on proposals for setting up a new monovinyl chloride plant in the same vicinity.

Ciba-Geigy/ Fiberite

Ciba-Geigy Corp. of Ardsley, N.Y., subsidiary of Switzerland's Ciba-Geigy chemicals, reportedly has applied to the U.S. Dept. of Justice for permission to purchase 90% of the capital of Fiberite Corp., Winona, Minn., a synthetics processing firm. No figures have been given. This year Ciba-Geigy is said to have spent about $140 million for acquisitions in the United States, where its holdings include Funk Seeds, Airwick Industries, and Chas. F. Tanner Co.

Celanese/ Solvay

Celanese Corp., New York, has agreed to sell off its high-density polyethylene production division to Belgium's Solvay & Cie SA chemicals for a reported $80 million. The takeover includes Celanese's Houston, Texas, manufacturing facilities. Solvay is said to consider the investment a springboard to further U.S. ventures.

Ferro/ Ruhr-Pulverlack

Ferro BV, Dutch subsidiary of Ferro Corp., Cleveland, Ohio, has signed a cooperation agreement whereby it acquires an unspecified stake in Ruhr-Pulverlack GmbH of Germany, producer of paint powders and organic coatings. Ferro Corp. has held licenses from the Ruhr paint group since last ye

Finsider

Finsider, a subsidiary of Italy's state holding IRI, reportedly has concluded a $1.5-billion deal with Soviet authorities for an annual supply of 500,000 tons of large-diameter steel pipeline during the five-year period 1975-79. The deliveries will be made partially in exchange for raw materials such as coal and iron ore. The pipelines are to be used mainly for the transport of natural gas and oil.

Hanson/ United Artists

The U.S. subsidiary of the U.K.'s Hanson Trust, Hanson Holdings, Inc., has acquired for some £2 million cash a 21.5% stake in the equity of United Artists Theater Circuit, the American group specializing in commercial properties.

Investment & Property/ International Tax Report

Personal taxation problems of U.S. residents in Western Europe are to be studied on Nov. 14 at a Paris conference organized by the U.K.'s Investment & Property Studies Ltd. and sponsored by International Tax Report of the United States. To be held at the Hotel Méridien, the parley will feature speakers J.C. Goldsmith, Fred Lukoff, Charles G. Lubar, Maarten J. Ellis, and Dr. Jakob Strobl. Further details: IPS Ltd., 1/9 Hills Place, London W.1.

Common Market Reports

EUROMARKET NEWS

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Community: German Goods Denied EEC Origin Status

The Oct. 1 ruling of the European Court of Justice in Case No. 14/74 brought a significant clarification regarding EC trade in agricultural products from East Germany: these (as well as other) products may enter West Germany duty-free as a result of the Protocol on German Internal Trade and Connected Problems (*Common Market Reports, Par. 361*) but they do not acquire Community origin status and hence do not qualify for refunds upon exportation to third countries.

Norddeutsches Vieh- und Fleischkontor, a Hamburg firm, in 1969 had imported several shipments of pork from East Germany and exported them to Yugoslavia shortly thereafter. The firm applied to customs for an export refund as provided for in Article 15 of Council Regulation 121/67 (establishing a common market organization for pork meat - *Common Market Reports, Par. 451*). It received DM 16,000 for those shipments but was denied refunds for subsequent exports. (These refunds are granted to keep Community exporters competitive on the world markets, where price levels usually are lower.)

In the ensuing legal dispute the Hamburg tax court asked the Court of Justice for an interpretation of the Protocol and the common agricultural market organizations, and the relationship between them. The Court has now ruled that the Protocol merely exempts West Germany from applying EC law to intra-German trade, so that imports from East

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E. German Goods *(contd.)*

Germany are not considered third-country imports. They are not, however, considered to be of Community origin nor do they acquire this status after shipment to West Germany. In the Court's opinion, any other view - such as favoring extension of EEC price and market guarantees to products of East German origin - would exceed the scope of the Protocol.

This interpretation not only represents a financial setback for the Hamburg importer but also a legal defeat for the West German government: in the proceedings before the Court, Bonn had maintained that imports from East Germany acquire the status of West German origin and should at least benefit from the Community's market guarantees.

The *Fleischkontor* ruling would concur with the concept behind a recent Commission-proposed regulation that would accord East Germany full third-country status as far as the other eight member states are concerned. The proposal, now before the Council and aimed at repealing a 1966 Council decision withholding that status from East Germany, would make it mandatory for all member states, except West Germany, to impose the same levies on agricultural imports from East Germany that currently apply to all third-country imports.

Bank Agreements under Scrutiny by Commission

European Commission officials and banking executives from the nine member states will soon meet in Brussels to explain their opposing positions on EC antitrust ramifications of international cooperation agreements of European banks. Agreements of this type have multiplied in recent years, and Commission lawyers are now examining their compatibility with Treaty Article 85 (*Common Market Reports, Pars. 2005 and 2021*). The cooperation pacts frequently contain clauses that require each party to consult first with the other parties if it wishes to expand its foreign or national banking operations. Commission officials see here an element of restricting competition because such clauses serve to strengthen national market protection for the individual parties. This view is not shared by counsel for the banks involved.

A second issue needing clarification concerns notification: so far, the Commission has not been apprised of any of these agreements, and its experts contend that without notification the agreements are void and could lead to prosecution of the parties. On the other hand, notification could also open the way to an amiable solution of differences. (*Common Market Reports, Pars. 2431 and 2442.*)

Britain: Slim Majority for Wilson, Labour Party

At first glance, the results of the U.K.'s general election appeared to back up those observers who earlier had dismissed the Oct. 10 vote as a "non-event": the Labour Party acquired the thinnest of majorities in the House of Commons - three seats - which will be pruned to one seat when the party has appointed two of the three House chairmen. The 635 seats in the Commons are allocated as follows: Labour, 319 (39.3% of the total vote); Conservatives, 276 (35.9%); Liberals, 13 (18.3%); Scottish Nationalists, 11 (2.8%); Plaid Cymru (Welsh Nationalists), 3 (0.6%); and Ulster Unionists and others, 13 (3%).

However, despite the fact that Labour had garnered less than 40% of the vote, the outcome still amounted to a significant victory for Harold Wilson and his Party: Labour no longer is in the precarious position of being a minority government, a role it had filled for the past seven months. Wilson insisted that he can govern with his slim majority "for at least two to three years," stressing that there is no immediately apparent common denominator between the various "opposition" parties. Should these unite to defeat the Government "for fractious purposes," Wilson warned, they will only force yet another general election and further weaken their own credibility. The old and new Prime Minister knows, of course, that the minor parties frequently will make common cause with the Conservatives to achieve their own tactical ends and that the pressures on his Government will be severe. Even this, however, is to Wilson's advantage inasmuch as the need for party unity will make it easier for him to curb Labour's militant left wing.

Although Labour has failed to secure the firmest of mandates from the electorate, there has been little indication that it will not press forward with the proposals expressed in its pre-election manifesto and in several white papers issued just prior to the election. Based on these documents, Labour's program accords priority to the following:

- introduction of a capital transfer tax and an annual wealth tax;
- nationalization of shipbuilding and ports, the aircraft industry and the North Sea oil sector, and extended state control over road haulage and the construction industry;
- "planning agreements" with major firms in key industrial sectors;
- public ownership of urban development land;
- establishment of an equal opportunities commission and a national consumers' agency;
- introduction of an "earnings-related, inflation-proof" state pension program, and
- devolution plans for Scotland and Wales.

For the moment, however, Britain is bracing itself for Labour's second 1974 Budget, expected early next month.

Italy: Crisis Cripples Progress in Economic Area

The resignation of the Mariano Rumor administration early this month - the second one after an attempt to step down in June had been rejected - has crippled all government action at a time when Italy more than ever needs a firm hand in Rome. The temporary lack of leadership not only touches on the urgency of further economic stability measures but also suspends progress on key legislation such as financing of public works projects, inauguration of a national health service, proposed pension improvements, etc.

The latest political crisis, which precedes formation of Italy's 37th postwar government, also was expected to affect the upcoming negotiations between the employers' federation and the labor unions, specifically as concerns the controversial subject of wage indexation. The employers had counted on the government's strong backup here to keep labor's demands within the limits decreed by the deteriorated state of the national economy. The first signals of large-scale labor unrest were much in evidence: in Milan and Turin, workers launched a "civil disobedience" campaign in protest against inflation and at Fiat, the country's No. 1 private employer, the unions geared up for massive strike action as talks on production cutbacks and shortened work schedules apparently broke down (*see EURO COMPANY SCENE, page 7*).

Just prior to the Rumor administration's Oct. 3 resignation, Budget Minister Antonio Giolitti had released provisional 1975 Budget guidelines, which foresaw the continuation of the austerity program with the aim of slashing the Italian payments deficit from 5,300 to 2,900 billion lire next year. Projections were for GNP growth of 1.5% (1974 = 4.5%, estimated) and a 16% inflation rate for consumer prices (20%).

According to the latest statistics, the country's foreign trade deficit for the first eight months of 1974 totaled 5,050 billion lire as compared to 1,730 billion a year earlier. Of the new total, oil imports alone accounted for 3,050 billion lire.

Germany: Civil Code Change Lowers Legal Age

The German government has called upon the business community to join in a campaign to publicize the upcoming change in the Civil Code lowering the legal age to 18. On Jan. 1, 1975, an estimated 2.5 million young people of that age will assume the rights and obligations of adults. As well as conferring the right to marry without parental consent, this also means that they no longer require a parent's approval to enter into contracts such as installment purchase plans and that they are responsible for their debts.

Under present Civil Code rules, the validity of contracts that entail high risks or other potentially grave

Civil Code *(contd.)*

consequences for minors depends on the consent of both a parent and a court. Examples are the purchase and sale of real estate, disposal of all assets, refusal to accept an inheritance, taking up and granting loans, and assuming a guarantorship (*Bürgschaft*). In the future, as of Jan. 1, neither parental nor court consent will be necessary for such actions, although real estate transactions still will have to be legalized before a notary. Furthermore, 18-year-olds will be able to start a business without parental consent and may also hold powers of *Prokura*, i.e., broad powers of attorney to represent an enterprise in matters that lie within the normal scope of business.

Switzerland: U.S. Chamber Warns on Curbs for Foreigners

The American Chamber of Commerce in Switzerland has warned of "disastrous consequences" for Swiss business and industry should voters approve in the Oct. 20 national referendum the so-called "third initiative" to drastically reduce the number of foreign residents in the country. In that case, half of about one million aliens now living in Switzerland would have to leave by the end of 1977. Although most observers believed that the proposal would be defeated, others were not taking such an outcome for granted.

Aside from sharing general business fears over the impact the decision would have on the Swiss economy, Chamber president Hans J. Bär pointed to the specific area of international "executive rotation" practiced by many indigenous and foreign companies in Switzerland. Bär emphasized that such an exchange of management personnel normally does not contribute to an increase in the number of resident foreigners yet is vital to the country's progress in areas of know-how and innovation. If the government were to restrict even further the admission and stay of foreign specialists and management personnel, countermeasures by the affected countries against Swiss citizens could be the answer, Bär said.

To emphasize Switzerland's dependence on the international exchange of goods, services, and technology, the Chamber released some figures on U.S.-Swiss direct investments. They show that Switzerland accounts for about $2 billion or 10% of total foreign investments in the United States, with 200 subsidiaries of Swiss companies reporting annual sales of nearly $5 billion and employing 63,116. The changes in dollar parity as well as "precarious" labor market conditions at home in future will persuade even more Swiss companies to tackle the U.S. market, according to the report.

The Chamber further revealed that, as of 1972, U.S. direct investments in Switzerland also totaled $2 billion. These generate annual earnings of some $400 million, equal to about 15% of taxable income of all Swiss stock corpora-

Foreigners *(contd.)*

tions. Currently, about 600 U.S. companies are active in Switzerland, employing 54,000 persons. Also, 11,650 American citizens are registered residents, of whom only 3,850 are employed, many of them with international organizations in Geneva.

Norway: Oslo Promises Major Tax Cuts in Budget Plan

In presenting the 1975 Draft Budget to the Norwegian parliament, Finance Minister Per Kleppe has announced government plans to achieve direct tax reductions totaling 2.2 billion kroner and benefiting mainly medium income groups. The resultant budget gap would be partially filled by further increases in telephone and postage rates, public transport fares and freight charges, and the alcohol tax on wines and spirits. A remaining revenue shortfall of about 1 billion kroner would become part of a budgeted deficit of 7 billion kroner, which is to be covered by public borrowing and anticipated income from offshore oil revenue. The Draft Budget calls for expenditures totaling 41.8 billion kroner (1974 = 35.3 billion) and revenues of 34.7 billion (1974 = 30.4 billion).

The government's tax proposals, virtually assured of safe passage in the Storting, are for a modification of progression schedules so that, for instance, annual tax savings of 1,000 kroner would result for incomes of 35,000 kroner and of 3,000 kroner for those of 100,000 kroner. Also lowered would be the harsh "threshold" tax, which skims a good portion off any pay increase. The government furthermore plans to resurrect a percentage ceiling on the income and wealth tax total payable by individuals in the top brackets. Only last year Oslo had abolished the rule limiting such payments to 80%, and this left wealthy taxpayers with tax obligations far exceeding their annual incomes. The new rule would set a 90% limit.

With these plans, Prime Minister Trygve Bratteli's Labor administration not only deviates from its earlier policy of seeking high fiscal contributions to finance the Norwegian welfare state but also intends to cut down on public expenditure. This change in position apparently follows the Labor Party's election setbacks last year and takes account of widespread discontent with the mounting tax burdens.

EURO COMPANY SCENE

KHD

Germany's Klöckner-Humboldt-Deutz (KHD) has concluded a DM 1.09-billion contract for delivery of more than 9,000 heavy trucks to the Soviet Union. The export order is for the years 1975-76 and was coupled to a "letter of intent" whereby the USSR acquired an option to build KHD's air-

KHD
(contd.)

cooled truck engines under license. Financing of the export deal is to be arranged by a German consortium led by Deutsche Bank; details are yet to be worked out. Italy's Fiat also will participate in the contract with the Soviets, since KHD's Ulm truck assembly facilities as of Jan. 1 will be taken over by a Dutch holding in which KHD and Fiat hold equal stakes. KHD's diesel engine production is not part of the cooperation with the Italians.

Fiat

The collapse of talks between officials of Fiat SpA, union leaders, and outgoing Italian Secretary of Labor Luigi Bertoldi has been followed by the announcement of a series of strikes aimed at forcing the auto maker to revise scheduled production cutbacks. In an effort to reduce its bulging stockpiles of some 300,000 unsold vehicles, Fiat has put about 71,000 of its 200,000 workers on shortened, 24-hour weeks through Jan. 31, 1975. The slowdown, which is to slash output by 200,000 units, involves unemployment compensation from state funds - a measure the government had hoped to avoid, since it could lead to a spate of similar requests by other hard-pressed firms. The unions are said to be considering a country-wide general strike in addition to the metalworkers' walkout planned for this week, and many observers think the ultimate goal is to effect the nationalization of Fiat.

[illegible]inghouse/
B[illegible]da

Westinghouse of Pittsburgh, Pa., has placed an order with Breda Termomeccanica, a subsidiary of Italy's major state-controlled IRI-Finmeccanica group, for nine nuclear reactor vessels to be installed in 1,200-Mw PWR-type reactors. The agreement, calling for deliveries between 1977 and 1981, includes an option for an additional 24 vessels, which would boost the total value of the contract to over $150 million.

Lockheed

According to press reports from Greece, Lockheed Aircraft Corp. of Burbank, Calif., has contracted to build a $120-million aircraft maintenance and repair plant some 43 miles northwest of Athens. The deal, which has been under negotiation for the past four years, gives the state a controlling interest of 51% in the joint venture. The plant is to be ready by spring 1977 and will service both civil and military aircraft.

Chemviron

Chemviron SA, Belgian subsidiary of Calgon Corp., Pittsburgh, Pa., reportedly will build a $15-million production plant for granular activated carbon at Feluy. To be completed by early 1976, the facility will be the world's second-largest of its type after the one already operated by Calgon in the United States. The chemical is used in the reduction of industrial air and water pollution.

Goodrich/ CIAGO Italia

CIAGO Italia SpA of Milan is now 100% controlled by B.F. Goodrich of Akron, Ohio, as a result of the latter's recent takeover of full ownership of CIAGO Italia's Dutch parent company, AKU-Goodrich BV.

Thomas & Betts

Thomas & Betts Corp. of Elizabeth, N.J., manufacturer of electrical power equipment and cables, has set up an Italian subsidiary of the same name in Milan.

Marigold/ Koffler

Marigold Italiana, a subsidiary of the U.K.'s L.R.C. International Toiletry & Latex Rubber Group, has bought out Koffler of Padua. The 50-year-old Italian company is a major producer and supplier of bath toiletries to leading chain stores in Italy and abroad.

VDO/ Jaeger

VDO Adolf Schindling AG, Germany's leading manufacturer of control and measurement devices for the automotive and aviation industries, intends to increase the 20% stake it holds in its French counterpart Jaeger SA to about 40%. The plan is for VDO to acquire a new share issue raising Jaeger capital to FF 40 million from the present 29 million. Subject to government approval, the German company could gain eventual control of Jaeger by taking up a FF 14-million convertible bond issue that will be floated during the next few months. The remaining stockholders in Jaeger are Renault, Peugeot, and Citroën, with 18% each; an unspecified Swiss group (10%); Banque de Worms (5%); and assorted small shareholders.

Sony

Because of apparent delays by the French Economics Ministry in granting a construction permit, Japan's Sony Corp. reportedly has decided to postpone for two years its project to build a color television picture tube plant near Reims. Sony is said to be considering location of a substitute plant in Germany.

Franklin National/ European-American Bank

Following the official declaration on Oct. 8 that Franklin National Bank was insolvent, European-American Bank & Trust Co. emerged as the successful bidder for certain Franklin assets, its more than 100 New York City and Long Island branches, and all deposit liabilities. The winning bid of $125 million reportedly topped those of Manufacturers Hanover, First National City, and Chemical Bank, and will make EAB the largest foreign bank in the United States. Owned by Amsterdam-Rotterdam Bank, Creditanstalt Bankverein of Vienna, Deutsche Bank, Société Générale of Paris, Société Générale of Brussels, and the U.K.'s Midland Bank, EAB reportedly acquired $2.2 billion in deposits and other assets. Liabilities assumed were said to total about $2 billion.